The Influence of Tax Aggressiveness on the Disclosure of Corporate Social Responsibility: A Study of Manufacturing Firms Listed on the Indonesian Stock Exchange 2011–2015

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Abstract: This study aims to examine the influence of tax aggressiveness on the disclosure of corporate social responsibility (CSR) and is a replica of a previous study carried out by Lanis and Richardson (2013). Tax aggressiveness is measured by using the effective tax rate (ETR), which serves as the independent variable, while corporate social responsibility (CSR) serves as the dependent variable. Variables such as company size (SIZE), leverage (LEV), capital intensity (CAPINT), market-to-book ratio (MKTB), and return on assets (ROA) are used as the control variables. Manufacturing companies listed on the Indonesian Stock Exchange (IDX) for the period 2011–2015 made up the sample for this study, which yielded a total of 175 companies. Hypothesis testing in this study was done by using multiple regression analysis, with the assistance of SPSS software (version 20). The results show that tax aggressiveness is significantly related to the disclosure of corporate social responsibility (CSR). Companies that have a higher level of tax aggressiveness are therefore inclined to make greater CSR disclosures.

1. INTRODUCTION

Government effort alone is far from adequate if Indonesia is to eradicate or alleviate poverty. In 2014, the Asian Development Bank reported that 11.2% of the Indonesian population was living below the poverty line, leaving it as the fifth poorest country in the Southeast Asian region. In regard to poverty alleviation, the Indonesian government has sought to develop policies to lessen poverty, yet it remains pervasive; one reason for this is that poverty alleviation ought to be the concern of all parties and not only the state apparatus. According to Radyati (2008, p. 6), companies, through CSR disclosure programs, could help to reduce national poverty. In this regard, Untung (2009, p. 2) explains that, in an era of decentralization, the momentum towards CSR disclosure programs can be seen as a form of private sector involvement in empowering the poor to climb the social ladder.

In order to improve the efficacy of poverty alleviation and encourage the role of the private sector in this regard, the Indonesian government has taken the initiative by issuing several regulations on CSR in Indonesia: Law no. 40 (2007) Article 74, concerning limited liability companies, and Law no. 25 (2007) Article 15(b), concerning investment, as well as the implementation of CSR disclosures, which are regulated by Government Regulation no. 47 (2012) Article 4 (on corporate social responsibility and the environment). With regard to the above regulation, it is clear that every limited liability company is required to disclose its CSR program.

Furthermore, there are several perspectives regarding CSR disclosure. According to Wibisono (2007, p. 79), the reason that companies apply CSR can be classified into three categories. The first reason is the simple aim to boost the company's image, for example, as experienced by PT Lapindo Brantas, which fulfilled its social responsibility to victims as compensation for the mudflow disaster it caused. The second reason is the fulfilment of obligations, since CSR disclosure requirements are enshrined in regulations, laws, and other rules, which exist to compel companies to comply. Concrete examples of this are certain states in the USA that have begun implementing eco-labeling for furniture products, in addition to lending by banks in Europe to companies that implement CSR well. The

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third reason is because of a genuine impulse arising from within (i.e. an internal driver). In this sense, the company realizes that, for business continuity, financial health is not the only requirement for ensuring the sustainable growth of the company, but that social and environmental responsibility are also important. In the end, the three reasons outlined above result in a positive impact on the formation of corporate image. On the other hand, companies face political costs and are in the spotlight of the government and the wider community. Thus, any reason motivating companies to disclose their CSR can be considered appropriate.

Understanding the need to contribute to the surrounding community in the form of CSR, firms are also subject to the obligation of paying taxes for all business facilities and licenses that the government have provided and which have contributed to the success of the business. The greater the income generated by the company within a certain period, the greater the tax that must be paid to the state. However, for profit-oriented firms, taxes are a burden that will reduce corporate profits. In this regard, companies budget for the funds for these two important burdens, i.e. tax and CSR, in addition to seeking ways to reduce the tax burden by being aggressive with regard to taxation. Corporate tax aggressiveness, therefore, relates to reducing taxable income through tax planning, either by means of tax avoidance or tax evasion (Frank et al., 2009).

In spite of its profitable outcome in reducing tax for the firm, aggressiveness towards the tax burden is counterproductive with regard to the expectations of society and the government, and it is contrary to the theory of legitimacy. Corporate tax aggressiveness can be considered as a socially irresponsible activity (Erle & Schon, as cited in Lanis & Richardson, 2012). However, according to Winda et al. (2015), companies who have an aggressive tax strategy can still act in accordance with the theory of legitimacy by disclosing additional information related to CSR in order to restore the company's reputation.

Several previous studies have discussed the relationship between CSR disclosure and tax aggressiveness. Lanis and Richardson (2013) suggest that the effective tax rate (EFT) is one of the proxies used as a tax aggressiveness tool. In addition, firm size, leverage, capital intensity, the market-to-book ratio, and return on assets can be used as control variables to measure corporate CSR disclosure. The results of the regression analysis indicate that the higher the level of corporate tax aggressiveness, the higher the level of CSR disclosure of a company.

Moreover, manufacturing firms were chosen as the sample for this study because, compared to other sectors, they constitute a larger proportion of the economy; in addition, in their activities, manufacturing companies need a high level of effective management, which is demonstrated by the resulting profits. In addition, problems in manufacturing firms are more complex and have a considerable impact on the surrounding environment, which is an aspect of CSR disclosure. However, the most important reason for the five-year data retrieval in this study is the absence of previous research using 2015 manufacturing company data. The study period was determined for this time period on the grounds that 2015 represented the most recent data available to the researchers in the form of annual reports. In this sense, while the study was completed in 2017, the latest BEI database was updated in 2015, containing annual reports and financial statements for 2015. In addition, the annual reports and audited annual financial statements on the Indonesian Stock Exchange are only published four–five months after the end of the calendar year. Further, tax laws, which are amended every year, are another reason for using data from this particular period. It is also hoped that the results generated from this research can represent the most up-to-date information for the development trends of manufacturing companies that take aggressive tax action and make social responsibility disclosures.

Understanding the need to examine the correlation between tax aggressiveness and the level of corporate social responsibility disclosure, this research aims to examine the question of how tax aggressiveness influences the disclosure of corporate social responsibility.

2 THEORETICAL BASIS AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Basis

2.1.1 Legitimacy Theory

Legitimacy theory states that, in order for a firm to obtain legitimacy, corporate management must align with society, the government, and community groups (Gray et al., 1995). Legitimacy can be regarded as a benefit or potential source of survival for a company, so when there is a difference between corporate values and social values, which is often called a “legitimacy gap,” it can affect the company’s ability to continue its business activities in addition to threatening the company’s position. Furthermore, O’Donovan (as cited in Ghozali & Chariri, 2007, p. 413) suggests that if a legitimacy gap arises, firms need to evaluate their social value and harmonize with the existing values in society or, if necessary, change according to legitimacy tactics. Thus, in order to reduce the legitimacy gap, companies are required to identify activities under their control that impact on the public and that have the power to legitimize the company (Neu et al., as cited in Ghozali & Chariri, 2007, p. 413).

In the context of this study, legitimacy theory underlies the influence of the wider community that can determine the activities of a company. Companies that tend to follow aggressive tax policies will be perceived negatively by the public, which companies would consider as damaging. For this reason, the company will then disclose its social responsibility information in order to provide legitimacy for their corporate activities in the eyes of society.

2.2 Hypothesis Development

Several studies have examined the relationship between corporate social responsibility disclosure and tax aggressiveness. Guthrie and Parker (as cited in Lanis & Richardson, 2013) undertook research in relation to the tax aggressiveness of mining companies in Australia. According to the theory of legitimacy, companies that engage in tax aggressiveness require the disclosure of additional information about CSR in order to meet people’s expectations. However, the results of the study suggest no correlation between tax aggressiveness and CSR disclosure.

A similar study was conducted by Deegan et al. (as cited in Lanis & Richardson, 2013), who analyzed the annual reports of tax-aggressive companies in Australia. The results of this study, which related CSR disclosure to media coverage, show that there is a relationship between the community, with regard to certain social and environmental issues, and CSR disclosures in annual reports Therefore, this study contradicts the research of Guthrie and Parker (1989).

Deegan et al. (2002) conclude that there is a relationship between theories of legitimacy and the act of tax aggressiveness. Moreover, Lanis and Richardson (2013) examined the effect of tax aggressiveness on CSR disclosure in order to test the theory of legitimacy and found significant results.

In testing the theory of legitimacy, the absence of consistent results regarding the relationship between tax aggressiveness and CSR disclosure leads us to propose the following hypothesis:

H_1: Tax aggressiveness has a significant influence on corporate social responsibility disclosure.

3 RESEARCH METHODOLOGY

3.1 Types and Data Sources

Secondary data was utilized in this study, which was taken from several sources, including financial reports and annual reports of manufacturing companies listed on the Indonesian Stock Exchange for the period 2011 to 2015. Data used in this research was retrieved from www.idx.co.id, and information regarding the daily stock prices of manufacturing companies was retrieved from www.finance.yahoo.com. In order to calculate the market-to-book value ratio, stock prices at the end or beginning of the fiscal year were used.

3.2 Operational definition and measurement of variables

3.2.1 Disclosure of corporate social responsibility

Disclosure of corporate social responsibility relates to the process of disclosing information associated with the activities of the company and its effects on society and the environment. CSR disclosure is measured using the Global Reporting Initiative (GRI 3.1), an indicator with 84 disclosures, including economic performance (9 indicators), environmental performance (30 indicators), labor performance (15 indicators), human rights performance (11 indicators), social performance (10 indicators), and performance (9 indicators). The formula for CSR disclosure measurement is:

$$\mathrm{CSRIJ} = \frac{\Sigma \mathrm{Xij}}{\mathrm{nj}}$$

3.2.2 Tax aggressiveness

Tax aggressiveness relates to the act of minimizing, in a legal or illegal way, a company's tax burden. The main proxy in this study is the effective tax rate (ETR). The ETR proxy can be calculated as follows:

$$\text{ETR} = \frac{\text{Income tax expense}}{\text{Earnings before tax}}$$

A low ETR indicates that the income tax expense is smaller than the income before taxes, which means the level of tax aggressiveness of a company is high because, as taxpayers, they are paying a small amount of tax (not taxable).

3.2.3. Company size

Company size relates to the size of a company as measured by the total assets owned. According to Lanis and Richardson (2013), company size can be measured by the total natural logarithm of the assets because it will have a better stability level than using other proxies, and it is more likely to be continuous across periods. The formula for company size is as follows:

$$\text{Size} = \text{ Natural log of total assets}$$

3.2.4 Leverage

Leverage is a ratio that demonstrates the ability of the company to meet its obligations, whether long- or short-term debt. The approach used by Lanis and Richardson (2013) to calculate leverage is as follows:

$$\text{LEV} = \frac{\text{Total amount of debt}}{\text{Total assets}}$$

3.2.5 Intensity of capital

Intensity of capital is a description of how much of a company's wealth is invested in its fixed assets according to how much assets the company owns. For Lanis and Richardson (2013), capital intensity can be calculated as follows:

$$\text{CAPINT} = \frac{\text{Total net fixed assets}}{\text{Total assets}}$$

3.2.6 Market-to-book ratio

The market-to-book ratio measures the company's growth in the future. This ratio makes a comparison between the value/price of the stock market and the book value of the company, which is obtained from the difference between the value of the assets held by the company and the value of its liabilities. In Lanis and Richardson (2013), the market-to-book ratio is measured as follows:

$$\text{MKTB} = \frac{\text{Market value}}{\text{Book value}}$$

3.2.7. Return on assets

Return on assets (ROA) relates a company's profitability before tax to total assets (Hakston & Milne, 1996). In this sense, profitability refers to how much of a company's profits are generated from the total assets owned by the company. For Lanis and Richardson (2013), ROA is measured as follows:

$$\text{ROA} = \frac{\text{Earnings before tax (EBIT)}}{\text{Total assets}}$$

3.3 Research Model

The methods of data analysis employed in this study are as follows:

$$TCSR = \alpha 0 + \beta 1\, ETR + \beta 2\, SIZE + \beta 3\, LEV + \beta 4\, CAPINT + \beta 5\, MKTB + \beta 6\, ROA + e$$

Information:

TCSR	: Total CSR disclosed by the company on the company's financial statements
A0	: Constants
B1, β2, β3, β4, β5, β6 variable	: The coefficients of each
ETR	: Corporate tax aggressiveness
SIZE	: Company size
LEV	: Leverage
CAPINT	: Intensity of capital
MKTB	: Market-to-book ratio
ROA	: Return on assets
e	: error

4 RESULT AND DISCUSSION

The results of the hypothesis testing by using multiple regression analysis, as well as a simultaneous hypothesis test (F-test) and a partial test (T-test), can be seen in Table 2.

Table 2: Multiple Linear Regression Results

Variable	REGRESSION MODEL			
	Coefficient	**Std. Error**	**T**	**Sig.**
Constant	-0,461	0,127	-3,637	0,000
ETR	-0,202	0,100	-2,030	0,044
SIZE	0,135	0,017	7,976	0,000
LEV	-0,128	0,073	-1,747	0,083
CAPINT	0,186	0,065	2,875	0,005
MKTB	0,005	0,002	2,900	0,004
ROA	-0,125	0,106	-1,176	0,241
The correlation coefficient (R)	0,638			
Coefficient of determination (R2)	0,407			
Test F	19,246			
Significance F	0,000			

Source: SPSS Data Results

Based on the results of the calculations in Table 2, the multiple linear regression equation can be formulated as follows:

TCSR = - 0,461 - 0,202 ETR + 0,135 SIZE - 0,128 LEV + 0,186 CAPINT + 0,005 MKTB - 0,125 ROA + 0,153

The T-test value for the tax aggressiveness variable (ETR) is -2.030, with a significance level of 0.044. The value of the t table is 1.97419, and since -2.030 > 1.97419, this meets the criteria of t test > t table. The value of this significance is also smaller than 0.05, so it can be concluded that tax aggressiveness significantly influences corporate social responsibility disclosure, which is in accordance with the research hypothesis that tax aggressiveness has an influence on corporate social responsibility disclosure. The research results are also consistent with those of Lanis and Richardson (2013), which suggest that tax aggressiveness significantly influences corporate social responsibility disclosure. Furthermore, this indicates that companies involved in tax aggressiveness will disclose CSR in order to gain legitimacy from the public. In this sense, the aim of greater CSR disclosures is to alleviate any public concerns that may arise from the negative impact of the company's tax aggressiveness on society, in addition to demonstrating that they meet the expectations of society in another way, i.e. by fulfilling their social responsibilities.

5 CONCLUSION

The regression results in this research are in accordance with the initial hypothesis proposed, i.e. tax aggressiveness influences corporate social responsibility disclosure. Moreover, the control variables employed, including firm size, leverage, capital intensity, market-to-book ratio, and return on assets, displayed both significant and non-significant results with regard to CSR disclosure. More specifically, firm size, capital intensity, and market-to-book ratio have a significant impact on corporate social responsibility disclosure, while leverage and return on assets have no effect on corporate social responsibility disclosure.

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