AKRUAL: Jurnal Akuntansi *Vol 13, issue 1, October 2021*
p-ISSN: 2085-9643 DOI: 10.26740/jaj.v13n1.p 69-82
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

Corporate Social Responsibility and Tax Avoidance: Evidence from Indonesia

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Abstract

This study examines the effects of state equity ownership on the relationship between corporate social responsibility investment and tax avoidance. Using a 474 firm-year observation sample of Indonesian companies from 2015 to 2018, we use the ordinary least square and subgroup analysis regressions to estimate the model with various proxies for tax avoidance. The results show that the companies with higher CSR investment have lower tax avoidance behavior in various proxies. In other words, companies with higher social responsibility performance will make lower tax savings. Furthermore, companies with state equity ownership have a lower relationship between CSR spending activities and tax avoidance than nonSEO companies. This research has several implications: First, this study uses total CSR expenditure as a proxy for CSR investment. Further research can create categories based on the type or dimension of CSR. Second, the research sample for state equity ownership is very small, and the next research can use a paired sample. This paper highlights the implication of CSR investment on taxation in Indonesia, and its findings have implications for regulators. Regulators can encourage the company's CSR activities, but the impact of these activities may differ depending on each company's motives, especially tax avoidance.

Keywords: ***Corporate Social Responsibility; CSR Investment; State Equity Ownership; Tax Avoidance.***

Article History: Received: March 3rd, 2021 Revised: July 1st, 2021 Accepted: August 26th, 2021 Published: October 1st, 2021
How to cite: Winarno, W.A., et al. (2021). Corporate Social Responsibility and Tax Avoidance: Evidance from Indonesia. *Akrual: Jurnal Akuntansi (JA),* 13(1): 69-82. DOI: **https://doi.org/10.26740/jaj.v13n1.p69-82**

INTRODUCTION

Business competition in the era of industrial revolution 4.0 is getting tighter, making company performance fluctuate for no apparent reason. When the company experiences a decline in performance in certain conditions, tax is a heavy burden that must be borne by the company. On the one hand, apart from taxes that must be paid, according to Law no. 40 of 2007, companies are also required to have an obligation to carry out corporate social responsibility (CSR). CSR activities that are carried out eventually become unbalanced between profit, people, and the planet because its condition is still oriented to shareholder benefits (Winarno, 2007). The choice to carry out high CSR activities is one of the best alternatives for companies to do tax avoidance, compared to doing less CSR and paying a lot of taxes. According to Resource-Based Theory, CSR activities are politically the company's capability to achieve competitive advantage. Although both tax and CSR are expenses for the company, directly CSR still provides value and benefits to shareholders.

Company managers' behavior in avoiding tax obligations can be explained as the first from the company's concept of earnings management (EM). EM is a choice of accounting policies (accrual earnings management-AEM) or real activities (real earnings management-REM) carried out by managers that have an impact on earnings to achieve specific objectives for reported earnings (Scott, 2015). One form of EM is to minimize income (income minimization), hoping that the tax obligation will decrease or be less than what it should be paid for. The costs incurred for CSR can be used by managers to consider taxation interests related to their corporate tax strategy. In real terms, it can reduce profits and make a lower tax avoidance level (Watson, 2015). The second explanation is that CSR activities can have intentional or unintentional political impacts, will impact different areas of activity than business activities (Frynas & Stephens, 2015). The theory of legitimacy explains that the emergence of CSR politically as a strategy to achieve legitimacy through conformity with the norms and values of the society in which they operate. CSR is a company alternative in minimizing tax obligations by implementing REM, which incidentally does not violate government regulations.

Lanis and Richardson (2015) state that more socially responsible companies tend to show less tax avoidance. These results indicate that the categories of CSR, public relations, and diversity are essential elements of CSR performance that reduce tax avoidance (Bird & Davis-Nozemack, 2018). Companies with greater social responsibility performance will have a lower probability of tax-saving practices (López-González, Martínez-Ferrero, & García-Meca, 2019). However, in the condition of companies with larger family ownership, the negative relationship is lower. These results show evidence that although companies with family ownership are more socially responsible, they are positively related to tax avoidance practices (Gaaya, Lakhal, & Lakhal, 2017; López-González et al., 2019). This condition will be reduced if high audit quality can limit family ownership initiatives for tax avoidance (Gaaya et al., 2017).

Goerke (2019) states that if tax avoidance behavior decreases, the company's CSR activities will increase. According to the risk management theory, companies are hedging against the potential negative consequences of aggressive tax avoidance practices, which will increase CSR activities (Col & Patel, 2019). Companies that practice tax evasion have lower effective tax rates (ETRs) than companies that do not avoid tax (Lanis & Richardson, 2015). CSR activities will reduce tax avoidance, especially in companies that are actively involved in CSR. On the other hand, passive involvement in CSR activities does not affect tax avoidance, meaning that this condition allows companies to still do tax avoidance even though they have CSR activities (Kim & Im, 2017). Several research results and empirical tests regarding CSR activities and expenditures concerning tax avoidance behavior show inconclusive results. In some studies, it is stated that CSR activities can reduce tax avoidance practices. On the other hand, other studies have shown that CSR is proportionately increasing, but tax avoidance practices are still high (López-

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v13n1.p 69-82
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

González et al., 2019). Contingency factors can potentially explain the existence of inconsistencies or weak relationships between variables following the context, which is often called moderating variables (Baron & Kenny, 1986).

Contingency factors can come from internal or external aspects of the company. In previous research, it was explained that the relationship between CSR and avoidance of contingent taxes on the company's internal contingency factors, namely CSR activities with active and passive involvement (Kim & Im, 2017), and family firms (López-González et al., 2019), while companies in their business activities have external contingent factors that influence tax avoidance behavior on their CSR activities. This research complements external contingency factors that are closely related to government regulations in the context of activities and CSR. Companies in Indonesia, whose main activities are related to the management of natural resources that control the lives of many people, are controlled by the state through companies, in this case, in the form of State-Owned Enterprises or what is often mentioned in the research, are state equity ownerships (SEOs). Companies with a larger government ownership structure than companies that are not owned by the government will have a different orientation to the expected benefits of CSR activities carried out.

This research contributes to the corporate tax avoidance literature in the following ways. First, this study treats SEOs as a moderating variable as an explanation of the inconsistent relationship between CSR and tax avoidance in previous studies. Second, this study provides an illustration that SEOs and non-SEOs companies treat CSR activities differently in the context of corporate tax avoidance. CSR activities will be able to further reduce tax avoidance in non-SOEs companies compared to SEOs companies in Indonesia. In the condition of companies that are majority-owned by the government, the relationship between social and environmental responsibility and tax avoidance behavior in SEO is different from that of non-SEO companies. The government is basically political and tends to be voter-driven, seeking publicity and community legitimacy, making the CSR ecosystem dynamics more complicated, especially in project selection and resource allocation (Frynas & Stephens, 2015). Consequently, the CSR activities and decisions of managers in public sector companies will be consistent with normative practices in their sector as it is essential to allow them to gain legitimacy and sustainable access to resources.

This study aims to examine empirically the association between CSR spending and tax avoidance behavior in public companies in Indonesia. Many companies have started to participate in corporate social responsibility expenditure programs, which have led to an increase in the company's total CSR expenditure (Nuvaid, Sardar, & Chakravarty, 2017). CSR is a mechanism for an organization to voluntarily integrate environmental and social concerns into its operations and interactions with stakeholders, which is beyond the organization's responsibility in the legal field. CSR will affect the company's business practices, which of course, also affect the interests of company stakeholders. CSR is often considered as a unique form of strategic investment by a company (Jia & Zhang, 2013). The company's social responsibility activities are only part of the company's risk management strategy in protecting the company from the risk of political, regulatory, and social sanctions/penalties that harm the company's reputation.

In certain situations, both voluntary and mandatory CSR expenditures lead to opportunistic management behavior to make companies aggressively engage in irresponsible social responsibility activities, which are part of a tax avoidance strategy, especially in low-profit performance conditions (Hoi, Wu, & Zhang, 2013). Therefore, it is most likely that if companies carry out high social responsibility activities, they are more involved in tax avoidance than companies that are less responsible (Gulzar et al., 2018). Conversely, another perspective states that the balance between the company's economic, social, and environmental benefits will make the company's CSR activities reduce tax avoidance (López-González et al., 2019). Based on this explanation, the first hypothesis of this study is as follows.

H_1: CSR investment is negatively related to Corporate Tax Avoidance.

Furthermore, we test the differences in tax avoidance behavior between SOE and non-SEO companies when they both carry out CSR activities. The ownership structure is one of the governance mechanisms that influence company decisions in allocating resources, particularly including how companies can be socially responsible (Muttakin Mohammad & Subramaniam, 2015). The majority shareholder associated with a government or state department usually has a significant impact on critical environmental decisions. Top managers will strictly adhere to the rules or policies established when regulating CSR activities (Li & Zhang, 2010). Li and Zhang (2010) provide empirical evidence that companies with state equity ownership provide lower donations than non-SEOs.

In the previous section, several regulations in Indonesia regarding social and environmental responsibility have been explained. The regulations for state equity ownership companies appear to be more stringent in their implementation. So it can be said that the legitimacy theory underlies the CSR activities of the SEO company more than the instrumental theory. The SEO company's goal is to carry out social responsibility to get legitimacy from stakeholders, not to achieve a better profit because it has received financial support from the government. In SEO companies that have a low conflict of interest, CSR activities will not reduce tax avoidance. Conversely, for non-SEO companies that tend to have high conflicts of interest, the company's CSR investment will reduce tax avoidance. Based on these arguments, the second hypothesis of this study is as follows.

H_2: State equity ownership moderates the negative relationship between CSR Investments and Corporate Tax Avoidance

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v13n1.p 69-82
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

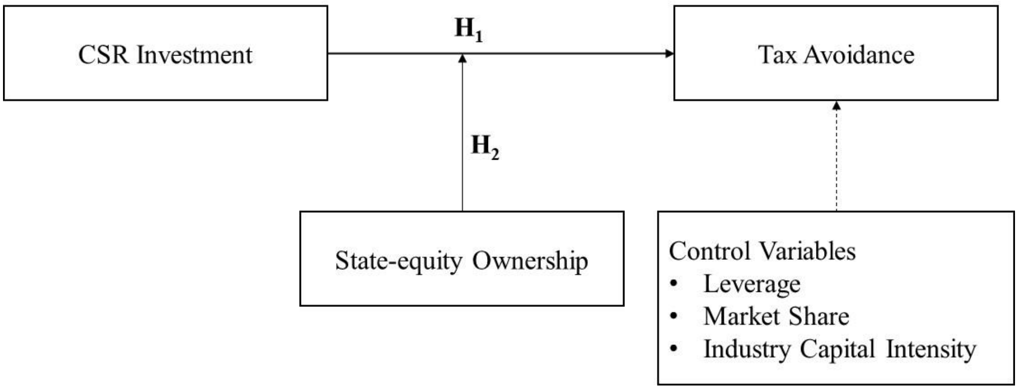

Figure 1. *Research Model*

RESEARCH METHOD

Our sample comprises 474 firm-year observations from the company's annual report published on the Indonesia Stock Exchange (BEI) and obtained from the Indonesian Capital Market Directory (ICMD) covering the period 2015–2018. The research data selected to be the sample must meet several criteria. First, the company must be listed on the Indonesia Stock Exchange in 2015-2018. Second, disclose information on CSR costs and calculate current and deferred taxes in the annual report. Third, all required data for control variables are available.

The dependent variable in this study is corporate tax avoidance. We use two measures to capture tax avoidance: effective tax rates (ETRs) and cash-effective tax rates CETRs (Hanlon & Heitzman, 2010). ETRs are the total corporate income tax expense divided by income before tax (Brune, Thomsen, & Watrin, 2019; Hoi et al., 2013). To obtain ETRs, it is calculated by the following formula $ETR_{it} = \frac{Total\ Tax\ Expenses_{it}}{Pre{-}TaxIncome_{it}}$. While CETRs which are cash ETRs are calculated by the following formula $CETR_{it} = \frac{Total\ Cash\ Taxes\ Paid_{it}}{Pre{-}TaxIncome_{it}}$. CETRs are often used and widely accepted in the accounting literature as proxies for tax avoidance, because they capture both permanent and temporary tax avoidance strategies (Drake, Lusch, & Stekelberg, 2019; Watson, 2015).

The data related to CSR investment is obtained through the corporate's annual report for the period of 2015-2018. We use CSR spending as a proxy to measure CSR investment. This proxy is calculated from the total costs incurred for carrying out environmental, social, and donation activities, employees, and products. CSR spending is estimated using the following formula $CSR_{it} = \frac{Total\ CSR\ Spending_{it}}{Total\ Assets_{it}}$ (Nollet, Filis, & Mitrokostas, 2016; Widiastuty & Soewarno, 2019). Social and environmental activities are seen based on CSR investment because it is assumed that the greater the expenditure, the more activities will be carried out.

The state equity ownership (SEO) variable in this study is the company's ownership, which is part of the percentage owned by the state. Companies with a state ownership percentage of more than fifty percent will be included in the SEO category and vice versa.

SEO is a dummy variable were classified into state equity ownership (takes the value of "1") and non-SEO companies (takes the value of "0").

This study uses several control variables (Li & Zhang, 2010). First, the financial risk is proxied by the level of debt (Leverage). Second, market share (MS), calculated by the percentage of the company's sales against total industrial sales, uses the formula $MS_{ijt} = Sales_{it} \div \sum_{i=1}^{nj} Sales_{ijt}$. Third, industry capital intensity, which is calculated using the formula $ICI_{jt} = \left(\sum_{i=1}^{nj} Assets_{ijt} \div \sum_{i=1}^{nj} Sales_{ijt}\right) \times P_{ijt}$ where Pij is the proportion of sales of company i in industry j. The calculation results will be used as ICI.

Where:

$ETRs_{it}$	:	Effective tax rates for the company *i* in year *t*
$CETRs_{it}$		Cash effective tax rates for the company *i* in year *t*
CSR_{it}	:	CSR Investment for the company *i* in year *t*
SEO_{it}	:	State Equity Ownership, for the company *i* in year *t*
Lev_{it}	:	*Leverage ratio* for the company *i* in year *t*
MS_{ijt}	:	*Market share* for the company *i* in year *t*
ICI_{ijt}		Intensitas modal industri for company *i* in industry *j* in year *t*
P_{ijt}	:	the proportion of company sales for the company *i* in industry *j* in year *t*
A	:	Constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$	:	Coefficient
μ_{it}	:	Panel regression error for the cross-section unit of the company *i* at time period *t*

The research model can be presented in the following statistical equation.

$$ETRs_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 LEV_{it} + \beta_3 MS_{it} + \beta_4 ICI_{it} + Year\ Fixed\ Effect_{it} + Industry\ Fixed\ Effect_{it} + \varepsilon_{it} \quad (1)$$

$$CETRs_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 SEO_{it} + \beta_3 CSR_{it} * SEO_{it} + \beta_4 Lev_{it} + \beta_5 MS_{it} + \beta_6 ICI_{it} + Year\ Fixed\ Effect_{it} + Industry\ Fixed\ Effect_{it} + \varepsilon_{it} \quad (2)$$

Equation (1) is used to answer the formulation of the first research problem, and equation (2) is used to answer the second research problem. However, a separate sample test is carried out by grouping the category of the companies' median firm size.

To test the hypothesis in both statistical models, this study runs panel data regression. The panel data testing stage to obtain the best model estimation is by comparing the results of the estimated pool least squares, fixed-effect model, and random effect model. The test used to obtain the best estimate of which is the Chow test, the Hausman test, and the Lagrange multiplier test.

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v13n1.p 69-82
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

RESULTS AND DISCUSSION

Table 1 show that companies investing in CSR in the sample obtained are the financial sector (ISS 2), which ranks first, namely 148 (22%) companies, second place is the sector of trading, service, investment companies as much as 115 (17%), the third place is the basic and chemical industry sector with 84 (13%) companies, the fourth place is the property, real estate and construction sector with 80 (12%) companies, and the rest in sequence is the mining sector, various industries, industries consumer goods at 8% each, the infrastructure, utilities and transportation sectors at 7%, and finally the agricultural sector at 4%. In this condition, it shows that the service sector (ISS 6,7,8 and 9) dominates the sample companies that invest or disclose CSR activities. This provides an overview of investment patterns and CSR disclosures made by companies listed on the Indonesia Stock Exchange in the 2015-2018 period.

Table 1. Sample Distribution

Industry Sector Classification	ISS-1	Years				All	
		2015	2016	2017	2018	n	%
Agriculture	1	3	5	7	3	18	3%
Mining	2	4	19	8	3	34	5%
Basic industry and chemicals	3	3	23	17	7	50	7%
Miscellaneous industry	4	4	16	12	7	39	6%
Consumer goods industry	5	11	16	13	7	47	7%
Property, real estate, building construction	6	8	15	13	8	44	7%
Infrastructure, utilities, and transportation	7	12	14	5	4	35	5%
Finance	8	26	44	32	18	120	18%
Trade, service, investment	9	14	35	24	14	87	13%
Observation (n)		**85**	**187**	**131**	**71**	**474**	**71%**

Source: Secondary data processed by EViews, 2020

The value of CSR investment based on table 2 shows that the lowest value is Rp.4.4 million. The largest value is Rp.2.5 trillion, and the average yearly sample companies spend Rp.20 billion in CSR investments. A large amount of CSR investments expenditure is also followed by companies in tax avoidance behavior in the form of high ETRs levels, namely a minimum of 0.04 and a maximum of 0.08.

Table 2. Descriptive Statistics

	ETRs	CETRs	CSR	LEV	MS	ICI	TA	SEO
Mean	0.040226	0.057998	20948.58	2.183352	0.025121	0.031923	29920428	0.09538
Median	0.031285	0.060252	1188.875	1.073941	0.005989	0.007931	5099191	0
Minimum	0.027269	0.04037	4.4	0.034694	7.26E-06	8.82E-06	46761	0
Maximum	0.449681	0.083222	2505587	39.48579	0.627607	0.876914	1.13E+09	1

Std. Dev.	0.067056	0.471805	115159.3	3.114713	0.058445	0.083797	1.08E+08	0.293958
Observations	474	474	474	474	474	474	474	474

Source: Secondary data processed by EViews, 2020

Table 4 presents statistical tests for the full sample using the EViews 10 software. This study also performed a descriptive analysis for the subsample as an additional analysis. In the complete sample, the mean value of CETRs is 5.8%, and the minimum tax evasion is 4%, and the maximum tax evasion is 8%. The ETR value shows an average of 4% and a minimum of 2.7%, and a maximum of 44%. CSRexp is expressed in millions (rupiah), so it can be seen that the minimum value of CSR expenditure is four million rupiahs. The maximum value of CSRexp is 2,505,587 million rupiahs, while the average is 20,948 million rupiahs, so it can be said that the range of CSR expenditure is quite large. When we split the sample into two, based on mean and median firm size, it is seen that CSR investment is most significant in the state-owned company (SEO) group, and CSR investment is minimum in the non-SEO group. The maximum and minimum value of tax evasion is in the non SEO group. This shows that a large amount of CSR spending on state companies may be for legitimacy purposes, not to increase the company's economic value, so that the impact of CSR on tax avoidance is not too significant compared to non-SEO private companies.

Table 3. Impact of CSR Investment on Tax Avoidance.

Variables	**ETRs (Model 1)**	**CETRs (Model 2)**
Intercept	0.206531	0.051921
CSR	3.19E-07**	3.79E-08*
LEV	-0.069589***	-0.006984***
MS	0.612738	-0.377637***
ICI	-0.584600	0.383639***
Industry Dummies	Included	Included
Year Dummies	Included	Included
Observation	474	474
Adj R^2	0.0203245	0.0151163
F Statistic	3.72781***	3.082890***

** Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at the 0.01 level*
Source: Secondary data processed by EViews, 2020

Table 3 presents the regression results from equation 1 on the dependent variable on tax avoidance behavior based on two proxies: ETRs and CETRs. All models use linear regression of the effect of CSR spending on tax avoidance. In model 1 (ETRs) and model 2 (CETRs), the coefficient for CSR Investment is 0.000003 with a significance level at the 5% level, and 0.000003 with a significance level at the 10% level, which indicates that companies with greater CSR spending are more likely to carry out activities. The higher the CSR investment, it shows that the higher the ETR, which indicates that companies that carry out CSR activities will decrease the level of tax avoidance.

In this model, the researcher also includes control variables, namely leverage, market share, and industry capital intensity. The results of the control variables for leverage show

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v13n1.p 69-82
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

that both the ETRs and CETRs models have a negative and significant coefficient at the 1% level, which is -0.00695 and -0.00698, respectively. However, the coefficient is small, and it shows that the higher the leverage, the lower the level of tax avoidance. This condition explains that when the company has much debt, the company has enough expenses to bear for loan installments and interest so that it is sufficient as a deduction for profit on taxes imposed. Conversely, when leverage decreases, with fixed financial performance, more portion of the profit will be taxed, so it will tend to make companies avoid tax. This condition also occurs when the company has a high market share.

On the other hand, the variable of industrial capital capacity has a positive effect on CETRs, which has a coefficient of 0.3836 and is significant at the 1% level. This proves that in the condition of companies that have a high average industrial capital, the higher the tax avoidance behavior will be. This result explains that when a company has a high capital structure, with the hope of being able to generate high profits, the company will also tend to avoid tax, either by bringing up real or accrual costs on the company's income statement, as is the case with increasing the amount of CSR funds issued.

Table 4. *Impact of CSR Investments on Tax Avoidance Behavior - Sub-Sample Testing of the non-SEO and the SEO*

Variables	**Non-SEO Sub Group Sample**		**SEO Sub Group Sample**	
	ETR (Model 3)	**CETR (Model 4)**	**ETR (Model 5)**	**CETR (Model 6)**
C	0.729837	1.242413	4.222987	4.728271
CSR	0.000681***	0.000837***	-8.36E-06	-5.72E-06
LEV	-0.118820	-0.199268	-0.079841	-0.166478
MS	5.448511	-38.06809	19.23045	25.53617
ICI	-37.91424	-1.368984	-14.39075	-17.92068
TA	-1.69E-08	-1.87E-08	-5.42E-09	-6.09E-09
Industry Dummies	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included
Observasi	400	400	74	74
Adj R^2	0.029223	0.042856	0.008270	0.008325
F Statistic	2.372051**	3.528227***	0.113414	0.114172

* Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at the 0.01 level
Source: Secondary data processed by EViews, 2020

This study includes the interaction of CSR and SEO investments to examine the impact of state ownership in the form of state-owned enterprises (BUMN). Based on the test results, the coefficient for CSR * SEO in the two models is not significant, which means that the relationship between spending on CSR activities and investment with tax avoidance is weaker or does not differ between SEO and non-SEO firms. To be able to conclude whether the SEO variable is not a moderator variable, a re-testing will be carried out with a subsample test as shown in Table 4. Following Sharma, Durand, and Gur-Arie (1981), the first step to ascertain the existence of a moderator variable is to test whether the proposed moderator interacts with the predictor variable. Since the proposed moderator does not interact with the predictor variable (CSR * SEO is not significant), both models are analyzed to determine whether SEO is a significant predictor variable. The hypothesized moderator, SEO, was found not to be a significant predictor. Therefore, a subgroup analysis was carried out for each model by breaking the sample in half based on the proposed moderator. The results of the sub-group analysis in model 3 and model 4 show that non-SEO companies statistically significantly influence the relationship between CSR investment and the level of ETRs (significant at the level of 1% with a coefficient of 0.000681) and ETRs (significant at the level of 1% with a coefficient of 0.000837). Meanwhile, models 5 and model 6, which are analyzes of SEO companies, show that CSR investment does not affect the ETRs and CETRs level. In other words, the level of tax avoidance cannot be reduced, or it is still possible to do tax avoidance even though the SEO company has made a CSR investment.

Additional Test

In testing for robustness check, the researcher runs the test equation with fixed effect regression. The strength of fixed effect (FE) testing compared to ordinary least square (OLS) is that it can explain the unobservable heterogeneity that arises because of the impact of the year. The robustness test shows consistent results, meaning that there is also no heterogeneity throughout the year of observation, so the assumption of homogeneous OLS is also fulfilled.

***Table 5**.Impact of CSR Investments on Tax Avoidance Behavior - Sub-Sample Testing of the Median of Firm Size*

Variables	**Subsample Testing of the Median firm Size**	
	ETR (Model 3)	**CETR (Model 4)**
C	0.426354	0.002063
CSR	0.000246*	0.000230*
LEV	0.332894	0.381544
MS	1840.154***	1696.851***
ICI	-0.576633***	-962.8896***
Industry Dummies	Included	Included
Year Dummies	Included	Included
Observasi	237	237
Adj R^2	0.078003	0.070607
F Statistic	4.906915***	4.406294

* Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at the 0.01 level
Source: Secondary data processed by EViews, 2020

Table 5 shows the significant results for the two sample groups tested based on median firm size. Additional test results show that the CSR investment coefficient is positive and statistically significant at level 10% in model 7 (with a coefficient of 0.000246) and model 8 (with a coefficient of 0.000230). This result implies that a higher level of CSR spending is associated with a higher level ETRs and CETRs in firms, and this

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v13n1.p 69-82
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

result is strong when tax avoidance is measured by CETRs. The F test results on all models indicate that the model is significant at the one percent level. The model built in the study to test the hypothesis has a high level of goodness of fit. The results of this study support the results of research by López-González et al. (2019), who document that mandatory CSR expenditure is negatively related to tax avoidance. Social responsibility activities that are mandatory and aggressively irresponsible are actually part of a tax avoidance strategy, especially in high-profit performance on SEO companies. CSR expenditure includes increased employee productivity, increased brand value, company reputation, image rebuilding, regulatory support, lower capital costs, reduced social risk, and will ultimately improve company performance (Malik, Al Mamun, & Amin, 2019).

Companies with high state ownership will receive political pressure from the government and the regulatory body (Fan, Wong, & Zhang, 2007). SEO firms also respond to pressure received from other stakeholders, namely, the media and the wider public regarding social engagement (Tang, Yang, & Boehe, 2018). Given the regulations in Indonesia regulating the implementation of SEO company social responsibility, it is natural that CSR activities and expenditures will be more significant. This is evident from the descriptive (additional) data, in the SEO group, the smallest CSR expenditure is one hundred and fifty million rupiahs, and the maximum is three trillion rupiahs. The largest CSR expenditure in the non-SEO group was only six hundred billion rupiahs and at least four million rupiahs. The regression results (model 6) show that government ownership does not affect the relationship between CSR spending and tax avoidance, which provides evidence that BUMN companies are supervised by many interested parties, so CSR activities do not affect corporate tax avoidance behavior. However, when we subgrouped, it was clear that there were differences between the two groups. In the SEO group, CSR spending has consistently positively influenced tax avoidance. Furthermore, in the non-SEO group, CSR expenditure consistently affected tax avoidance in all models.

There are several explanations why CSR spending in government-owned companies does not positively impact tax avoidance as measured by ETR in model 5 and model 6. First, CSR activities and managers' decisions in public sector companies will be following normative practices in their sector because it is essential to enabling them to gain legitimacy and sustainable access to resources (Chizema & Buck, 2006). Second, in addition to obtaining legitimacy for obtaining resources, it is also legal legitimacy to comply with certain state companies or industries' regulations. For example, SEO companies in Indonesia are required to spend two percent of their income on social and environmental responsibility. Third, based on the trusteeship philosophy, CSR is seen as part of the company's moral obligation to uphold national welfare (Subramaniam, Kansal, & Babu, 2017). Based on this explanation, it is only natural that SEO companies' CSR activities are not used by management to reduce tax avoidance. On the other hand, CSR in non-SEO companies can better reduce the company's tax avoidance behavior with CSR activities. The more strategic the attention is given to social or environmental problems. However, the more irresponsible it is, the more likely it is to use these activities to do tax avoidance because CSR is a form of strategic investment (Hoi et al., 2013; Jia & Zhang, 2013).

CONCLUSION

This study empirically examines CSR investment's effect on the tax avoidance behavior of listed companies in Indonesia. In this paper, we consider the moderating effects of state equity ownership on the relation between CSR and tax avoidance. We use data from 474 firm-year observations from the Indonesian Stock Exchange companies from 2015 to2018.

We provide evidence that the greater the CSR investment will reduce tax avoidance. In other words, lack of CSR investment is positively associated with tax avoidance. Higher CSR activities and investments indicate the company's seriousness in reducing tax avoidance activities (Goerke, 2019; López-González et al., 2019). Furthermore, the effect of CSR investment was found to be weaker on tax avoidance in SEO than in the non-SEO companies. CSR investment in an SEO company does not indicate that the company will seek to reduce tax evasion. On the other hand, non-SEO companies indicate that the higher the CSR investment is, proving that the company is showing its efforts to reduce tax avoidance.

This paper enriches the understanding of the benefits of CSR activities or expenditures in different institutional environments. This paper highlights CSR investment in Indonesia, and the findings have implications for regulators. Regulators can encourage the company's CSR activities, but the impact of these activities may differ depending on each company's motives. However, this study has several limitations. First, the number of SEO companies is only fifteen percent of the total sample. Even though we have done robustness, this may affect the regression results. Second, measuring CSR spending is a total expenditure without categorizing CSR spending. This limitation can be taken into consideration for further research.

ACKNOWLEDGMENT

The author would like to thank to Iqbal, Angelina, Nindiya, and Tiara for their helpful research assistance.

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