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The Influence of Corporate Social Responsibility and Financial Reporting Aggressiveness on Tax Aggressiveness with Corporate Environmental Performance as a Moderating Variable

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ABSTRACT

This study aims to examine the influence of corporate social responsibility (CSR) and financial reporting aggressiveness on tax aggressiveness, using corporate environmental performance as a moderating variable. This research utilizes quantitative analysis with descriptive associative statistics. Hypothesis testing is conducted using multiple linear regression with a sample of 50 companies participating in PROPER in the Basic Materials and Energy sectors listed on the Indonesia Stock Exchange. The results of the study indicate that CSR and financial reporting aggressiveness do not have a significant influence on tax aggressiveness, both partially and simultaneously. Furthermore, corporate environmental performance is unable to moderate the relationship between CSR and tax aggressiveness.

Keywords: *Corporate Social Responsibility, Financial Reporting Aggressiveness, Tax Aggressiveness, Environmental Performance.*

INTRODUCTION

The largest source of government revenue is taxation compared to others, with tax revenue exceeding 1 quadrillion rupiah and consistently increasing every year. On the other hand, non-tax revenue is below 500 trillion rupiah, accounting for only 21% of the total state revenue. It can be concluded that taxes are the main source of Indonesia's state budget (APBN). Indonesia adopts a "Self Assessment System," which is a tax collection system where taxpayers calculate, pay, and report their tax obligations to the Tax Office (KPP). However, this system often leads to conflicting interests, as taxpayers may resist fulfilling their tax obligations. It is inherent in human nature to avoid paying taxes, and therefore, taxpayers may employ various strategies to minimize their tax liabilities. (1), The efforts to find loopholes to avoid taxes are part of behavioral or moral aspects, and the moral standards regarding taxes vary across different countries. Some companies choose alternative paths to minimize their tax burden by cultivating a positive image for their company, so they are not perceived as violating tax morality. Building a positive image can be achieved through implementing Corporate Social Responsibility (CSR) initiatives or engaging in activities that support environmental preservation, social welfare, religious causes, and more. Additionally, the waste generated by industries can significantly impact the environment. Companies are encouraged to allocate funds for CSR activities, and they are urged to participate in saving the planet from further damage by adopting an environmental accounting system based on sustainability reporting. This approach is grounded in the legitimacy theory, which emphasizes the social contract between institutions and society. Numerous studies have been conducted on CSR to examine its effectiveness in minimizing taxation.

Please note that I am an AI language model, and the statements above reflect general information. It's important to consult tax professionals or refer to specific research studies for detailed insights on the effectiveness of CSR in minimizing taxation. (2), That CSR has a positive influence on tax aggressiveness, which means that companies that disclose high CSR levels tend to have higher tax aggressiveness. This is because companies seek to gain public sympathy by showcasing extensive CSR activities, which can help cover up the negative image associated with the company's tax avoidance practices. In contrast, (3) states that CSR has a significant negative influence on tax aggressiveness, indicating that higher CSR disclosure leads to lower levels of tax aggressiveness.

Apart from enhancing the company's positive image as the preferred approach for most companies to reduce tax burdens, some companies choose to minimize tax burdens through more aggressive earnings management. Conflicts of interest may arise in these situations, as companies still have to fulfill their tax obligations while maintaining favorable financial reports to appease shareholders and attract investors. Research on the relationship between aggressive financial reporting and aggressive tax avoidance (4), indicates that aggressive financial reporting has a positive influence on tax avoidance. With a confidence level of 99%, every 1% increase in the level of aggressive financial reporting is equivalent to a 4.6% increase in tax avoidance efforts, as supported by that indeed, aggressive financial reporting has an impact on tax aggressiveness even after the implementation of Mandatory Disclosure Rules, which require taxpayers and their promoters to disclose the tax planning schemes used. However, there are differing results (5), that state aggressive financial reporting has a significant negative influence on tax aggressiveness (6).

The researchers sampled the Energy and Basic Materials sectors listed on the Indonesia Stock Exchange. These sectors were chosen because they generate significant environmental pollution due to natural resource exploitation. Corporate Environmental Performance (environmental performance) was selected based on the assessment conducted by PROPER, published by the Ministry of Environment and Forestry. PROPER is an independent entity that does not have any interests related to taxes and financial reporting. Based on the above explanations, the research paradigm can be depicted as follows:

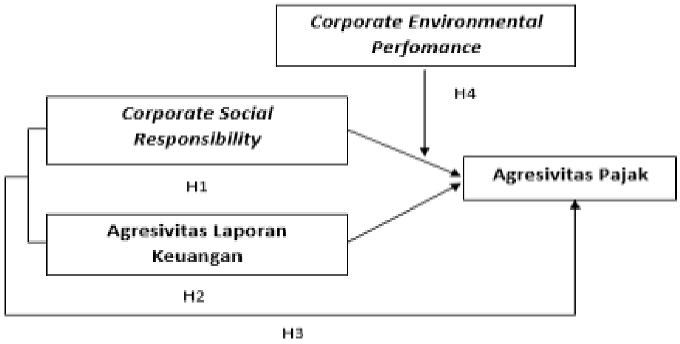

Figure 1: Research Model
Source: Processed Data

The formulation of hypotheses is the third step (8) in research after presenting the theoretical framework and conceptual framework. Hypotheses are temporary answers to the research problem. Hypotheses are formulated and tested to determine their validity or invalidity in an unbiased manner, free from the values and opinions of the researcher who formulates and tests them. Therefore, the hypotheses developed in this study are as follows:

H1: Corporate Social Responsibility has an influence on Tax Aggressiveness.

H2: Financial Reporting Aggressiveness has an influence on Tax Aggressiveness.

H3: Corporate Social Responsibility and Financial Reporting Aggressiveness have an influence on Tax Aggressiveness.

H4: Corporate Environmental Performance strengthens the influence of CSR on Tax Aggressiveness.

METHODS

The method used in this study is quantitative analysis with descriptive statistics and an associative approach, as well as multiple linear regression analysis. The secondary data used in this research were obtained from the annual reports published by companies and the profiles of companies in the Energy and Basic Materials sectors listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. This sector was chosen because it generates significant environmental pollution due to natural resource exploitation. The sampling technique employed in this research was purposive sampling, and the sample consisted of 50 companies in the Basic Materials sector observed from 2017 to 2021.

Corporate Social Responsibility (CSR) was measured using points from the Global Reporting Initiative G.4 (GRI G.4), obtained from the reporting.org website, based on previous research (2,7). There were 91 CSR disclosure items divided into economic, environmental, labor practices and decent work, human rights, society, and product responsibility aspects.

Financial Reporting Aggressiveness was measured using a proxy for discretionary accruals calculated using the modified-Jones Model, referencing previous research (8–11)

This proxy for discretionary accruals was selected because the model has a good capacity to detect earnings management practices (12).

Corporate Environmental Performance, as a moderating variable for CSR, is expected to strengthen the influence of CSR on Tax Aggressiveness, as there are various research findings. PROPER (Program for Environmental Performance Rating) is an independent party without any interests in shareholders or stakeholders, referring to previous research (13). The measurement of Tax Aggressiveness adopts previous research (2,13,14) using the Effective Tax Rate (ETR).

RESULTS AND DISCUSSION

Normality testing was conducted using the One-Sample Kolmogorov-Smirnov test. From the test results, it was found that the probability value of Asym. Sig. (2-tailed) is 0.000, which is <0.05, indicating that the tested data does not follow a normal distribution.

Typically, when the sample size is greater than or equal to 30, it is assumed to follow the central limit theorem. According to previous research (15) this study falls into the category of a large dataset since it consists of more than 30 data points. Therefore, the assumption of normality is not a major concern in this study. Similarly, (16) states that researchers generally consider the assumption of normality met when each variable consists of 30 or more data points. It is also mentioned (16) that the assumption of normality is not a major concern in studies with sample sizes exceeding 30. Thus, in this study, the normality of the data is not a significant issue as the sample size is 50.

To test for autocorrelation, the Durbin-Watson (DW test) was used. The decision criteria for this test state that if the value of du < d < 4 - du, then no autocorrelation is present. In this study, the DW value is 1.925. Referring to the Durbin-Watson table, dl = 1.24 and du = 1.49, while 4 - dl = 2.76 and 4 - du = 2.51. Based on the criteria du < d < 4 - du, it can be concluded that 1.49 < 1.925 < 2.51, indicating the absence of autocorrelation.

To test for multicollinearity in the regression model, two measures were examined: [1] tolerance and its counterpart [2] variance inflation factor (VIF). If the tolerance value is greater than 0.10, there is no multicollinearity, and if the VIF value is less than 10.00, there is no multicollinearity. Based on the data analysis table above, the tolerance values for X1, X2, and Mo are 0.998, 0.995, and 0.997, respectively, indicating that all tolerance values are greater than 0.10, meaning there is no multicollinearity. Similarly, the VIF values for X1, X2, and Mo are 1.002, 1.005, and 1.003, respectively, which are all less than 10.00, indicating the absence of multicollinearity.

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The calculated F-value from the calculation is 2.550, while the F-table value is 3.1787993. This means that H0 is accepted, indicating no significant influence between the independent variables and the dependent variable. It can also be seen from the significance value of 0.089, which is greater than 0.05.

The calculated t-value for X1 is -1.969, while the t-table value is 1.67793. This means that the calculated t-value for variable X1 is smaller than the t-table value, indicating that H0 is accepted, suggesting no significant influence of X1 on Y, with a significance level of 0.055, which is greater than 0.05.

The calculated t-value for X2 is 1.015, while the t-table value is 1.67793. This means that the calculated t-value for variable X2 is smaller than the t-table value, indicating that H0 is accepted, suggesting no significant influence of X2 on Y, with a significance level of 0.315, which is greater than 0.05.

To assess the goodness of fit of the regression model in this study, the R-squared (R^2) or Coefficient of Determination is used. The coefficient of determination measures how well the model explains the variation in the dependent variable. Based on the table above, the R-squared value is 0.104 or 10.4%. This means that only 10.4% of Tax Aggressiveness is influenced by CSR, Financial Reporting Aggressiveness, and Environmental Performance. Thus, 89.6% is influenced by other factors not included in this study.

When interacting with the moderating variable, which is Environmental Performance.

The calculated t-value for the moderating variable X3, when interacted with variable X1, is 0.093, while the t-table value is 1.67793. This means that the calculated t-value for the moderating variable is smaller than the t-table value, indicating that H0 is accepted, suggesting that X3 does not moderate the influence of X1 on Y, with a significance value of 0.927, which is greater than 0.05.

The influence of CSR on Tax Aggressiveness in this study does not have a significant impact. This indicates that higher CSR values are associated with lower levels of tax aggressiveness. It means that the companies in the observed units of this study continue to fulfill their CSR obligations effectively and also fulfill their tax obligations appropriately. This finding is consistent with the research conducted by (17), which states that CSR has no influence on Tax Aggressiveness. As CSR increases, the company's attitude and sense of responsibility towards fulfilling its tax

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obligations also increase (18). Companies incur costs with the intention of using them to fulfill their responsibilities rather than using them as tax deductions. Companies with good quality tend to engage in less tax avoidance. (13) states that companies with social responsibility have better ethics, leading them to have a tendency not to engage in tax aggressiveness (13,17,19).

The influence of Financial Reporting Aggressiveness on Tax Aggressiveness in the observed units shows that it does not have a significant impact. This indicates that the tax aggressiveness of companies is not influenced by earnings management activities. Tax avoidance is indicated when a company has high accruals, resulting in the company tending to have high negative adjustments as well. The research suggests that the influence of financial reporting aggressiveness on tax aggressiveness is not statistically significant. There is a tendency for companies engaging in earnings management to report higher taxable income, indicating their willingness to pay higher taxes by reporting higher income. The findings of this study also align with this, as companies in the energy and basic materials sector are able to pay high taxes without minimizing their tax burden. This contradicts the Agency Theory, which suggests a conflict of interest between managers and shareholders regarding financial reporting for the benefit of shareholders (5,13,17).

Simultaneously, this study shows that CSR and Financial Reporting Aggressiveness together do not have a significant impact on Tax Aggressiveness. In the observed units, the amount of tax paid does not affect the level of CSR expenditure or manipulative financial reporting. This refutes the notion that CSR is merely done to create a positive image in the eyes of society and attract investors, without engaging in negative practices such as high earnings management. This aligns with the ethical values held by companies in their surrounding environment, indicating alignment with Legitimacy Theory and Agency Theory (5).

The moderating role of Environmental Performance on Corporate Social Responsibility in this study indicates that Environmental Performance is unable to moderate the influence of Corporate Social Responsibility. Assessments from independent parties cannot generalize that companies should be compelled to engage in CSR. Regardless of environmental ministry assessments, companies will continue to uphold their moral and ethical responsibilities towards the social environment. Viewpoint (13) suggests that higher company performance leads to a higher commitment to paying taxes. Companies with higher social responsibilities tend to engage in less tax avoidance. This is in line with taxpayer compliance, driven by two objectives: complying with legal regulations for legitimacy and ethical considerations related to stakeholders. Companies implement environmental responsibility ethics towards the community, government, and other taxpayers. The role of Environmental

Performance assessed through the PROPER program in the Basic Material and Energy sectors is still lacking because not all selected sectors participate in the program. Ideally, all companies should participate in the PROPER program to maintain public trust.

CONCLUSIONS

1. The effect of CSR on tax aggressiveness in this study has no significant effect. This indicates that the higher the CSR value, the lower the level of tax aggressiveness.
2. The effect of financial statement aggressiveness on tax aggressiveness in the observation unit carried out shows that there is no significant effect, this indicates that the company's tax management is not influenced by earnings management actions. Companies are able to pay high taxes without minimizing the tax burden.
3. Simultaneously shows that this research shows that CSR and (12) Financial Report Aggressiveness together do not have a significant effect on Tax Aggressiveness, that in the unit of observation carried out the amount of tax paid does not affect the amount of CSR issued and does not affect the manipulative financial statements.
4. Environmental performance in moderating Corporate Social Responsibility in this study is Environmental Performance Cannot moderate the Influence of Corporate Social Responsibility, Assessments from independent parties are unable to reason that companies must be compelled to carry out CSR by coercion, Environmental performance with CSR is increasingly not affecting tax aggressiveness by In other words, with or without an assessment from the Ministry of Environment, the company will still be morally ethically responsible for the social environment.

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