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The Impact of Corporate Social Responsibility and Institutional Ownership on Corporate Tax Aggressiveness with Firm Size as Moderating Variable

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Abstract

This study aims to determine the relationship between corporate social responsibility and institutional ownership on tax aggressiveness, focusing on firm size as moderating variables. The population of this study were companies listed on the Indonesia Stock Exchange (IDX) during 2016 until 2020. A purposive sampling approach was used in the sample selection process for this study, and the final sample was collected by 110 companies with 520 units of analysis. In this study, hypotheses were examined using structural equation modeling. The results showed that CSR disclosure had a positive effect on tax aggressiveness. Firm size positively moderates the relationship between CSR and affects tax aggressiveness. The second result, institutional ownership has a negative effect on tax aggressiveness. Firm size positively moderates the relationship between institutional ownership and tax aggressiveness. Those academic scholars, practitioners, and regulators who are interested in uncovering corporate governance score, tax avoidance, and CSR may find these findings to be of interest. Before mandating extra governance procedures for companies operating in their nation, regulators are required to first assess the legal framework in their country as well as the actual corporate governance mechanisms already in place. This paper examines the relationship between CSR and tax avoidance with a sample of all companies listed on the IDX for five years using firm size as a moderator.

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INTRODUCTION

Taxpayers, especially companies, always try to pay taxes to a minimum in maintaining their profits. This is because in accounting, tax is a burden that is a deduction from the company's profits so that the company will try to develop a strategy to minimize the amount of tax payable (Handayani, 2019). Companies as taxpayers continue to pay taxes to fulfill their obligations but use a tax aggressiveness strategy to streamline the tax burden. As a result, state revenues, especially from the tax sector, are reduced. Governments that aim to maximize revenue from the tax sector contrast with companies that want to minimize the amount of tax burden that needs to be paid (Widuri et al., 2019). To minimize the tax burden, companies often carry out tax aggressiveness so that it becomes a complicated and interesting issue to study. Tax aggressiveness itself is a manipulation of income to minimize the amount of tax owed legally because it still pays attention to the tax provisions contained in the applicable tax laws (Dwiyanti and Jati, 2019). Differences in tax-related interests involving the government and companies make companies tend to try to reduce the amount of their tax burden by taking advantage of loopholes in tax regulations and other regulations. This gap is used by the company as an exemption from regulations that lies between the calculation of taxes or/or planning practices that are permitted and those that are prohibited. Although tax aggressiveness can be carried out illegally or legally, this action is classified as irresponsible because it can harm the state. Several previous studies provide substantial evidence on the scale of tax aggressiveness using real tax, financial, and survey data. Research has recently begun to focus more on the reasons why some companies are more aggressive in their tax planning than others

(Mulya & Kristian, 2020). Tax aggressiveness can be influenced by various variables where in this study the focus is more on institutional ownership and corporate social responsibility (CSR).

Institutional ownership can be defined as share ownership by institutional investors consisting of investment companies, pension funds, mutual funds, insurance, banks, foundations, governments, and other agencies or institutions that manage funds belonging to other parties (Susanto et al., 2018)). The large institutional share ownership will make institutional investors could monitor, supervise, control, and influence the company's management so that it can effectively prevent the company's management from taking actions that are concerned with personal interests. Institutional ownership plays a role in monitoring management to increase supervision to reduce the tendency to do tax aggressiveness either illegally or legally in reducing the tax burden to maintain the company's profit performance (Wahab et al., 2021). The high level of institutional ownership in a company will also provide other supervisory functions where in investing the focus of institutional investors is good company performance which is illustrated by the profits generated. This encourages company management to try to achieve results as expected by investors and is followed by convincing company financial information so that potential investors have the confidence and security to invest in a company (Dakhli, 2021).

Corporate social responsibility (CSR) is defined as the integration of social and environmental concerns which are part of the company's activities and become the attention of stakeholders (Endrikat et al., 2021). (Javeed & Lefen, 2019) said that CSR carried out by companies has the aim of integrating the concept of social welfare in company activities in order to increase welfare and concern for the community through sustainable development while increasing stakeholder benefits. Disclosure of CSR which plays an important role in building stakeholder and community trust is one of the keys to the company's sustainability and supports it in achieving success. A sustainable relationship between the company and the community can be achieved and maintained by a company that pays attention to its economic and social fields. In the economic field, the company produces the largest possible profit and then participates in building the community environment in fulfilling its social aspects to encourage community empowerment and interests as business actors in minimizing conflicts with the community (Hamluddin et al., 2019). Chouaibi & Chouaibi (2021) state that companies currently spend a lot of money and make various efforts in disseminating information related to their social and environmental performance as indicated by an increase in the disclosure of CSR activities in recent years. Business leaders use CSR to control social constraints while promoting sustainable business development and economic performance (Nguyen et al., 2021). It is not uncommon for companies to save costs as much as possible in order to maintain high profits. One of them is through CSR costs that are used to take tax aggressiveness because it can reduce the amount of corporate tax if it meets the applicable provisions. CSR can also improve the company's image, as revealed by (Meliawati et al., 2021) that there is a strong influence between CSR on company image. consumers about the company in the form of impressions and views about the company. Research conducted (Saragih., 2019) states that the formation of a company image consists of four factors, namely quality, responsibility, performance, and attractiveness. The company's responsibility to the environment in which the company is located the operating will establish harmony between the company, the community and the environment which will influence the company's image in the eyes of the community (Sri Ardani & Mahyuni, 2020)

A large firm size can be one of the factors for company managers to maintain significant profits so that it affects tax aggressiveness. Firm size is defined as a measurement of the size of a company that is categorized based on the company's activities, total assets, total revenue, and total company equity as indicators that can be used in categorizing a company ((Badjuri & Kartika, 2021). According to (Setiawan & Sanulika, 2020) states the company which are included in large sizes tend to have higher total assets so that it is concluded that companies with larger total assets, the larger the company. This also affects the increase in company profits which is followed by an increase in the amount of tax burden. Of course, it is increasingly varied so that there may be a number of regulatory opportunities that companies might take advantage of in practicing tax aggressiveness from various types of transactions in company activities. Firm size is thought to be able to moderate the influence of CSR and institutional ownership on tax aggressiveness. Large companies must get attention from regulators or the government and the public so that they tend to minimize tax aggressiveness. This makes the company's management more obedient and open when presenting financial statements in accordance with applicable regulations. In addition, firm size can also be a motivation for managers in maintaining company profits to gain the trust of creditors and potential investors (Florentina & Hastuti, 2020).

The CSR concept changes the corporate responsibility model from single bottom lines to triple bottom lines (Florentina & Hastuti, 2020). Its attitude towards CSR also influences the extent to which a company is determined to reduce its taxes. Although it is difficult to distinguish between CSR with altruistic motives from CSR, which is carried out to benefit the company's reputation, many companies do so with multiple motives. The government and society are company stakeholders whose interests must also be considered by the company. Following stakeholder theory, the company should pay taxes according to the amount determined because it means that the company has prioritized its stakeholders' interests.

(Lanis & Richardson, 2015) also add that companies involved in tax-aggressive policies are not socially responsible. CSR activities carried out by the company indicate that the company has implemented a value system based on the social system in which the company operates (Sagala, 2015). Based on this statement, companies can conclude that companies carry out CSR disclosure to gain legitimacy from the community to avoid unwanted things to increase. Tax aggressiveness can damage a company's reputation in its stakeholders' eyes (Kim et al., 2020). So, from this explanation, CSR disclosure should affect the level of corporate tax aggressiveness. Because the company will reconsider its reputation, it has built through CSR activities. When the company carries out its tax obligations properly, it means that it has implemented CSR principles well. From the description above, the hypothesis in this study is:
H_1: CSR disclosure has a positive effects tax aggressiveness

Institutional ownership is key to the corporate governance mechanisms that exercise effective monitoring of management decisions that are related to tax avoidance to reduce agency problems and to monitor manager’s activities (Moradi et al., 2022). Institutional ownership is considered to be able to increase more optimal supervision in an industry because it can control every decision and policy made by company management, so that it will be encouraged to comply more with tax regulations and can prevent or minimize tax aggressiveness in the company. (Dakhli, 2021). To boost the profitability of the company, institutional owners want to decrease their participation in tax evasion strategies. As a result, this development can garner the interest of investors, who base their decisions to put money into a company on how well it is expected to perform in the market (Alkurdi & Mardini, 2020). Ying et al. (2017) examined the effect of institutional ownership on tax avoidance practices. They found that a firm with a high percentage of institutional shareholders leads to reducing the tax avoidance techniques adopted and used by the firm. This suggests that paying more taxes carries with it a good reputation for managers, making them more likely to receive promotions and improving their career trajectory. Institutional ownership in a company creates more robust governance than individual ownership. Tight supervision will force managers to focus more on financial performance to avoid the opportunity for managers to act selfishly and bring benefits to companies with institutional ownership being less aggressive towards taxes than companies without institutional ownership because supervision within the company increases along with the increase in institutional ownership (Wahab et al., 2021). From the description above, the hypothesis in this study is:
H_2: Institutional Ownership has a negative effect on Tax Aggressiveness

Companies with large sizes often have a more stable ability to generate profits when compared to companies with small sizes. Therefore, the existence of stable and large profits can lead to the possibility of companies to practice tax aggressiveness, because if the company generates large profits, it will result in the amount of tax burden to be paid being higher so that companies will choose to practice tax aggressiveness. which can be implemented through corporate social responsibility activities.

Firm size is a measurement that categorizes the size of a company that can be measured through several indicators such as looking at total assets, total equity, total sales, and others owned by a company. The results of several studies indicate that there is an influence between firm size on CSR disclosure. This shows that the larger the firm size, the wider the level of CSR disclosure. This is because large companies are entities that are in the spotlight of the public (Wedayanti and Wirajaya, 2018). However, even though the level of CSR disclosure is getting wider, the CSR activity itself can be used by companies to carry out tax aggressiveness where there are several CSR activities carried out in accordance with the provisions, the funds issued can become deductible expenses by the company (Hidayati and Fidiana, 2017). From the description above, the hypotheses in this study are:
H_3: Firm Size moderates the relationship of Corporate Social Responsibility (CSR) to Tax Aggressiveness

Agency theory explains that the existence of institutional ownership will reduce opportunistic actions from company management so that institutional ownership is considered ready to advance the supervision of executive implementation by observing the choices made by the management who manage the company. While firm size is a measurement that categorizes the size of a company as seen through indicators in financial statements such as total company assets, total sales, etc. (Handayani and Mildawati, 2018). Companies that have more and more total assets can be an indication if the company in the long term has good prospects. A large firm size describes an organization that is more stable and tends to be more prepared to create benefits compared to small companies. Transaction activities are also more complex so that it can create gaps for tax aggressiveness. However, the bigger a company is, the more attention it will bring to the attention of the public and the government, so it is hoped that the company will not take actions that can threaten the good name of the company (Jasmine, 2017).

In line with agency theory that firm size can minimize the level of tax aggressiveness by the company (Andayani and Yanti, 2021). Institutional ownership is also one of the aspects that might bring the level of tax aggressiveness to a lower level. The ownership of company shares which are more controlled by institutions or other entities will have an impact on the level of profit generated to reach the target because management performance will be more supervised by institutional shareholders. The larger the size of a company, the higher the number of institutional ownerships, because it requires large amounts of funds to meet the company's operational funds. According to Sandy and Lukviaman (2015), institutional ownership has a crucial function in monitoring, disciplining, and influencing management in tax planning where the large or small concentration of institutional ownership will have an impact on tax avoidance policies in companies. Large companies have a greater level of institutional ownership so that the supervision provided by institutional shareholders will be more stringent, to prevent tax aggressiveness (Tahar and Rachmawati, 2020). From the description above, the hypotheses in this study are:
H_4: Firm Size moderates the influence of Institutional Ownership on Tax Aggressiveness

METHOD

Sample selection and data collection

This research is a type of quantitative research using a ratio scale. The population in this study are companies in Indonesia which are listed on the Indonesia Stock Exchange (IDX) in 2016-2020. Sample selection was done by purposive sampling method. The sample criteria used are companies that publish annual financial reports and or sustainability reports, do not experience losses, and have complete data related to the variables used in the study. The data source used is secondary data collected using the documentation method from the IDX official website or the websites of each company. The final number of samples used in this study were 110 companies with 520 observations. This study used an analysis method using Partial Least Square to assess the effect of the institutional ownership and corporate social responsibility disclosure (CSR) on tax aggressiveness and the role of firm size as moderating variable.

Variables measures

- Institutional ownership in this study is measured by comparing the proportion of share ownership by institutional investors to the number of outstanding shares that can be found in the notes to the financial statements of each company in the share capital and general reserves (Jiang et al., 2021; Sunarto). et al., 2021)
- Corporate Social Responsibility (CSR) is proxied using the Corporate Social Responsibility Disclosure Index (CSRDIj) by focusing on the economic, environmental, and social categories totaling 91 indicators according to the 2018 Global Reporting Initiatives. Measurements are made by matching the CSR activities disclosed in the 2018 Global Reporting Initiative. company sustainability report. If the item is disclosed, it is given a value of 1 while the item that is not disclosed is given a value of 0 (Achour & Boukattaya, 2022).
- Measurement of tax aggressiveness in this study utilizes the Effective Tax Rate (ETR) proxy which is calculated by comparing the income tax burden to total profit before tax (Dyreng et al., 2017)
- Firm size is calculated using the natural log of total assets. Natural log (Ln) is used as an effort to reduce excessive fluctuations in data but still does not change the proportion and true original value (Kachouri et al., 2020).

FINDINGS AND DISCUSSION

Hypothesis Testing

Testing of the hypothesis is done on each line that contributes partially to the direct effect. A comprehensive analysis of the findings, which can be found in the results of the PLS analysis and is displayed on the chart, may be seen here. The results of testing the hypothesis using partial least squares are presented in the table that follows.

Table 1. Hypothesis Testing Results

Relationship	*Path Coeff.*	*P-Values*	Hypothesis
CSR → TA	-0.16	<0.01	Not Supported
IO → TA	0.13	<0.01	Supported
CSR*FS → TA	0.07	0.051	Not Supported
IO*FS → TA	0.10	<0.01	Supported

Source: processed by the author using wrappls

From table 1 which shows the results of hypothesis testing, it can be concluded that:
1. CSR has a positive relationship to Tax Aggressiviness as evidenced by the path coefficients of -0.16 and p-values of <0.001 and it can be said that the H1 hypothesis is not supported
2. Intitutional ownership has a positive relationship to Tax Aggressiviness as indicated by the path coefficients of 0.13 and p-values of < 0.01 and H2 hypothesis is not supported
3. Firm size does not moderate the the relationship between CSR and Tax Aggressiveness as indicated by the path coefficients of 0.07 and p-values of 0.051 and H3 hypothesis is Not supported
4. Firm size moderates the the relationship between IO and Tax Aggressiveness as indicated by the path coefficients of 0.10 and p-values of <0.01 and H4 hypothesis is supported

Discussion

The Influence of Corporate Social Responsibility on Tax Aggressiveness

Legitimacy theory explains that the disclosure of corporate social responsibility (CSR) by companies is carried out to gain legitimacy from the community around where the company operates. A company carries out CSR activities as a form of concern for social and environmental aspects to gain legitimacy from the community. However, often CSR activities are also used by companies to reduce the company's tax burden, even though tax aggressiveness is an act that deviates from the norms in society and the initial meaning of CSR activities.

According to research that has been done, it is known that the greater the value of CSR disclosure, the greater the tendency of the company to carry out tax aggressiveness. In Law No. 93 of 2010 Article 3 states that the maximum limit is 5% (five percent) of the net fiscal income of the previous tax year related to the cost of social infrastructure development or the value of donations that can reduce gross income in 1 year so that the costs incurred by the company in the framework of implementing CSR activities does not affect tax aggressiveness. The results of this study are supported by previous research by (Fionasari et al., 2017), proving that CSR has no effect on tax aggressiveness.

The Effect of Institutional Ownership on Tax Aggressiveness

According to agency theory, institutional ownership has an important role in minimizing agency conflict between investors and management. The existence of institutional ownership is considered to have the potential to increase effective supervision of the company's management performance and policies by monitoring or monitoring the decisions taken by the management as the company's manager. However, the power possessed by institutional ownership can be used for or against management. Company management in trying to meet the interests of the company must also consider the interests of institutional ownership. This is because institutional ownership has a voice that can control, regulate, and influence management decisions. The high or low percentage of institutional ownership can also influence the policy decisions taken by a company.

According to the findings of this study, institutional ownership has a significant negative impact on tax aggressiveness. As a result, the greater the institutional ownership, the less likely the management to carry out tax aggressiveness. The level of compliance and managerial performance in a company will increase because of institutional ownership. The higher institutional ownership has an impact on the greater voting rights and incentives to supervise management, therefore the stronger the incentive to comply with tax regulations. Significant share ownership from institutional investors can reduce agency conflict so that it will limit the possibility of companies to take tax aggressiveness actions because institutional ownership is easier to monitor management performance. The results of this study are in accordance with the research who prove that there is a significant negative effect of institutional ownership on tax aggressiveness. This is different from the research conducted by Damayanti and Susanto (2015) which showed that institutional ownership had no effect on tax aggressiveness. Research conducted by Khan et al. (2017) also show different results, there is a significant negative effect between institutional ownership and tax aggressiveness.

The Effect of Firm Size in Moderating the Effect of Corporate Social Responsibility on Tax Aggressiveness

In line with the legitimacy theory, public attention will affect the legitimacy of the company so it is believed that the larger the size of the company, the better the company in disclosing CSR because large companies will increasingly get a positive image in the eyes of the public and are seen as companies that care about the surrounding environment. The higher the level of CSR disclosure of a company is expected to have a positive influence on the company to avoid tax aggressiveness. Companies that are proven to act will threaten their good reputation and of course eliminate the positive influence of the CSR activities that have been implemented. Then, large companies are considered to have qualified human resources so that they are better at meeting the standards that have been set to improve the quality of the reports produced. From the results of the analysis, company size is proven to affect CSR on tax aggressiveness. Where this shows that company size can determine the quality of CSR information disclosed by companies, the conclusion drawn is that company size is proven to moderate the effect of corporate social responsibility (CSR) on tax aggressiveness.

The Effect of Firm Size in Moderating the Effect of Institutional Ownership on Tax Aggressiveness

Institutional ownership is one of the positive influences that can reduce agency conflict. Agency theory explains that with institutional ownership it will minimize differences in interests and reduce opportunistic actions from company management. According to (Boussaidi & Hamed-Sidhom, 2021), institutional ownership has a crucial function in monitoring, influencing, and disciplining company management on tax planning policies where the size of the institutional ownership percentage can influence company decisions regarding tax aggressiveness policies.

Large companies have a higher level of institutional ownership so that supervision by institutional shareholders will be more stringent, to prevent tax aggressiveness ((Amri et al., 2022). The concentration of long-term institutional ownership (long term shareholders) is likely to be higher as the firm size increases, so that tax aggressiveness will also decrease. Therefore, the size of the firm size can strengthen the influence of institutional ownership on tax aggressiveness. The results of this study are the same as the research conducted by (Amri et al., 2022) that firm size as a moderating variable strengthens the significant negative effect of institutional ownership on tax aggressiveness.

CONCLUSION

This study shows that institutional ownership has a negative effect on tax aggressiveness. The results of the analysis prove that the larger the shares owned by the institutional (institutional ownership), the supervision of the company's management will increase. Thus, management will act more obediently to the applicable regulations so that the company will stay away from tax aggressiveness. Corporate social responsibility is proven to have a positive effect on tax aggressiveness. In this study, it shows that the CSR disclosures carried out have the potential to be carried out to cover tax aggressiveness activities.

Institutional ownership moderated by firm size strengthens the negative effect on tax aggressiveness. This is because large companies have a greater level of institutional ownership so that the supervision provided by institutional shareholders will be more stringent, to prevent tax aggressiveness. In contrast to CSR, which is moderated by firm size, it further strengthens the negative influence on the influence between CSR and tax aggressiveness. Companies that are increasingly disclosing CSR, in the results of this study, are increasingly carrying out tax aggressiveness.

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