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Corporate Social Responsibility Disclosure, Ownership Structure and Tax Aggressiveness

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***Abstract*—This study aims to empirically examine the effect of corporate social responsibility disclosure and ownership structure on tax aggressiveness, especially in mining companies operating in Indonesia. The results of testing hypotheses using panel data regression obtained results that disclosure of corporate social responsibility has a negative effect on tax aggressiveness, while ownership structure has a positive effect on tax aggressiveness with the fixed effect regression model. This finding contributes to stakeholder theory which emphasizes the need for companies to carry out various corporate social responsibility activities in fulfilling the information needed by interested parties, including the government as tax authorities.**

Keywords—corporate social responsibility disclosure; ownership structure; tax aggressiveness

I. INTRODUCTION

Lanis et al. explained that tax is one of the important things in decision making [1]. Tax burden is a factor that motivates many decisions within a company. This is in line with agency theory where the manager or agent aims to maximize the profit value so that the company appears to have good performance, so management tends to do efficiency by minimizing tax burden through tax planning. Tax planning actions carried out by management starting from a low level (less aggressive) to a high level (more aggressive) that can lead to tax avoidance actions [2]. Indonesia's tax-GDP ratio which is still less than 12% in 2012 remains low when measured by international standards. In general, this reflects the spread of informality and tax avoidance [3].

Companies that have a low ranking in Corporate Social Responsibility (CSR) are considered as a company that is not socially responsible so that it can carry out a more aggressive tax strategy than socially conscious companies [4]. As research that has been carried out by (1,4) that companies that are not socially responsible are through CSR management, then they will carry out higher tax aggressiveness. According to Prawira et al. revealed that unethical behavior is 'cancer' within the company [5]. So that if a company does an act that is considered unethical, it will create opportunities for other unethical actions. Companies can be involved in tax aggressiveness depending on the CSR dimension they have developed [6]. In the end, CSR initiation is used by companies to maintain reputation, enhance corporate image, strengthen the company's brand, and even increase the value of the company [7]. Thus CSR is a social responsibility activity that is inversely proportional to acts of tax aggressiveness that are considered and categorized as actions that are not socially responsible.

According to Loh et al. an institution that aims to spearhead relevant research and have a major impact on governance related issues related to Asia, including corporate governance, reveals that Indonesian companies have a low rating in understanding CSR which is based on the GRI-G4 indicator on annual reports and official information from each company's website [8]. A number of factors are assessed, including corporate governance, economic, environmental and social. Details of the values obtained include Thailand (56.8), Singapore (48.8), Indonesia (48.4), and Malaysia (47.7).

Research conducted by Lanis et al. using samples of companies going public in Australia in 2008 and 2009 with a tax aggressiveness proxy using the ETR concluded that higher CSR disclosures were related to lower tax aggressiveness or negatively related [1]. Similar results in the analysis conducted by Huseynov et al., namely the effect of CSR on tax avoidance in companies in Australia has a negative relationship [9].

Fama and Jensen who revealed that if decision makers in a company are concentrated in a small number of individuals or groups (concentrated ownership) then management is reluctant to take actions or projects that are risky for the company, as we know that tax aggressiveness is something that risk for the company [10]. Corporate CEOs who tend to have the characteristics of risk averse (risk aversion) tend not to act in tax aggressiveness [11]. So that with the ownership structure that is concentrated on the company, making the conflict of interest less because the concentrated share ownership causes not too many interests between the shareholders, the shareholders can effectively monitor the management so as to minimize management behaviors that result in risk to the company, one of which is behavior tax aggressiveness. Results of research conducted by Badertscher found that companies that have a high level of ownership concentration tend to prefer to avoid tax avoidance practices [12].

II. LITERATURE REVIEW

According to Elkington, companies that want to be sustainable must pay attention to "3P" [13]. In addition to

pursuing profit, the company must also pay attention to and be involved in fulfilling the welfare of the people (people) and contribute actively in maintaining the environment (planet). Corporate social responsibility is an ongoing commitment from the business world to act ethically and contribute to the economic development of the local community or society at large [14]. According to Wibisono, there are 10 benefits that can be gained in carrying out CSR [15], namely: maintaining and boosting the reputation and image of the company, deserving of a social license to operate, reducing business risk, expanding access to resources, expanding access to market, reduce costs, improve relationships with stakeholders, improve relationships with regulators (government), increase employee morale and productivity, opportunities to get awards. Gray et al. define CSR disclosure as a process of providing information designed to release social accountability [16]. This is in line with legitimacy theory, it can be concluded that companies must have good social relations with their environment because it will affect the sustainability of the company itself. In addition to paying attention to social relations with the surrounding environment, so that the company's activities run smoothly, the company also needs to pay attention to the interests of various parties related to the company in accordance with stakeholder theory.

Freeman describes stakeholders as individuals and groups that are influenced by the achievement of organizational goals and in turn can affect the achievement of these goals [17]. The survival of a company depends on stakeholder support and that support must be sought so that the company's activities are to seek such support. Based on stakeholder theory, the company must pay attention to the interests of various parties who play a role in the smooth running of the operations carried out by the company, such as employees, customers, stakeholders, government, society and other parties.

The company's ownership structure is grouped into two, namely a spread ownership structure and a concentrated ownership structure. Spread ownership usually occurs in the United States and Britain. In contrast, ownership structures of companies in East and Eastern Asian countries are concentrated in particular owners [18-20]. Share ownership is said to be concentrated if most of the shares are owned by some groups, so the shareholders have a relatively dominant number of shares compared to others. Whereas share ownership spreads if share ownership spreads relatively evenly to the public, no one has a large number of shares compared to others [21].

This concentrated ownership also according to agency theory is useful to minimize agency conflict and information asymmetry between shareholders and management which allows the emergence of tax aggressiveness actions by management. This is because the more concentrated ownership (not spread) the shareholders can control the management more effectively.

Based on the study above, the hypothesis in this study is:

- H_1 : Corporate social responsibility disclosure has a significant influence on tax aggressiveness.
- H_2 : Ownership structure has a significant influence on tax aggressiveness.

III. METHODOLOGY

The study was conducted on 13 mining companies operating in Indonesia with observations during 2012 - 2016. The analysis used was panel data regression using secondary data published by the Indonesia Stock Exchange. In this study, the research variable consisted of:

TABLE I. VARIABLE DEFINITION

Variable	Measurement	Data Source
	Independen:	
Corporate social responsibility disclosure (CSRD)	CSRI = $\frac{\sum Xyi}{ni}$ Where: CSRI : CSR Index company i. $\sum Xyi$: The total items disclosed by the company i. ni : The total items for company i ≤ 91.	Annual Report
Ownership structure (OWN)	Dummy variable: 1, if ownership by a party above 51% 0, if ownership by a party below 51%	Financial position
	Dependent:	
Tax aggressiveness (ETR)	Effective Tax Rate = Tax expense/Pretax income	Income statement

The research model developed is written as follows:

$$\mathbf{ETR_{it} = \alpha + \beta_1 * CSRD_{it} + \beta_2 * OWN_{it} + \varepsilon_{it}}$$

Where:

ETR_{it} = Effective tax rate company i at time t

$CSRD_{it}$ = Corporate social responsibilitty disclosure company i at time t

OWN_{it} = Ownership structure company i at time t

IV. RESULT AND DISCUSSION

Disclosure of corporate social responsibility is defined as the process of providing information designed to release social accountability [16]. Disclosure of corporate social responsibility is the level of disclosure carried out by each company in its annual report. The value of corporate social responsibility disclosure is obtained by comparing the number of items disclosed by the company with the total number of items from the GRI-G4 indicator consisting of economic performance (9 items), environment (34 items), and social (48

items). The following is the average disclosure of mining companies' social responsibility during 2012 - 2016:

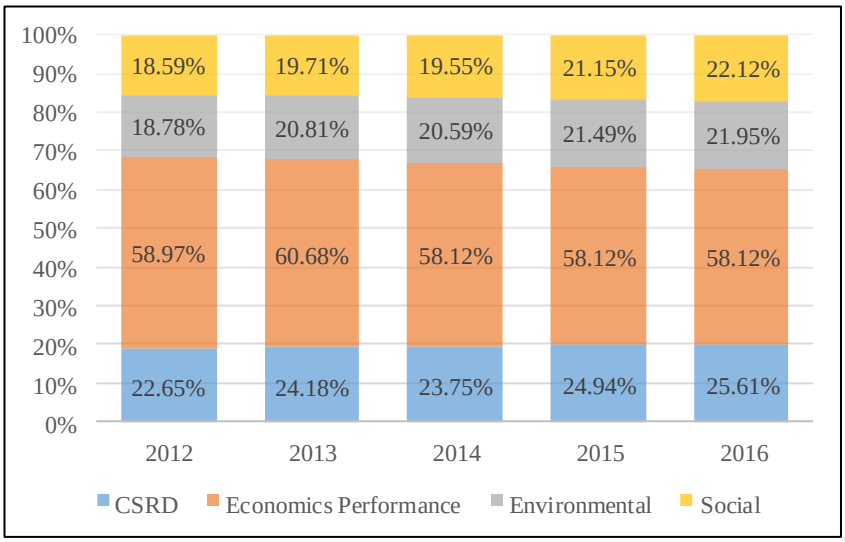

Fig. 1. Scores for Mining Corporate Social Responsibility Disclosure, Year 2012 – 2016.

Corporate social responsibility disclosure tends to increase even though there is no significant increase. The highest score category is the economic performance category (> 50%), while the environmental category and social category are still low (<50%). This condition shows that mining companies generally focus more on disclosing corporate social responsibility in relation to aspects of economic performance. This illustrates that most mining companies carry out social responsibility activities based on aspects of profits that the company will obtain.

Ownership structure is seen from the aspect of concentration of ownership of a company. Ownership is said to be concentrated if most of the shares are owned by some groups, so the shareholders have a dominant number of shares compared to others. Whereas ownership is not concentrated if share ownership spreads evenly by the public, no one has a large number of shares compared to others [21]. Ownership is said to be concentrated if the level of ownership by a party is more than 51% [18]. The ownership of a concentrated company is given a value of 1, and if the ownership of the company is spread it is given a value of 0. The following is the ownership structure in mining companies in Indonesia in 2012 - 2016:

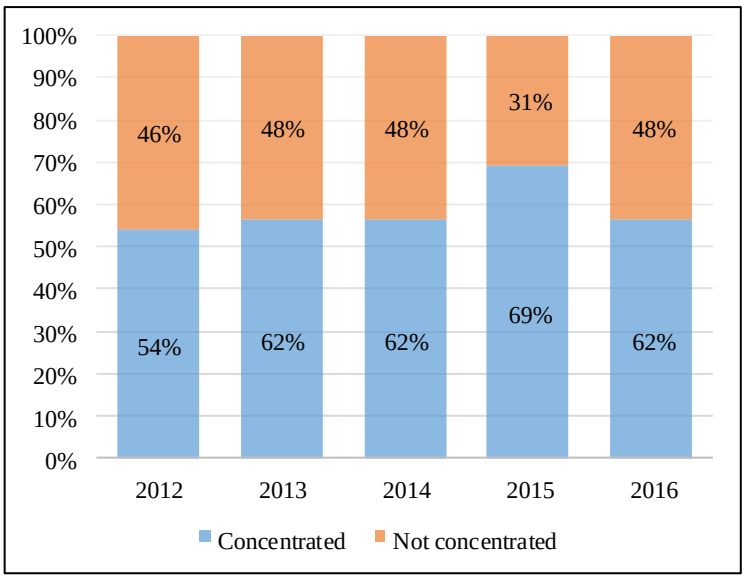

Fig. 2. Ownership Structure of Mining Companies in Indonesia, Year 2012 – 2016.

Based on Figure 2, it can be concluded that in general the ownership of mining companies in Indonesia is a company with concentrated ownership. Even in some companies' majority ownership is owned by the family. This majority share ownership is certainly an aspect that determines various company policies, including in terms of corporate taxation policies.

Tax aggressiveness is a level of tax avoidance carried out by a company. Tax avoidance is all forms of activities that have an effect on tax obligations, both activities that are allowed by tax or special activities to reduce taxes. A description of the tax aggressiveness of mining companies in Indonesia during 2012 - 2016 is as follows:

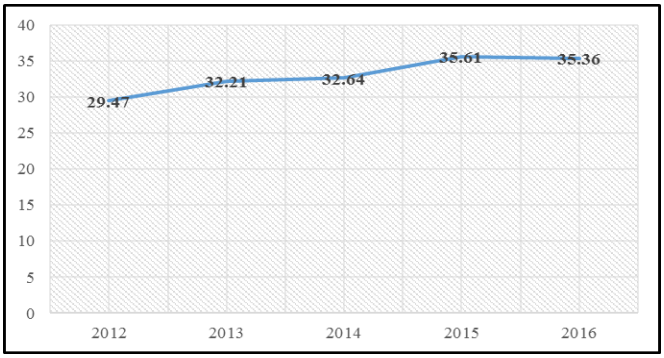

Fig. 3. Tax Aggressiveness of Mining Companies In Indonesia, Year 2012 – 2016 (%).

Based on Figure 3 above, the ETR value of each mining company during 2012 - 2016 tends to increase. The average tax aggressiveness in 2012 was 29.47, then increased in 2013 to 32.21, then increased again in 2014 to 32.64 then increased again in 2015 to 35.61, but decreased in the year 2016 becomes 35.36. In addition to the average that tends to increase, the maximum value of ETR in the sample companies continues to increase from 2012 to 2016. It must be understood, the higher the value of ETR indicates that the company is increasingly not aggressive in tax avoidance, whereas on the contrary the lower the value of ETR indicates that the company is increasingly aggressive in tax evasion. Aggressiveness which tends to increase gives a good indication, illustrating that the average mining company from year to year tends not to take tax avoidance.

Based on the results of the Chow test and the Haussmann test, the most suitable model used to examine the effect of corporate social responsibility disclosure and ownership structure on tax aggressiveness is to use a fixed effect model. The following is the test results using a fixed effect model to test the hypothesis.

TABLE II. FIXED EFFECT MODEL TEST RESULTS

Variable	Coefficient	Std. Error	t-Statistic	Prob.		R-Square
C	-1.5667	8.37813	-0.1870	0.8524		0.5208
CSR	-1.0837	0.3249	-3.3359	0.0016	***	
OWN	13.6022	5.9575	2.2832	0.0267	**	

Notes: ***, ** indicate significant 1%, 5%.

The equation model can be seen from the coefficient value of disclosure of corporate social responsibility (CSR) positive value and also the probability of the results of testing to vary the disclosure of corporate social responsibility by 0.0016 <0.05 which means that corporate social responsibility responsiveness has a positive effect on ETR. The CSR coefficient value is 1.0836. This shows that every increase in the value of disclosure of corporate social responsibility by one, then the ETR will increase by 1.083686. The coefficient value of the ownership structure is positive and also the probability of the results of testing for variable ownership structure is 0.0267 <0.05 which means that ownership structure has a positive effect on ETR.

R-squared value = 0.520 = 52%. This means that the ability of independent variables (disclosure of corporate social responsibility and ownership structure) in explaining the variance of the dependent variable (tax aggressiveness) is 52%. While the remaining 48% is explained by other variables outside the model. Tax aggressiveness is proxy by ETR, where the higher the ETR indicates that the company is increasingly not aggressive in tax avoidance, on the contrary the lower the ETR value indicates that the company is increasingly aggressive in tax evasion.

The results showed that when a company has a higher level of disclosure of corporate social responsibility, the level of tax aggressiveness carried out by the company is lower. In the end, CSR initiation is used by companies to maintain reputation, increase the company's brand and even increase the value of the company [7]. Thus, companies that have good dimensions with CSR are lower in tax aggressiveness because the company has delivered transparency, integrity and good reputation [6]. So that the legitimacy that has been built by the company through good CSR disclosures makes the company tends to have a low level of tax aggressiveness because to maintain the legitimacy, values and positive impacts that have been built.

The results of this study support the research of Huseynov which concluded that corporate social responsibility has a negative effect on the tax aggressiveness assessed using the

ETR proxy [9]. This is also in line with the research conducted by Lanis which found that corporate social responsibility disclosure has effect on tax aggressiveness which is also assessed using the ETR proxy [1].

The same results are obtained by the ownership structure, where companies that have a concentrated ownership structure in certain individuals or groups tend to have low levels of tax aggressiveness. Concentrated ownership by majority shareholders is used to monitor and have sufficient information to carry out the supervisory functions carried out by shareholders on management [22]. Because large controls from shareholders can impact important decisions in the company, including the tax strategy [23]. Control can also be seen in terms of corporate governance, one of which is the number of directors, which according to Prawira states that the more directors make companies lower in tax aggressiveness [11]. According to Everttson says that supervision conducted by shareholders can effectively reduce tax avoidance actions, because shareholders expect the results of operations from the company not only to report increased profits from manipulation even though legally legal as well as tax evasion [24].

The results of this study are in line with Badertscher found that companies that have a high level of ownership concentration tend to prefer to avoid tax avoidance practices [12]. These results also support research from Ribeiro which shows that ownership concentration has a positive effect on ETR as a tax avoidance proxy, the higher the ETR, the lower the company is in tax aggressiveness, meaning that ownership structure is negatively related to tax aggressiveness [25].

V. Conclusion

Based on the results of the study concluded that the disclosure of corporate social responsibility is relatively low and only focuses on aspects of economic performance. In terms of ownership structure, the average mining company operating in Indonesia has concentrated ownership. Then the results of testing hypotheses prove empirically that the disclosure of corporate social responsibility and ownership structure affects the tax aggressiveness. With these findings, the Government of Indonesia in the future is expected to be able to establish regulations regarding CSR disclosures which until now have not been regulated in detail as a means of sustainable business concepts. CSR disclosure, especially from aspects of economic performance, can be used to evaluate tax objects that are potential tax revenues.

This study only uses aggressive measures using ETR. In the future, research on tax aggressiveness can be done using other measures including cash effective tax rate (CETR), and book tax difference (BTD), as well as involving non-mining companies such as manufacturing companies.

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