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The Effect of Corporate Social Responsibility on Tax Aggressiveness:

Moderating by Family Ownership in Indonesia

Kennardi Tanujaya*, Iskandar Itan
Faculty of Economic
Universitas Internasional Batam
Batam, Indonesia
*kennardi.tanujaya@uib.ac.id

***Abstract*—The design of this research is to analysis the significance of corporate social responsibility (CSR) disclosures toward tax aggressiveness that moderated by the family ownership. The dependent variable in this research is tax aggressiveness. The independent variable in this research is CSR disclosure. The moderating variables are family ownership. The target population is firms listed in Indonesia Stock Exchange that established from 2013. The results showed that CSR disclosure and family ownership have significant effect on tax aggressiveness. The family companies have big potential in reducing tax payment than non-family companies. Besides that, there is no significance effect of family ownerships on moderating the association of CSR disclosure and tax aggressiveness.**

Keywords*—tax aggressiveness, family ownerships, corporate social responsibility disclosure, family companies

I. INTRODUCTION

Tax aggressiveness has become a problem for countries in the world. Cases of tax aggressiveness that had caused huge losses to the state and society are like the Enron case in the United States. Complex transactions are used to avoid taxes that incur significant costs for the company, when the action is revealed until the company goes bankrupt. As a result, shareholders actually do not get any benefit at al. [1].

With the help of accountants, lawyers, or financial advisors, companies can avoid taxes through moving profits, designing complex corporate structures, and cost management programs. In Luxembourg, documents were found explaining the potential for 340 large companies including Amazon, Deustche Bank, Accenture, Procter & Gamble, Dyson, FedEx and JP Morgan to use Luxembourg facility for tax avoidance. The educated workforce and the ability to treat sick employees with public funds wanted by the company. The company wants to receive subsidies from the Luxembourg government and want to pay as little as possible for taxes. The company issues a social responsibility report to give the impression that they are a socially and ethically concerned company to cover up information about tax avoidance practices. This was realized because there was the assistance of a public accounting firm to regulate it [2].

Tax amnesty carried out by the company is an effort to raise awareness of taxpayers in making deposits and reporting taxes accordingly in conformity with the provisions of the tax regulation. Many Indonesian businessmen declare their assets held abroad with repatriated funds reach IDR 147 trillion while the target is set to IDR 1,000 trillion [3]. This result suggests that government failed in achieving the target of repatriation funds means the lack of tax payers' awareness to contribute to society and the country.

In addition, poorly structured corporate governance is one of the causes of tax aggressive actions. The presence of an independent commissioner will provide input that can influence decision-making regarding CSR disclosure and tax aggressiveness [4]. Apart from the role of independent commissioners, decision making cannot be separated from the participation of family members if they have an immense percentage of ownership and domination in the company. Family company and non-family company have different agency problems. It can lead companies to take tax aggressive action. The problem with the agency in a family company is dispute of interest between the main shareholder and the minority shareholder. However, it is unknown whether family or non-family corporation are more assertive in tax aggressiveness.

II. LITERATURE REVIEWS

A. Tax Aggressiveness

The efforts made by the corporation to reduce the tax expense than the company should pay is the definition of tax aggressiveness [4]. Taxes are legally avoided by the Company so that the fund can be transferred to the stockholders [5]. Tax aggressiveness can be done through transferring profits to country with lower tax rates, transfer pricing, and income smoothing. The profits obtained by the company from tax aggressiveness measures such as cash benefits obtained by shareholders increases because of the taxes paid are well planned, managers will get compensation from shareholders from aggressive actions taken [6]. The degree of aggressiveness income tax confide in the level of the punishment stipulated by the law regulation [7].

In Indonesia, taxation regulations relating to income tax are regulated in Law Number 36 (2008). Taxable income is calculated based on gross income less the costs of obtaining, collecting, and maintaining income tax. The tax base used is that taxable income is deducted from non-taxable income. The tax rate imposed on corporate taxpayers is regulated in article 17 paragraph 2, which is 25%. These rates come into force for the 2010 tax year.

B. *CSR and Tax Aggressiveness*

CSR can be generally defined as corporate actions designed to improve social or environmental conditions voluntarily [8]. Firms engaged in CSR because the Company's culture not focus only for shareholder interests nevertheless the influence of the business activities on general public and environment [5]. CSR activities can be informed to stakeholders by disclosing the CSR information in either the sustainability report or annual report [9]. Therefore, each company has its own decision in formulating an approach to social responsibility and the degree of CSR activities will be significantly distinctive between firms.

The managerial action of companies to minimize the amount of tax payments has become a common issue in companies around the world. Tax aggressiveness activities can lead to the significant gains and losses. Profits can be felt by shareholders because tax payment funds can maximize shareholder wealth while losses are experienced by the community where from a social perspective, corporate income tax payments guarantee financing of public goods [4]. Tax payments to the state can be considered payments to the public. The firm that paying tax regularly is important step to engage positively with society and to reach the goal to becoming socially responsible citizens [10].

High degree of CSR disclosure leads to a low tax aggressiveness [4]. Firm that have a high degree of social awareness aim to be less aggressive than companies that are not socially responsible because the company considers taxes to be the funds needed for the development of the country [11]. Therefore, paying tax become method to devoting to the society and conforming with CSR goal [5]. The higher the degree of CSR disclosure, it will be increased reputation in the community.

Non-family and family firms have different perspectives on the policies of CSR activities undertaken. Family firms aim to be more active in carrying out social activities rather than non-family firms because they are more concerned with the firms' reputation and maintain socioemotional wealth (SEW) [12]. Motivation in carrying out different CSR activities can affect the tax aggressiveness actions carried out between family and non-family firms.

CSR has a significant influence on tax aggressiveness [10]. The more social responsibility actions undertaken by the firm, it aims to be less aggressive in tax management.

H_1 = CSR disclosure has significant effect on tax aggressiveness.

C. *Family Ownership and Tax Aggressiveness*

The owner of a family company will tend not to take tax aggressiveness since the family owner is prompt to pay a higher tax burden rather than paying a tax penalty and does not want the company's reputation damaged by tax audits [13]. Family company owners that have high percentage of ownership and control over the firm so that it has a greater advantage than tax savings [6]. The benefits derived from tax aggressiveness can be greater costs incurred [14]. Therefore, family companies have a high incentive to carry out tax aggressiveness. The results of a study conducted by Bauweraerts and Vandernoot show that family ownership has a significant positive effect on tax aggressiveness, which means companies with a majority of ownership owned by company members tend to take tax aggressiveness actions [15].

H_2 = Family ownership has significant effect on tax aggressiveness.

D. *CSR Disclosure on Tax Aggressiveness with Moderation of Family Ownership*

Family companies are not in line in determining their attitude towards social responsibility [16]. Family firms aim to take more ethical activity than the average non-family company [17]. The company shareholders, founders, and managers of family companies tend to run socially responsible businesses and evade practices that can harm the company's reputation, namely tax aggressiveness [18]. Therefore, family company owners tend to be more concerned with social responsibility activities undertaken [19]. The family ownership can moderate CSR disclosure on tax aggressiveness.

H_3 = Family ownership moderate the relationship between CSR disclosure and tax aggressiveness significantly.

III. METHODS

This research was conducted under quantitative research method. The data analysis method used is multiple regression analysis. Data processing in this study uses E-Views. The population used as the object of research were firm listed on IDX. The objects in this research selected must conformed the following criteria:

- Firm listed on the IDX and published annual financial reports and audited financial statements for six consecutive years from the 2013-2018 period.
- Companies with positive income tax (positive effective tax rate) for five years in a row. A negative income tax burden can distort the Effective Tax Rate [6].

Tax aggressiveness (variable dependent) is the company's effort to reduce tax expense using aggressive tax planning and tax avoidance [6]. The smaller ETR compared to corporate income tax indicates the occurrence of tax aggressiveness [20].

ETR = Tax Expense/Income Before Tax (1)

Corporate Social Responsibility (CSR) is the action taken by companies to contribute to society used as independent variable. Disclosure items used in research are measured based on ISO 26000 index which contains 37 CSR disclosure items. Each index disclosed in the annual financial statements will be given 1 and 0 otherwise.

CSR Index = Total items disclosed / 37 items disclosed (2)

Family ownership is a nominal scale variable (dummy variable) which used as moderating variable. This study adopted a measurement of family ownership conducted by Landry et al. (2013):

FO = one (1) if a family member has ownership> 20%

FO = zero (0) if a family member has ownership <20%

Independent commissioner, profitability, leverage, market to book ratio, and company size are used as control variables in this research. The number of composition of external parties on the board of commissioners increased will reduce the possibility of tax aggressiveness [4]. The higher level of profitability means the company is more effective at managing its assets to generate profits, used to manage the performance and specific effects of tax optimization [21]. Leverage is used to control the company's capital structure [15]. Market to book ratio is used because companies that grow more freely to invest in assets with the resulting profits are excluded from the tax base or subject to lower tax rates (tax favored assets) compared to companies with small budgets [6]. Firms size is used to restrict the effect of the size of the company. Large firm aim to be more aggressive because they have large political strength in comparison to small companies and able to reduce the tax burden with their capabilities [4].

IV. RESULTS AND DISCUSSION

Secondary data from firm listed on the IDX used in this research. The data used are the company's audited financial statements and independent auditor's reports from 2013-2018.

TABLE I. DESCRIPTIVE STATISTICS TEST RESULTS OF FAMILY AND NON-FAMILY BUSINESS COMPANIES

	Non-Family Business Companies				**Family Business Companies**			
	Minimum	***Maximum***	***Mean***	***Standard Deviation***	***Minimum***	***Maximum***	***Mean***	***Standard Deviation***
Tax Aggressiveness	0,0663	0,4170	0,2459	0,0559	0,00000	0,4105	0,2170	0,0779
CSR Disclosure	1	30	15,1391	6,9910	1	26	10,7403	5,3284
Profitability	0,00002	0,65720	0,0896	0,0948	0,0005	0,4162	0,0757	0,0609
Leverage	0,0977	2,1156	0,5292	0,2566	0,0687	0,9212	0,4936	0,2106
Market to Book Ratio	-41,0779	62,9311	2,9874	6,5529	0,0116	200,6761	3,6185	13,8795
Company Size (billion rupiah)	47	1.038.710	51.027	137.089	87	199.175	7.765	19.711

Table 1 shows a descriptive comparison between non-family and family businesses. The average value of ETR in family firms is smaller than non-family firms (21.70% <24.59%) which indicates that family firms are more smart in managing tax aggressiveness than non-family firms.

Family firms show an average CSR disclosure of 10 while non-family companies are 15. Comparison of average CSR disclosures shows that family companies make lower levels of CSR compared to non family firms.

Family companies show an average of 41.15% independent commissioners while non-family companies are 43.76%. These results indicate that the percentage of independent commissioners in non-family firm and family companies has fulfilled the provisions of the Otoritas Jasa Keuangan (OJK, Finansial Services Authority) regulation No. 33 / POJK.04/2014 article 20 paragraph (3). Firms listed on the IDX must have an independent commissioner of at least 30% of the board of commissioner’s members stated in the regulation.

Non-family firm have greater profitability compared to family firm (8.96%> 7.57%). Non-family firms have a greater level of leverage (52.92%> 49.36%) in comparison to family firms. Family firms have a market to book ratio (361.85%> 298.74%) higher than non-family companies. In addition, the size of the non-family business is greater than the family business formulated by the total assets of the firm (51,027,000,000,000> 7,765,000,000,000).

TABLE II. T-TEST RESULTS

Variable	**B**	***T***	**Sig.**
CSR Disclosure	0,0414	2,3293	0,0200*
Family Ownership	-0,0482	-4,4819	0,0000*
CSR * Family Ownership	0,0356	1,2653	0,2060
Independent Commissioner	-0,0680	-3,7754	0,0002*
Profitability	-0,1505	-4,7068	0,0000*
Leverage	0,0510	4,4806	0,0000*
Market to Book Ratio	0,0003	2,1063	0,0354*
Company Size	-0,0089	-5,5815	0,0000*
Constant	0,5102	11,8519	0,0000

The results of testing the outcome of CSR disclosure on tax aggressiveness with family ownership as moderating variable can be seen in Table 2. CSR has significant positive outcome on tax aggressiveness, shown by the coefficient value of 0.0414 (p-value 0.02). Therefore, H_1 is proven. The results also show that family firms have significant negative effect on tax aggressiveness with coefficient value is -0.0482 (p-value 0.00). Therefore, H_2 is proven.

From the results of the study showed that family firms are more vigorous than non-family companies in tax management shown by the coefficient value of -0.0482 and significant value of 0.0000. However, the significance value family ownership as moderating variable is 0.2060 and a coefficient of 0.0356 which indicates that family ownership cannot moderate the effect of CSR on tax aggressiveness. Therefore, H_3 is not proven.

The results showed that social responsibility activities are not a driving force behind the family companies' tax behavior. Socially responsible family companies do not encourage companies not to act on tax management to maintain their reputation in the community. That is because the degree of CSR activity in family firms in Indonesia is still low. The results show that H_3 is not supported.

V. Conclusion

The objective of the study to determine the effect of independent variables that include disclosure of CSR on the tax aggressiveness. In addition, this study also examines the influence of moderating family ownership in strengthening or weakening the influence of CSR disclosure to tax aggressiveness. Based on the results, it can be summarized 1) CSR has positive effect on tax aggressiveness, 2) Family ownership has negative effect on tax aggressiveness, 3) Family ownership cannot weaken or strengthen the relationship of the influence of CSR on tax aggressiveness.

The recommendations that can be considered for further research. First, the next researcher can develop research by using different tax aggressiveness measurements such as using Cash ETR and Book Tax Differences, it can reflect the actual cash paid to the Director General of Taxes [2]. Second, the next researcher can do a combination of quantitative and qualitative data, so that the research results are more thorough and on target. In addition, it can be analyzed CSR activities that have a relationship with tax aggressiveness so that it can explain more accurately the relationship of CSR with tax aggressiveness.

Firms that have high CSR disclosure aim to be less aggressive in tax management. This information can help investors in analyzing whether companies on the IDX have the potential for high tax penalties due to tax avoidance by the company by considering CSR activities disclosed in annual reports as to minimize the risk of loss for investors.

This research is important for investors and the Director General of Taxes. The results of the study can give an idea to the Director General of Taxes that family firm are more aggressive in tax avoidance than non-family firm to provide input in the direction of tax audits.

The results provide an overview for corporate tax decision makers who seek to identify situations where the risk of tax aggressiveness is high. In addition, this study contributes information on the relationship between social action carried out by the firm which is closely related to tax aggressiveness actions carried out by the organization. In family companies and family companies have different motivations in carrying out social actions to the public. The company owner will consider the benefits and costs that will arise from the CSR policies and tax management implemented.

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