

CORPORATE SOCIAL RESPONSIBILITY AND GOOD CORPORATE GOVERNANCE AS TAX AVOIDANCE SOLUTIONS

Nurul Emil Safitri¹

¹ *Accounting Department, Faculty of Economics and Business, Universitas Brawijaya, Indonesia*

Abstract. Corporate Social Responsibility (CSR) is a company's effort to demonstrate its social responsibility as an expression of ethical standards to achieve long-term results. In socially responsible companies, the level of tax avoidance tends to be lower. Companies with higher social responsibility will have lower tax saving practices. The results of the literature review describe that CSR is associated with a lower effective tax rate. In this context, CSR disclosure is a form of tax avoidance activity. Good corporate governance can be a strategy to minimize tax avoidance behavior.

Keywords: Corporate Social Responsibility (CSR), Good Corporate Governance, Tax Avoidance

I. INTRODUCTION

Industrial competition is increasingly fierce in the Industrial Revolution 4.0 era, company performance fluctuates for no apparent reason. When a company's productivity decreases under certain conditions, taxes become a heavy burden for the company. On the one hand, apart from the taxes that must be paid, according to Law no. 40 of 2007, apart from the state, companies also have an obligation to implement Corporate Social Responsibility (CSR).

In the end, because CSR activities are still focused on the interests of shareholders, there is an imbalance between profit, people and planet (Hacker, 2016). The decision to play an active role in the company's Corporate Social Responsibility is one of the best alternatives for companies to avoid paying taxes, namely by carrying out fewer corporate social responsibility activities and paying higher taxes (Alsaadi, 2020).

According to Resource-Based Theory, CSR activities are politically a company's ability to achieve excellence in competitive business competition. Even though CSR is a burden for companies, CSR can directly provide value and benefits for companies, even including the company's tax burden (Fifka & Adai, 2015). The tax avoidance behavior of company managers can be explained as the first concept of corporate earnings management. Earnings management is the selection of accounting policies or actions decided by managers that influence earnings to achieve certain goals in relation to reported earnings (Scott, 2015).

One form of earnings management is minimizing company profits in the hope that the tax payable may or may not be greater than what is owed (Scott, 2015). The CSR costs incurred can be used by managers to consider the tax benefits associated with the company's tax strategy (Hoi et al., 2013). This can actually reduce income and reduce the level of tax

avoidance (Hoi et al., 2013). Companies that are socially responsible tend to have lower levels of tax avoidance (Lanis & Richardson, 2013). If tax avoidance is a continuation of tax planning strategies, such as investing in municipal bonds at one point, terms such as non-compliance, avoidance, aggregativity and hiding are closer to another point (Castelo Branco, 2021).

CSR categories, publicity and diversity are important elements of CSR effectiveness in reducing tax avoidance (Huseynov & Klamm, 2012). Companies with higher social responsibility will have lower tax saving practices (Tamajón & Font, 2013). Tax avoidance behavior is reduced and businesses are more active in the area of corporate social responsibility. According to risk management theory, companies will increase their CSR activities by insuring against the potential negative consequences of aggressive tax avoidance practices (Mao, 2019).

Companies that avoid taxes have a lower effective tax rate (ETR) than those that do not (Lanis & Richardson, 2013). Companies with CSR disclosure and good corporate management tend not to be interested in tax avoidance (Abdelfattah & Aboud, 2020). This literature review aims to examine the literature on the relationship between tax avoidance and CSR.

II. DISCUSSION

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a company's effort to demonstrate its social responsibility as an expression of ethical standards to achieve long-term results. Companies must carry out fair, accurate and fair business practices and comply with applicable laws (Kotler et al., 2019). In particular, with increasing sensitivity and interest in environmental and social issues, the role of business in society is starting to grow (Schaltegger & Wagner, 2011). CSR itself was born from public pressure on company behavior that ignored social responsibilities such as environmental destruction and exploitation of natural resources.

Corporate Social Responsibility efforts aim to encourage the business world to run business more ethically and not have an impact on society and the environment (Ajibike et al., 2021). Corporate social and environmental responsibility, or CSR, has long been on the minds of politicians. However, the emergence of modern CSR thinking began in the 1950s, when the earliest literature on CSR as social responsibility emerged (Gautam & Singh, 2010). Over the following decades, many efforts have been made to formulate a definition of CSR implementation. There is a strong relationship between social and corporate responsibility (Amor-Esteban et al., 2018).

There are three phases that motivate companies to implement CSR.

1. The first phase is to promote corporate philanthropy, namely philanthropy based on religious motives.
2. The second phase is corporate philanthropy with humanitarian incentives, usually from universal norms and ethics to help others and fight for social equality.
3. The third phase is corporate citizenship, namely citizen motivation for social justice based on the principles of social cohesion (Prayogo & Ruwaida, 2020).

CSR is limited to companies that carry out commercial activities in areas related to the use of natural resources. To fulfill its CSR commitments, companies must budget and account for these socially and environmentally responsible activities as company costs, which are carried out by paying attention to the principles of integrity and justice (Radyati, 2014). CSR activities must be included in the company's annual report. If a company fails to fulfill its social and environmental obligations, the company will be subject to sanctions according to legal regulations (Radyati, 2014).

The CSR model or format has also developed from philanthropic principles to management principles (Moura-Leite & Padgett, 2011). In line with the principle of charity, society has a moral obligation to help those in need. This type of corporate support is very necessary and important, especially in social security systems, senior health insurance and in periods of no benefits for the unemployed or in national systems (Moura-Leite & Padgett, 2011).

At the same time, companies are in a position of public trust because they control enormous resources that will have a fundamental impact on society in accordance with management principles (Moura-Leite & Padgett, 2011). Therefore, companies must use these resources rationally for the benefit of not only shareholders, but also society as a whole.

Thus, businesses today have different aspects of responsibility. Companies must be able to manage their economic responsibilities to their shareholders, fulfill their legal obligations while still complying with applicable laws and regulations, and be able to take social responsibility for their stakeholders.

The company donates part of its profits as charity (philanthropy). This generosity aims to increase social empowerment and repair environmental damage resulting from exploration and exploitation. However, in some cases CSR is seen as a corporate strategy for the company's financial gain. For example, planning tax avoidance actions carried out by management.

Tax Avoidance Concept

Taxpayers always want to pay small amounts of tax. Taxpayers' willingness to ignore tax regulations gives rise to tax resistance. Companies, through legal and illegal means, look for ways to minimize tax payments (Dowling, 2014). Tax avoidance actions carried out legally are called tax avoidance, while illegal tax avoidance actions are called tax evasion (Hall, 2015).

Tax avoidance is an action to reduce or even eliminate tax debts that companies must pay by violating applicable laws (Hall, 2015). Tax avoidance is a legitimate effort to avoid taxes without violating the taxpayer's tax regulations to find regulatory weaknesses and reduce the amount of tax (Thuronyi & Brooks, 2016). Tax avoidance is a tax deduction that is still within the scope of tax law and can be justified, especially through tax planning (Dourado, 2015).

The purpose of tax avoidance is to plan taxpayer efforts to minimize the tax burden by maximizing loopholes in existing tax regulations to maximize after-tax profits (Wahab & Holland, 2012). Therefore, tax avoidance does not constitute a violation of tax law and is not considered ethically wrong in connection with the taxpayer's efforts to reduce, prevent, minimize or lighten the tax burden permitted by tax law.

Tax avoidance has resulted in potential losses in tax revenues for the government, which should be used to reduce the burden on the government budget (Sulasantana, 2020). In the corporate context, tax avoidance is deliberately carried out by companies to increase the company's cash flow while reducing the level of tax payable (Istighfa, 2020).

There are two sources of funding for the management and development of the business in which the company operates, one of which is loans from lenders or investors (Juliati, 2015). Companies that use debt have higher company value than companies that have lower debt (Marchica & Mura, 2010). Debts must of course be returned to creditors. The rate of return provided by this company becomes the cost of debt to the company (Santoso, 2020).

The cost of debt is the rate of return that lenders want to fund a company (Kabir et al., 2013). Companies that avoid taxes are considered risky for creditors, which actually increases the cost of debt (Romadani, 2019). Apart from that, in terms of tax avoidance, it has been proven that companies with a high level of tax integration tend to disclose excessive CSR information to gain company profits or allocate funds for value-added activities (Vincent & Sari, 2020).

Corporate Social Responsibility (CSR) and Tax Avoidance (Tax Avoidance)

The promising paradox of social responsibility, ethical behavior on the one hand and tax avoidance on the other (Stohl et al., 2017). The problem usually starts with the fact that financial reports do not disclose tax information (Stohl et al., 2017). Meanwhile, another view from (Dillon, 2017) explains that the topic of tax avoidance is very sensitive and provokes anger and injustice, including because experience and access to tax management options are only available to wealthy individuals and multinational companies.

An important aspect of tax avoidance is recognized because it is clear that tax revenue is very important and is an important part of government and social functioning (Mukundhan et al., 2019). Therefore, Kurniawan & Syafruddin (2017) consider tax avoidance as a sustainability problem. Even when companies try to avoid taxes by developing tax savings strategies, they seek to improve social and environmental performance (Melinda & Syafruddin, 2021).

A balance between economic, social and environmental goals is required. In this sense, corporate taxes can be linked to social and environmental performance if they benefit society. In fact, tax avoidance is contrary to the public interest (Firmansyah et al., 2021). Tax avoidance can also have a negative impact on a company's reputation, which is one of its most important assets (Kirchler et al., 2003). In this context, it is argued that the tax savings resulting from plan avoidance strategies can outweigh the reputational losses that such activities can incur (Kirchler et al., 2003).

Tax assessments can motivate management to make financial decisions that benefit shareholders in the short term (Irawan & Farahmita, 2012). CSR can increase shareholder value because it can offset the negative impact of tax avoidance on shareholders with social and environmental performance (Mangoting et al., 2019). However, they still prefer to increase their wealth by maintaining tax savings. The consequences of tax avoidance impact the environmental, social and economic aspects of society, this requires attention so that it is

not long-term (Kurniawan & Syafruddin, 2017). Companies have an obligation to adapt to the governance and social demands of society (Aureli et al., 2020).

It is widely argued in the literature that CSR growth is associated with lower effective tax rates (Whait et al., 2018). In this case, CSR disclosure becomes a form of tax avoidance activity as a way to guarantee the company's reputation and their social and ethical behavior. Good corporate governance can be a strategy for tax avoidance problems (Firmansyah et al., 2021). Thus, it can help companies demonstrate transparency in tax matters.

III. CONCLUSION

Tax avoidance is contrary to the public interest. The consequences of tax avoidance impact the environmental, social and economic aspects of society. Companies try to avoid taxes by developing tax saving strategies, they seek to improve social and environmental performance. CSR disclosure becomes a field for tax avoidance activities as a way to guarantee the company's reputation and their social and ethical behavior. Tax avoidance is therefore a sustainability issue. In this context, corporate governance exists to minimize the problem of tax avoidance. Based on the results of the literature review, the author has a view for further research by connecting professional ethics with SCR disclosure and tax avoidance, because the practice of tax avoidance is a form of deviant behavior by practitioners. It is important to consider that ethics can be a form of reducing the level of tax avoidance behavior.

Acknowledgement

We thank to all of the lecturers who have supported us to complete this research.

References

- Abdelfattah, T., & Aboud, A. (2020). Tax avoidance, corporate governance, and corporate social responsibility: The case of the Egyptian capital market. *Journal of International Accounting, Auditing and Taxation*, 38, 100304.
- Ajibike, W. A., Adeleke, A. Q., Mohamad, F., Bamgbade, J. A., & Moshood, T. D. (2021). The impacts of social responsibility on the environmental sustainability performance of the Malaysian construction industry. *International Journal of Construction Management*, 1–10.
- Alsaadi, A. (2020). Financial-tax reporting conformity, tax avoidance and corporate social responsibility. *Journal of Financial Reporting and Accounting*.
- Amor-Esteban, V., Galindo-Villardón, M.-P., & David, F. (2018). Study of the importance of national identity in the development of corporate social responsibility practices: A multivariate vision. *Administrative Sciences*, 8(3), 50.
- Aureli, S., Del Baldo, M., Lombardi, R., & Nappo, F. (2020). Nonfinancial reporting regulation and challenges in sustainability disclosure and corporate governance practices. *Business Strategy and the Environment*, 29(6), 2392–2403.
- Castelo Branco, M. (2021). Corporate Tax Behaviour. In *Corporate Social Responsibility, the Fight Against Corruption and Tax Behaviour* (pp. 89–125). Springer.
- Dillon, S. (2017). Tax avoidance, revenue starvation and the age of the multinational corporation. *The International Lawyer*, 50(2), 275–328.

- Dourado, A. P. (2015). Aggressive tax planning in EU law and in the light of BEPS: The EC Recommendation on Aggressive Tax Planning and BEPS Actions 2 and 6. *Intertax*, 43(1).
- Dowling, G. R. (2014). The curious case of corporate tax avoidance: Is it socially irresponsible? *Journal of Business Ethics*, 124(1), 173–184.
- Fifka, M., & Adai, C. R. L. (2015). Corporate Social Responsibility (CSR) Reporting—Administrative Burden or Competitive Advantage? In *New perspectives on corporate social responsibility* (pp. 285–300). Springer.
- Firmansyah, A., Ak, M., Triastie, G. A., & Ak, S. T. (2021). *Bagaimana Peran Tata Kelola Perusahaan Dalam Penghindaran Pajak, Pengungkapan Tanggung Jawab Sosial Perusahaan, Pengungkapan Risiko, Efisiensi Investasi?* Penerbit Adab.
- Gautam, R., & Singh, A. (2010). Corporate social responsibility practices in India: A study of top 500 companies. *Global Business and Management Research: An International Journal*, 2(1), 41–56.
- Hacker, M. A. (2016). Profit, People, Planet Perverted: Holding Benefit Corporations Accountable to Intended Beneficiaries. *BCL Rev.*, 57, 1747.
- Hall, K. S. (2015). The Ethics of Tax Avoidance and Tax Evasion. URL: [Http://Www. Neumann. Edu/about/Publications/NeumannBusinessReview/Journal/Review2015/Hall. Pdf](http://www.neumann.edu/about/Publications/NeumannBusinessReview/Journal/Review2015/Hall.Pdf).
- Hilson, A. (2014). *Resource enclivity and corporate social responsibility in Sub-Saharan Africa: the case of oil production in Ghana*. Aston University.
- Hoi, C. K., Wu, Q., & Zhang, H. (2013). Is corporate social responsibility (CSR) associated with tax avoidance? Evidence from irresponsible CSR activities. *The Accounting Review*, 88(6), 2025–2059.
- Huseynov, F., & Klamm, B. K. (2012). Tax avoidance, tax management and corporate social responsibility. *Journal of Corporate Finance*, 18(4), 804–827.
- Irawan, H. P., & Farahmita, A. (2012). Pengaruh kompensasi manajemen dan corporate governance terhadap manajemen pajak perusahaan. *Skripsi, Depok: Universitas Indonesia*.
- Istighfa, R. (2020). *Pengaruh Penghindaran Pajak Terhadap Nilai Perusahaan Dengan Variabel Moderasi Transparansi*. STIE Malangkecewara.
- Juliati, Y. S. (2015). Peranan Pasar Modal Dalam Perekonomian Negara. *HUMAN FALAH: Jurnal Ekonomi Dan Bisnis Islam*, 2(1), 95–112.
- Kirchler, E., Maciejovsky, B., & Schneider, F. (2003). Everyday representations of tax avoidance, tax evasion, and tax flight: Do legal differences matter? *Journal of Economic Psychology*, 24(4), 535–553.
- Kotler, P., Kartajaya, H., & Setiawan, I. (2019). Marketing 3.0: From products to customers to the human spirit. In *Marketing wisdom* (pp. 139–156). Springer.
- Kurniawan, A. F., & Syafruddin, M. (2017). Pengaruh penghindaran pajak terhadap nilai perusahaan dengan variabel moderasi transparansi. *Diponegoro Journal of Accounting*, 6(4), 94–103.
- Lanis, R., & Richardson, G. (2013). Corporate social responsibility and tax aggressiveness: a test of legitimacy theory. *Accounting, Auditing & Accountability Journal*.
- Mangoting, Y., Badalu, J. P., Wijaya, S. W., & Gozal, V. A. (2019). Eran Corporate Social Responsibility Dan Tax Avoidance Dalam Mempengaruhi Good Corporate Governance Terhadap Value Creation. *Assets*, 8(2), 146–156.
- Mao, C.-W. (2019). Effect of corporate social responsibility on corporate tax avoidance:

- evidence from a matching approach. *Quality and Quantity*, 53(1), 49–67.
- Marchica, M., & Mura, R. (2010). Financial flexibility, investment ability, and firm value: evidence from firms with spare debt capacity. *Financial Management*, 39(4), 1339–1365.
- Melinda, O. G., & Syafruddin, M. (2021). Pengaruh CSR dan Kinerja Perusahaan Terhadap Risiko Pajak. *Diponegoro Journal of Accounting*, 10(2).
- Moura-Leite, R. C., & Padgett, R. C. (2011). Historical background of corporate social responsibility. *Social Responsibility Journal*.
- Mukundhan, K. V, Sahasranamam, S., & Cordeiro, J. J. (2019). Corporate investments in tax havens: evidence from India. *Asian Business & Management*, 18(5), 360–388.
- Prayogo, D., & Ruwaida, I. (2020). *Rethinking Nationalism: Looking Back and Looking Forward*.
- Radyati, M. R. N. (2014). *Sustainable Business & Corporate Social Responsibility (CSR): 2014* (Vol. 1). CECT Universitas Trisakti.
- Romadani, F. N. (2019). *Pengaruh Penghindaran Pajak dan Good Corporate Governance terhadap Cost of Debt: Studi Empiris pada Perusahaan di Indonesia*.
- Santoso, B. (2020). *Analisis Pemberlakuan Pmk 169/Pmk. 010/2015 Tentang Penentuan Besarnya Perbandingan Antara Utang dan Modal Perusahaan Untuk Keperluan Penghitungan Pajak Penghasilan Pada Pt Karyasetya Mustikatama*.
- Schaltegger, S., & Wagner, M. (2011). Sustainable entrepreneurship and sustainability innovation: categories and interactions. *Business Strategy and the Environment*, 20(4), 222–237.
- Scott, W. R. (2015). *Financial Accounting Theory*. Library and Archives Canada Cataloguing.
- Stohl, C., Etter, M., Banghart, S., & Woo, D. (2017). Social media policies: Implications for contemporary notions of corporate social responsibility. *Journal of Business Ethics*, 142(3), 413–436.
- Sulasantana, S. (2020). *Analisis Atas Realisasi Pencairan Tunggakan Pajak Dan Penghindaran Pajak Terhadap Realisasi Penerimaan Pajak (Studi Kasus Pada Kantor Pusat Direktorat Jenderal Pajak 2015-2019)*. Univesitas Komputer Indonesia.
- Tamajón, L. G., & Font, X. (2013). Corporate social responsibility in tourism small and medium enterprises evidence from Europe and Latin America. *Tourism Management Perspectives*, 7, 38–46.
- Vincent, M., & Sari, D. P. (2020). Analisis Pengaruh Timbal Balik Antara Penghindaran Pajak Dan Corporate Social Responsibility (CSR). *Jurnal Pendidikan Ekonomi Undiksha*, 12(2), 203–215.
- Wahab, N. S. A., & Holland, K. (2012). Tax planning, corporate governance and equity value. *The British Accounting Review*, 44(2), 111–124.
- Whait, R. B., Christ, K. L., Ortas, E., & Burrirt, R. L. (2018). What do we know about tax aggressiveness and corporate social responsibility? An integrative review. *Journal of Cleaner Production*, 204, 542–552.