Environmental CSR disclosure and Tax Avoidance behavior: Empirical Study of Indonesia’s Capital Market Listed Company

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Abstract: This study is aimed at analyzing the effect of Environmental CSR Disclosure to tax avoidance behavior. This study used secondary data from Indonesia Capital Market which acquired from software data available such as data stream and Eicon database. Data collected was processed by using regression model. This research consisted of variable Environmental CSR Disclosure as independent variable and tax avoidance behavior as dependent variable and also some control variables. This research found that Environmental CSR Disclosure significantly influenced tax avoidance behavior.

Keywords: Environmental CSR disclosure, tax avoidance, Book Tax Difference

1. Introduction

Law stated that tax has a meaning as a mandatory contribution from the society to their country that debt individually. Entity which enforce them pay it without return directly and will be used for society welfareness. This opinion agreed to law No. 28 article 1 about general regulation of tax and tax procedures. Zain (2003) Prof Dr. H. Rochmat Soemitro S.H. defined tax as contribution to country’s cash based on Law, can push the people without direct contraprestation and will spend the cash for general expenditures.

There are many studies about tax in Indonesia in the form of study literature, explorative study, and or empirical study. Those studies consist of various topics, and interested topics and will continue in the future and predicts will give contribution to regulator, tax planner/tax avoidance/ tax aggressivity and also for a researcher.

Tax can push people without direct return make people or entity try to avoid tax as we call tax avoidance or tax planning or tax management. There are many study on tax avoidance recently either in Indonesia or overseas. Also many studies try to relates Corporate Social Responsibility (CSR) and tax avoidance behavior in the context cross country study such as study by (Lanis dan Richardson (2011); Desai and Dharmapala, 2006b; Avi dan Yonah, 2008). Lanis dan Richardson (2011) concluded that CSR has negative effect to tax aggressivity in the Australia’s listed company. This research used effective tax rate as a measurement for tax aggressivity. Minnick and Noga (2010) conducted a research about the effect of corporate governance to tax management. Lim (2010) used institutional ownership as variable moderation on effect of tax avoidance to cost of debt.

In the context of Indonesian tax, there is a study on association of CSR disclosure to tax avoidance behavior which conducted by Angelia (2012). She analyzed association of CSR disclosure to rate of tax aggressivity. This research was a replica of Lanis and Richardson (2011) with some modifications. The differences were the measurement for aggressivity used two different proxy, they were effective tax rate and book-tax difference. Furthermore, this research needed to explore more about the study of Angelia (2012) and (Lanis and Richardson (2011), which focused on environmental CSR as a component of Company CSR disclosure of annual reports.
The researchers focused on environmental disclosure because the findings described that rank green performance had positive reaction of investor behavior either in the short period or long-term period, either raw announcement (partly) or comprehensive announcements in the various types of industry (Cordeiro and Tewari, 2015). Next, Cordeiro (2015) also explored the effect of environmental CSR disclosure in the specific industry. He said that industrial context is relevant with controlled dimension to evaluated how important rank of green performance or rank environmental CSR disclosure as used by newsweek Green Ranking. Based on findings of these three journals, this study predicted that environmental CSR disclosure has an effect to tax avoidance behavior. Measurement of tax avoidance, used book-tax difference, and current ETR were expected to make this results is robustness. The Contribution of this study was to enrich tax literature in the Indonesian context and also will influence regulator policy int corporate tax.

Tax planning or tax avoidance is common practice in the company in order to manage the cashflow. This terminology can be referred to follow the rule of tax to avoid tax payment or to reach effectiveness of tax payment without break the tax rule. In another word, how to maximize state receipt from tax payer. The problem statement of this study was company felt that they already had contribution to countries’ cashflow in the form of contribution to maintain environment, which is will decrease state receipt from tax payer, especially form corporate income tax.

Therefore, the aim of this study was to analyze the effect of Environmental CSR disclosure to tax avoidance behavior. This activity was a part of university’s support for lecturer 3 Dharma Perguruan Tinggi, as a researcher. This research tried to review the findings of study of environmental CSR which conducted by Lanis dan Richardson (2011). They concluded that there was an association between CSR disclosure and tax aggressivity. Sample of this study was Australians listed company for the period 2008 to 2009. The result stated that there was a negative statistical association between rate of CSR disclosure and tax avoidance behavior. It used effective tax rate as a measure of tax aggressivity and used CSR indexed to measure rank of CSR. Lanis and Richardson (2011) explained, through CSR they knew contribution of corporation in the social impact and environmental effect, so they could maximize benefit and eliminate the negative effect (UK Government, 2004,p.3) and “sustainable commitment of ethical and family behavior in the business” (Holme and Watts, 2006, pg 10). One of a component from CSR disclosure was to disclose environmental CSR disclosure based on GRI4 as the specific keyword to analyze the content.

Meanwhile, the stakeholder’s theory explained how investor behavior will be affected by environmental CSR disclosure of annual report. This disclosure will decrease asymmetric information to stakeholder in related to disclose environmental CSR. Next, stakeholder will have an expectation that this disclosure of CSR shows good relationship between company and various parties such as customer, vendor, government and in the future will increase investor’s self-confident that company will have a good opportunity to gained more cashflow because of good relationship.

Based on previous literature about tax research and effect of CSR disclosure to tax avoidance behavior of corporation, so this research hypotheses was: H1: environmental CSR disclosure have negative effect to tax avoidance of corporation

2. Method of Research

This is an empirical study with quantitative approach by using secondary data from listed company of Indonesians capital market, for period 2013. This research conducted as long as one year period and the final sample is 213 companies from initial sample 267 companies and deducted by incomplete data of 54 companies. The researchers conducted content analysis of annual report of 213 companies (GRI 4). So finally we can identified companies already disclosed environmental CSR. Then, the researcher calculated whether the company did tax avoidance. We used dummy variable indicator as 1 if there was an environmental CSR disclosure and 0 if there was no environmental CSR
disclosure. Tax avoidance Measurement based on previous literature and we used multiple regression equation as follows: Research Model was modified from Lanis dan Richardson equation model (2011).

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\text{TAG}_t = \alpha_0 + \beta_1 \text{envCSRDisc}_t + \beta_2 \text{AGEPUB}_t + \beta_3 \text{ROA}_t + \varepsilon_t
\]

TAG : Tax Aggressivity
envCSRDisc : indexed of CSR disclosure
Environmental
AGEPUB : sum of years company listed in capital market
ROA : Return on Assets

3. Analysis and Discussion

The descriptive statistic output described numerical statistical result of data processing of all variables from the research model. It (BTD, Current ETR, ROA dan AGE) described the maximum and minimum value of those variables. The statistical descriptive figures showed that mean value and standard deviation value had small variance. It meant that the value among companies was not far difference.

| Table 1. Keyword Environmental CSR Disclosure of Annual Report |
|---------------|-----------------|
| No | Keywords |
| 1  | Recycled       |
| 2  | energy consumption |
| 3  | energy intensity |
| 4  | water source |
| 5  | Biodiversity |
| 6  | emissions / effluents |
| 7  | Waste |
| 8  | Spills |
| 9  | environmental impacts |
| 10 | packaging materials |

Based on Book Tax Difference regression result, it found that all of data already fulfill classical assumption testing, so there was no multicollinearity and no heteroskedacity. It could be concluded that environmental CSR disclosure had positive effect to tax avoidance behavior of corporation. So we rejected hypotheses of this study. This result contradicted with the result of several previous studies.

The result shows that company might think that they already had a contribution to the country (Zain, 2003) through payment to various activities of environmental maintenance, so they were eager to minimize their corporate income tax. So, the result of the study was very surprised, It described that companies thought that they already invested their money for environmental activity, so they must get incentive through tax avoidance activities. Contrastly, if the researchers used another measurement for
tax avoidance such as current ETR, the result of study described that the hypotheses must be accepted, but the result is not statistical significant. It may be caused by the short period of time used.

4. Conclusion

This research built the evidence based on testing the hypotheses of this research. The result was rejected the research hypotheses. There was a positive effect of environmental CSR disclosure to tax avoidance behavior of corporation. This result is different with previous research result. (Angelia, 2012) and (Lanis dan Richardson (2011). Then, there were some contributions of this research. It can be used to increase research literature about tax avoidance and environmental CSR disclosure and to give a supporting data for the government to formulate the tax policy. There were some limitations of this study. First, limitation of the time and sample., This research conducted as long as one year and it had one main variable and only two control variables. So, there was an opportunity for future research to add sample by using longer time and used more control variables. Second, it must be more sensitivity analysis by using third proxies to measure tax avoidance that is ABTD. Implication of this study was mainly for the government in formulating tax policy.

5. References

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