The Influence of CSR, AQ and Firm Size towards Tax Aggressiveness (Empirical Study on Mining Sector Coal and Metals and Minerals Sub-Sector listed on the Indonesia Stock Exchange for the 2014-2017)

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Abstract

In the last 5 years the realization of tax revenue has never reached the target. One of the causes of not achieving the tax revenue target is because there are companies that carry out tax aggressiveness, this is evidenced by the low ETR value of the company. This study aims to determine the effect of CSR, Audit Quality, Firm Size on Tax Aggressiveness. The sample of this research are from the financial report companies in mining sector, coal sub-sector and other metals and minerals sub-sectors listed on the Stock Market in Indonesia, period 2014-2017. With purposive *sampling method, they where 44 samples were obtained. Data analysis in this study uses multiple linear regression analysis and is processed using Eviews 11. The results of the study prove that CSR, Audit Quality has an influence on Tax Aggressiveness, while company size has no effect on Tax Aggressiveness.*

Keywords: Corporate Social Responsibility, Audit Quality and Firm Size, TaxAggressiveness

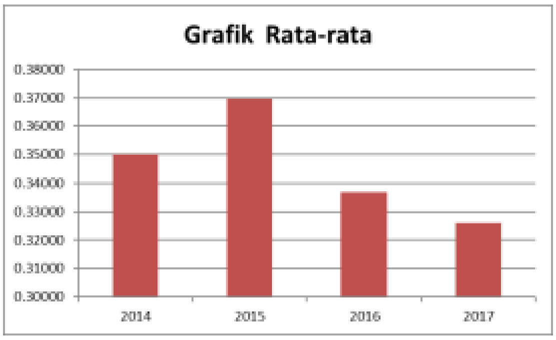
Introduction

The Indonesian State Revenue and Expenditure Budget is still dominated by tax revenues. Tax revenue has an important role in the running of the wheels of government in the implementation of state government activities. From year to year the government always tries to increase revenue optimally, but for 5 consecutive years the government has not been able to meet the achievement of the tax revenue target.

Tax revenue that has not reached the target can be caused by the awareness of paying taxes is still low, even though we all know that taxes are contributions to the state that are coercive so that there are still companies that fight taxes by avoiding taxes. Tax avoidance by companies by doing tax planning is called tax aggressiveness.

Tax aggressiveness is a tax planning activity for all companies involved in reducing the effective tax rate [1]. Tax planning is a process of controlling actions to avoid the consequences of imposing unwanted taxes [2]. Tax aggressiveness can be measured by the Effective Tax Rate (ETR) scale which is the most commonly used in the literature. The value range of ETR 0-1 identifies the company doing tax aggressiveness or not. The smaller the ETR is close to the value 0, it indicates the company is doing tax aggressiveness[3-7].

***Grafik 1 Effective Tax Ratio (ETR) Mining* Sector, Coal Sub-sector and Metals and Minerals Sub-sectors 2014 -2017**



Source: data processed

From graph 1, information is obtained that the ETR during the last three years has a downward trend. This shows that the company's ETR is getting smaller and the company has the possibility of tax aggressiveness. There are many reasons why companies carry out tax aggressiveness, including companies having to implement corporate social responsibility to the community, company size and audit quality.

Corporate Social Responsibility (CSR) is an organization's mechanism to integrate environmental and social concerns into its operations and activities with stakeholders, which goes beyond legal responsibilities[8].

If companies realize the importance of CSR, companies will increasingly realize how important the company's contribution, in paying taxes, to the general public [9].

Audit quality is a level of ability of a public accounting firm in understanding the client's business [10]. Good audit quality is supported by auditor performance, auditor competence, understanding of a good code of ethics and adhering to good audit practice guidelines for auditors. Public Accounting Firms that have a good reputation such as KAP Big Four will carry out a professional audit process in presenting reliable Financial Statements so that there are no material misstatements. KAP will provide views on the certainty of legal aspects in the field of taxation and provide an overview of tax planning that can be carried out by the company[11-13].

Company size is a company identity based on the scale where the size of the company can be classified in various ways, such as looking at the log of the company's total assets, company sales, company market capitalization and others [7].

Based on the description above, this research aims to determine the effect of CSR, Audit Quality and company size on Tax Aggressiveness in the Mining Sector, Coal Sub-Sector and Metals and Minerals Sub-Sector in 2014-2017.

Literature Review

Tax Aggressiveness

Companies will tend to do tax aggressiveness in an effort to avoid paying large amounts of taxes. Moreover, large companies are increasingly likely to pay more taxes and will be in the public spotlight and the target of government regulations that cause companies to pay higher taxes than they should. When a company has a low ETR, this can be because large companies can use their resources to carry out tax planning activities properly, so as to reduce company taxes.

This study uses the Effective Tax Rate (ETR) as a proxy variable for tax aggressiveness. [5] defines ETR as a ratio of taxes paid by a company to the amount of income before taxes, thus it can be seen the percentage change in actual tax payments to commercial profits received by the company[14-16].

Corporate Social Responsibility and Tax Aggressiveness(CSR)

Corporate social responsibility (CSR) is a form of corporate responsibility in repairing social inequality and environmental damage that occurs due to the company's operational activities [17]. Companies in carrying out their activities are not only based on economic aspects in obtaining profits, but must also consider environmental and social aspects, both for the short and long term.\In assessing whether a company has implemented Corporate Social Responsibility, it can be assessed by how many disclosures of GRI indicators have been implemented in the sustainability report. The company will have a good image when the number of disclosures meets the economic, social and environmental indicators of CSR in the annual report.

H1: Corporate Social Responsibility has an effect on Tax Aggressiveness

Audit Quality and Tax Aggressiveness

Audit quality is the auditor's performance in the auditing process in accordance with the Professional Standards of Public Accountants (SPAP), auditor expertise, and the code of ethics of the public accounting profession. Good or bad audit quality is judged by the auditor's ability to carry out audits in accordance with SPAP, the auditor's expertise in the audit process, and the auditor's principle of adhering to the code of ethics of the public accounting profession. A good Public Accounting Firm, including the Big Four KAPs, produces higher audit quality than the Non-Big Four KAPs [18]. The Big Four KAPs referred to in this study include KAP Deloitte, PwC, EY, KPMG. This is supported by the statement of De Angelo (1981) who argues that auditors from the Big Four provide better quality than non-Big Four auditors. The use of high-quality auditors can avoid misstatements, so that financial statements can be presented with confidence.

A good quality auditor can have an effect on reducing the occurrence of financial fraud.[19]. Furthermore, [4]argues in his research by focusing on the use of Big Four and non-Big Four auditors and gives the result that the use of Big Four auditors can reduce tax aggressiveness. Based on the explanation above, the next hypothesis from this research is:

H2: Audit Quality Affects Tax Aggressiveness

Company Size and Tax Aggressiveness

Companies with large asset values as working capital in carrying out their business activities are expected to obtain maximum profits. Large profits will have an impact on the company not being able to minimize taxes from its taxable income. So that large companies will have a tendency to tax aggressiveness. This study refers to previous research that company size has an influence on tax aggressiveness[12].

H3 : Company Size has an effect on Tax Aggressiveness

Methodology

The population in this research were conducted on companies in the mining sector, coal sub-sector and other metals and minerals sub-sector listed on the stock Market in Indonesia, period 2014-2017. The population in this study were 22 coal sub-sector companies and 10 other metal and mineral sub-sector companies, bringing the total to 32 companies. The sample was taken using a purposive sampling method by setting certain criteria, including companies listed on the Indonesia Stock Exchange during the observation period, publishing annual reports continuously, companies making Corporate Social Responsibility Reports, companies having an ETR of 1-0, meaning that the company is not in a good condition. make a loss. The results of purposive sampling were obtained by 11 companies that were included in the criteria and were carried out during the 2014-2017 observation period, so that the total sample obtained was 44.

This research describes the Corporate Social Responsibility, Audit Quality, Firm Size variables as independent variables and Tax Aggressiveness and the dependent variable, where each variable is measured by the indicators below:

Table 1

Variable Measurement

Variable	Symbol	Measurement
Corporate Social Responsibility	CSR	$CSRI_i = \frac{\sum X_{yi}}{n_i}$ Corporate Social Responsibility Index
Audit Quality	AQ	AQ = 1 if KAP Big Four AQ = 0, if KAP is non Big Four
Firm Size	Size	Ln Total Asset
Tax Aggressiveness	TAG	ETR = (Income Tax Expense/ Income Before Tax)

Testing the validity of the data using the classical assumption test, which includes the data normality test, autocorrelation test, heteroscedasticity test and multicollinearity test. The results of the normality test of the data by referring to the histogram data results obtained probability results below 0.05, so that the data can be stated as normally distributed data. The autocorrelation test was conducted to test the linear regression model using the Durbin-Waston method. By processing data using 11 views and a total sample of 44, the DW value obtained is 1.3749, illustrating that there is no autocorrelation between research variables.

Before determining the appropriate regression model, the model is tested using the Chow test, Hausman test and Langrange Multiplier (LM) test. The stages of determining the right regression model approach first are by calculating the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). By looking at the probability level <0.05, the Random Effect Model (REM) is more suitable for use in this study.

Result and Discussion

Result

Table 2

Descriptive statistics

Variabel	N	Min	Max	Mean	Median	Std
TAG	44	0.20652	0.54744	0.345808	0.327765	0.091563
CSR	44	0.11	0.34	0.221591	0.225	0.068402
QA	44	0	1	0.590909	1	0.59735
Size	44	13.97963674	20.64124194	16.87763203	18.41202124	4.175589119

Source: processed eviews 11

Table 3 shows the acquisition of the Effective Tax Rate (ETR) with a minimum value of 0.20652 and a maximum value of 0.54744 on tax aggressiveness. This proves that the company in the object of this research still has a tax payment of 20.6% below the normal tax rate of 25%. Referring to the data indicates that there are companies doing tax aggressiveness. The obtained value of Corporate Social Responsibility is 0.11 minimum and 0.34 maximum, this shows that the new company can meet the 31 required CSR indicators from the 91 GRI indicators, which include economic, social and environmental aspects.

Audit quality obtained an average value of 0.59, this illustrates that only 59%, namely 7 out of 12 companies as objects of research were audited by Big Four Public Accounting Firms, while 41% were carried out by non-Big Four Public Accounting Firms. The value of company size as a proxy for total assets obtained a minimum value of 13.97963674 and a maximum of 20.64124194. Company size describes the scale of large and small companies.

The research model in this study is presented in the equation below:

TAG = 0.515978 - 0.538776CSR - 0.078919QA - 0.000246Size +e.

The regression equation shows that there is a negative growth on Corporate Social Responsibility, audit quality and company size on tax aggressiveness

Table 4 shows the probability value of Corporate Social Responsibility of 0.0059. This value is smaller than the probability value of 0.05, so it can be concluded that there is an influence of Corporate Social Responsibility on tax aggressiveness. Likewise with the probability value of audit quality obtained a value of 0.0175 where this value is <0.05, then the hypothesis can be accepted, which indicates that there is an influence on audit quality on tax aggressiveness.

The results of the t test with the probability results of the company size obtained a value of 0.9243. This value is > 0.05, indicating that company size has no effect on tax aggressiveness.

The results of the panel data test listed in table 4 show the Adjusted R-squared value obtained at 0.203822, indicating that Corporate Social Responsibility, Audit Quality, Firm Size can affect Tax Aggressiveness by 20%, while the difference of 80% can be influenced by other variables not examined in this research.

Discussion

The results of the t-test obtained a probability value of 0.0059 where this value is <0.005, then Corporate Social Responsibility has an influence on tax aggressiveness. Based on the analytical data obtained, companies are still minimal in disclosing CSR and most companies do not carry out tax aggressiveness with an indication of the ETR value close to 1, however, there are still companies that do tax aggressiveness. From this description, the company is still focused on the goal of obtaining profits as a responsibility to stakeholders, so that it has not fully fulfilled CSR which focuses on the social and environmental fields. The least amount of CSR disclosed indicates that the expenses incurred are small so that companies tend not to be tax aggressive. The hypothesis that was built was in accordance with the results of the data analysis carried out in this study. This study refers to previous research that when companies are low in CSR disclosure, they will be considered less socially responsible so that in carrying out their tax responsibilities they tend to be more aggressive [2].

The resulting t-test value is 0.0175, the value is <0.05, thus proving that audit quality has an effect on tax aggressiveness. As many as 60% of companies during the observation period have been audited by the Big Four KAP. The audit implementation by the Big Four KAP is considered to be of higher quality and will increase the company's compliance with tax regulations. KAP will tend to offer tax planning schemes in reducing the tax burden for companies, so that companies will be more obedient to tax regulations and avoid tax sanctions in the future. This study refers to research [20] which describes that audit quality has an influence on tax aggressiveness.

The results of hypothesis testing that have been carried out illustrate that company size has no effect on tax aggressiveness. These results are not in accordance with the concept of the theory that has been built and the hypothesis that has been made. This is in accordance with existing research data that both large and small companies also carry out tax aggressiveness. Not only large companies that carry out tax planning in an effort to reduce the tax burden, but also small companies. This is because taxes are still considered a burden for companies, companies are reluctant to pay taxes according to applicable regulations. The results of this study are in line with research[21] which states that company size has no effect on tax aggressiveness.

Conclusion

This study has provided the results of a study that Corporate Social Responsibility and audit quality have an effect on tax aggressiveness, while company size has no effect on tax aggressiveness in mining sector companies, coal sub-sectors and other metals and minerals sub-sectors listed on the Indonesia Stock Exchange during observation period 2014 -2017.

However, the results of this study cannot be generalized, because this research was only conducted on companies in the mining sector, coal sub-sector and metals and minerals sub-sector for a period of three years and with a limited sample, so that it can be developed in further research.

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