NEW EVIDENCE OF THE EFFECT OF TAX AGGRESIVENESS AND CORPORATE CHARACTERISTICS ON THE LEVEL OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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ABSTRACT

Disclosure of corporate social responsibility is an issue that is still relevant to be raised in an empirical research especially if the issue is applied to a sharia entity. This is because sharia entities have sharia objectives (maqashid) which emphasize the importance of providing benefits to other parties. This benefit can be measured on how much a sharia entity contributes to society where it can be seen from the disclosure of corporate social responsibility. This study aims to obtain empirical evidence about the effect of tax aggressiveness and company characteristics on the level of corporate social responsibility disclosure. The novelty of the current research lies in the object of research used that is different from the object of previous research. If the previous research still used the population in the form of conventional entities, the population used in this study is the sharia entity listed in the Sharia Sharia Index of Indonesia in the period 2011-2014. The results of this study prove empirically that firm size, leverage, and capital intensity affect the level of corporate social responsibility disclosure. Thus, this study has successfully confirmed the role of the theory of legitimacy in explaining the effect of firm size and leverage on the level of corporate social responsibility disclosure. Firm size and leverage have a positive effect on the level of corporate social responsibility disclosure. Furthermore, the results of this study also showed that the level of tax aggressiveness and profitability did not affect the level of corporate social responsibility disclosure.
1. INTRODUCTION

Research on corporate social responsibility disclosure is still dominated by the influence of company performance, stock return and capital cost to corporate social responsibility disclosure. There is little empirical research that examines the relationship of corporate social responsibility disclosure to the level of tax aggressiveness (Zeng, 2016). Therefore, the current study will examine the effect of tax aggressiveness and firm characteristics on the level of corporate social responsibility disclosure. The basic theory used in this study is the theory of legitimacy where this theory explains the influence of tax aggressiveness and corporate characteristics on the level of corporate social responsibility disclosure. While the characteristics of the company in this study is represented by three variables, namely firm size, profitability, and leverage.

An empirical study that examines the effect of firm size on the level of corporate social responsibility disclosure has been largely undertaken by researchers with inconsistent results. Most studies have proven empirically the effect of firm size on the level of corporate social responsibility disclosure as research conducted by Khasharmeh & Desoky (2013); Lestari (2013); Rama & Meliawati (2014); Istianingsih (2015); Abdulhaq & Muhamed (2015); Al-Ajmi, Al-Mutairi, & Al-Duwaila (2015); Rufino & Machado (2015); Habbash (2016); and Sunarsih & Ferdiyansyah (2017). In contrast, Juhmani (2014) and Wiyuda & Pramono (2017) failed to prove empirically the influence of firm size on corporate social responsibility disclosure.

There is a close relationship between profitability and corporate social responsibility disclosure. This is as expressed by Belkaoui & Karpik (1989) that the company's concern for society through social responsibility requires management to make the company more profitable (Ismail, 2015, Ismail & Ghozali, 2015; Meutia & Ismail, 2015; and Meutia, 2015). This explanation is a supportive argument that profitability affects the degree of disclosure of corporate social responsibility. Nevertheless, there is a different view from Vence (1975) in Belkaoui & Karpik (1989) which explains that disclosure of corporate social responsibility is a disservice to the company, since companies have to incur costs to carry out disclosure of social responsibility.

Empirical studies that examine the effect of leverage on corporate social responsibility disclosure levels show inconsistent results. Habbash (2016) found that leverage levels negatively affect the extent of corporate social responsibility disclosure. In contrast, Juhmani (2014) found a positive influence of leverage on the level of corporate social responsibility disclosure. However, more studies have found no leverage effect on corporate social responsibility disclosure.

This research is motivated to overcome the research gap from two aspects, namely variables and research findings. The first motivation is related to research variables. Previous research is still dominated by determinants of financial performance, stock returns, and capital costs, while still little is testing the effect of tax aggressiveness on corporate social responsibility disclosure.
responsibility disclosure level. The second motivation relates to the findings of previous research results that show inconsistent results.

The novelty offered in this research lies in the subject of analysis and research models. The subject of analysis in this study is the sharia entity listed in the Sharia Indonesia Shares Index (ISSI). The model of this research is a model to examine the effect of tax aggressiveness and firm characteristics on the level of corporate social responsibility disclosure. This model is used to test the theory of legitimacy.

2. LITERATURE REVIEW

2.1. Theory of Legitimacy

The legitimacy of a company can be interpreted as something the community gives to the company and something the company seeks out of society (O'Donovan, 2000). Suchman (1995) defines legitimacy as a common perception or assumption that the action of an entity is desirable, appropriate or appropriate in accordance with socially constructed norms, values, beliefs and definitions. In addition, legitimacy can be understood as the perception of organizational actors, as an assessment of the organization, or as a consequence of the behavior of perceptions and judgments so as to reveal the actions of the organizers, in particular, the acceptance and endorsement of society (Bitektine, 2011). From some of these definitions, it can be said that legitimacy is the acceptance and endorsement of the society because an entity performs actions that are in accordance with the system of norms, values, and beliefs of the community. This legitimacy is indispensable for the company to support the sustainability of the company's business in the future.

2.2. The Concept of Tax Aggressiveness

Tax aggressiveness is an action that has the purpose to reduce taxable income through tax planning and using methods that are classified or not classified as tax evasion. Although not all actions are in violation of the rules, more methods used by the company will make the company more assumed to be more aggressive (Frank et al., 2009). Tax aggressiveness can be done in a form that does not violate the law nor that violates the rules, but more tax aggressiveness leads to unlawful acts. Hite and McGill (1992) and Murphy (2004) also argue that tax aggressiveness is a situation where companies make certain tax policies that have an uncertain future risk of uncertainty, whether compliance or noncompliance (Sari and Martani, 2010).

From some of these definitions it can be understood that tax aggressiveness has a broad concept and includes both non-breaking tax planning practices and unlawful practices. This study uses this concept so that it can be said that companies that behave aggressively in taxes do not mean to have committed tax fraud and accounting practices that deviate.

2.3. The Concept of Corporate Social Responsibility Disclosure

The concept of accountability from an Islamic perspective is inseparable from individual and corporate responsibility to God. In addition to being accountable to stakeholders, an entity must take account of its business activities to God. Maali et al. (2006) explains that accountability to God is an application of the concept of ketauhidan. In Islam, all individuals and businesses are accountable to God and the ummah by knowing and granting the rights of stakeholders. Baydoun and Willet (2000) explain that in the context of corporate reporting, there are two principles underlying the concept of accountability in Islam namely the principle of full disclosure and the concept of social accountability. Social accountability from an Islamic perspective is related to the principle of full disclosure, in which accountants must disclose everything that is important to stakeholders as part of the orders of Islam.
Issalih et al. (2015) describes that Islamic Shari'a as a starting point may be linked to the social responsibility objectives of the business organization. The main purpose of disclosure of social information is as a form of implementing accountability of business organizations to stakeholders. The commitment of business organizations to Islamic sharia, especially adopting specific social responsibility targets based on sharia and ensuring the welfare of stakeholder groups.

2.4. Research Hypothesis

2.4.1. Tax Aggressiveness Level towards Corporate Social Responsibility Disclosure Level

The effect of the degree of tax aggressiveness on the level of disclosure of social responsibility can be explained by the theory of legitimacy. Based on this theory, more aggressive companies tend to disclose social responsibility information in order to gain legitimacy from society. Legitimacy is needed by the company in order to maintain the company's survival. Empirical research that examines the effect of tax aggressiveness on corporate social responsibility disclosure is done by Deegan et al. (2002) and Lanis & Richardson (2013). Deegan et al. (2002) succeeded in proving the positive influence of tax aggressiveness on the disclosure of social responsibility. Lanis & Richardson (2013) also found a positive effect of tax aggressiveness on corporate social responsibility disclosure rates. Results Deegan et al. (2002) and Lanis & Richardson (2013) successfully supported the theory of legitimacy.

H₁: Tax aggressiveness level affects corporate social responsibility disclosure level

2.4.2. Company Size towards Corporate Social Responsibility Disclosure Level

The influence of firm size on the level of social responsibility disclosure can be described in terms of the theory of legitimacy. According to the theory of legitimacy, the existence of a company depends on the acceptance of the society in which the company operates. This is possible because the company can be influenced by society, and vice versa companies also have influence to the community. The legitimacy of the community is assumed to be an important resource for the company in determining the sustainability of its business (Deegan et al., 2002). Some empirical studies by Khasharmeh & Desoky (2013); Lestari (2013); Rama & Meliawati (2014); Istianingsih (2015); Abdulhaq & Muhamed (2015); Al-Ajmi, Al-Mutairi, & Al-Duwait (2015); Rufino & Machado (2015); Habbash (2016); and Sunarsih & Firdiyansyah (2017) support the argument of the theory of legitimacy. The results of their empirical studies found a positive effect of firm size on corporate social responsibility disclosure.

H₂: Company size affects corporate social responsibility disclosure level

2.4.3. Profitability towards Corporate Social Responsibility Disclosure Level

The effect of profitability on the level of disclosure of social responsibility can be explained in the context of the theory of legitimacy. Deegan et al. (2002) argue that the theory of legitimacy has the hypothesis that companies are bound by an unwritten social contract with the communities in which the company operates. If a company fails to meet its legitimacy it can threaten the company's performance and the company's survival. Therefore, more profitable companies seek to disclose social and environmental information more broadly than less profitable companies. Empirical research conducted by Nurkhin (2010); Badjuri (2011); Al-Ajmi, Al-Mutairi, & Al-Duwait (2015); Lestari (2013); Dienes & Velte (2016); and Wiyuda & Pramono (2017) confirm the positive effect of profitability on the level of corporate social responsibility disclosure.

H₃: Profitability affects corporate social responsibility disclosure level
2.4.4. Leverage towards Corporate Social Responsibility Disclosure Level
The influence of leverage on the level of disclosure of social responsibility can be explained in the context of the theory of legitimacy. The theory of legitimacy explains the relationship between the disclosure of corporate social responsibility and society, where corporate management reacts to the expectations and changes of society (Juhmani, 2014). Roberts (1992) observes that a high degree of dependence on debt will encourage companies to increase social activity and disclose broader social and environmental information in order to meet creditor expectations on environmental issues. The results of empirical research conducted by Christopher & Filipovic (2008) and Juhmani (2014) support the theory of legitimacy. Their results found a positive leverage effect on corporate social responsibility disclosure rates. The higher the leverage, the greater the company's tendency to disclose social information.

H₄: Leverage affects corporate social responsibility disclosure level

3. METHODOLOGY
3.1. Population and Sample
The study population is sharia entity registered in Indonesia Sharia Shares Index (ISSI). Samples are selected according to certain criteria based on purposive sampling method. The data used in this study were taken from Indonesian Capital Market Directory (ICMD), and idx.co.id website. The criteria used in the selection of samples include: (1) the existence of annual reports for the period 2011-2014; (2) positive earnings during the period 2011-2014 because negative earnings can distort the calculation of the degree of tax aggressiveness; (3) the effective tax rate (ETR) is less than one during the period 2011-2014 because more than one ETR will cause problems in model estimation; and (4) adequate data on disclosure of corporate social responsibility during the period 2011-2014.

3.2. Variable Descriptions and Indicators
Tax aggressiveness is an action to reduce income tax through tax avoidance and tax evasion (Frank et al., 2009). In this study, this variable is measured by an effective tax rate indicator (ETR). ETR is calculated from current income tax expense divided by pre-tax income.

The characteristics of firms in this study are represented by firm size, profitability, and leverage. Company size is a classification according to the size of the company based on various ways, including: total assets, log size, stock market value, and others. The size of the Company in this study is measured by total sales. Profitability is a measure used to determine the company's ability to generate profits during a certain period and also provides an overview of the effectiveness of management in carrying out its operations. Profitability in this study is measured by ROA. ROA is calculated from pre-tax profit divided by total assets. Leverage describes the company's capital structure and knows the risk of uncollectible debt. The leverage of firms in this study is measured by total liabilities divided by total assets.

Corporate social responsibility is a business commitment to act ethically, operate legally, and contribute to improving the quality of life of employees and their families, local communities and the wider community (Anatan, 2013). In this study, the corporate social responsibility disclosure index is used guidance indicators from Global Reporting Initiatives (GRI). GRI consists of economic category (9 indicators), environment (34 indicators), labor and comfort (16 indicators), human rights (12 indicators), community (11 indicators), and product responsibility (9 indicators). The score of this variable is measured from the number of items disclosed divided by the total items of available disclosure.
3.3. Model of the Research

This study uses a research model in which the independent variables include the level of tax aggressiveness, firm size, profitability, and leverage. The dependent variable is the level of corporate social responsibility disclosure. The empirical model of this research is formulated as follows:

$$CSRD = \alpha_0 + \beta_1 \text{ETR} + \beta_2 \text{SIZE} + \beta_3 \text{ROA} + \beta_4 \text{LEV} + e$$

Description

CSRD = corporate social responsibility disclosure
ETR = effective tax rate
SIZE = company size
ROA = return on assets
LEV = leverage

3.4. Data Analysis Technique

The required data is taken from the source of the company's annual report for the period of 2011-2015. Then performed the data analysis phase using SPSS software. Results and discussion are presented in the framework of hypothesis testing. The final stage is to draw conclusions to answer the research problem.

4. RESULTS

Shariah entities listed in the Indonesia Sharia Shares Index (ISSI) are all Sharia shares listed on the Indonesia Stock Exchange (IDX). From the data identification process, 144 companies are listed in a row, listed on the Indonesia Sharia Index (ISI) in the period 2011 to 2014. However, from that number finally obtained a sample of 71 companies per year so that the total panel data for 4 years as much 284 (71 x 4 years).

4.1. Simultaneous and Partial Test

The F test results as shown in Table 1 show that the fit model has a significance of 0.000 below the 5% significance level. The results of this test also shows that all independent variables simultaneously affect the level of corporate social responsibility disclosure.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.823</td>
<td>6</td>
<td>.137</td>
<td>14.617</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>1 Residual</td>
<td>2.599</td>
<td>277</td>
<td>.009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.422</td>
<td>283</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Partial test results as shown in Table 2 show that there are two independent variables that affect the level of corporate social responsibility disclosure of company size (SIZE) and leverage (LEV). The leverage variable influences the corporate social responsibility disclosure level at a significant level of 10%.
Table 2 Results of t-Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>- .606</td>
<td>.108</td>
<td>-5.611</td>
<td>.000</td>
</tr>
<tr>
<td>ETR</td>
<td>.088</td>
<td>.064</td>
<td>.074</td>
<td>1.371</td>
</tr>
<tr>
<td>SIZE</td>
<td>.065</td>
<td>.009</td>
<td>.031</td>
<td>1.890</td>
</tr>
<tr>
<td>ROA</td>
<td>-.030</td>
<td>.054</td>
<td>-.032</td>
<td>-.565</td>
</tr>
<tr>
<td>LEV</td>
<td>.072</td>
<td>.038</td>
<td>.104</td>
<td>1.890</td>
</tr>
</tbody>
</table>

Based on Table 3 it can be seen that the Adjusted R-Square of 0.224 shows that the contribution of all independent variables to the aggressiveness of the tax is 22.4%, while the rest of 77.6% is influenced by other variables outside the model.

Table 3 Coefficient of Determination

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.490</td>
<td>.240</td>
<td>.224</td>
<td>.09687</td>
</tr>
</tbody>
</table>

5. DISCUSSION

5.1. Tax Aggressiveness Level towards Corporate Social Responsibility Disclosure Level

The results of this study proves that the level of tax aggressiveness in Islamic entities does not give effect to the level of corporate social responsibility disclosure. This proves that the theory of legitimacy does not apply in the relationship between the level of tax aggressiveness with the level of disclosure of social responsibility to the entities of sharia. The results of this study is different from research conducted by Deegan et al. (2002) and Zeng (2016). Deegan et al. (2002) found a positive influence of tax aggressiveness toward corporate social responsibility disclosure in the sense that the higher level of tax aggressiveness done by the company, the maximum is also the level of corporate social responsibility disclosure. Furthermore, Zeng (2016) found that socially responsible companies are less involved in tax aggressiveness whereas companies with low levels of social involvement are more likely to be involved in tax aggressiveness. In addition, the results of Zeng (2016) also show that firms with favorable tax treatment will implement higher-level CSR.

5.2. Company Size towards Corporate Social Responsibility Disclosure Level

The results of this study prove empirically about the positive effect of firm size on the level of social responsibility disclosure. The larger the size of the company, the higher the level of disclosure of social responsibility. The results of this study support the theory of legitimacy in explaining the effect of firm size on the level of corporate social responsibility disclosure. Deegan et al. (2002) revealed that based on the theory of legitimacy, the existence of a company depends on the acceptance of the community where the company is located. This is due to the mutual influence between companies and communities where companies are affected by society and vice versa. This legitimacy is very important for the company in maintaining its survival. The results of this study support the results of previous empirical research conducted Suttipun and Standton (2011); Dhaliwal et al. (2011); Cormier et al. (2011); Khasharmeh and Desoky (2013); Al-Ajmi, Al-Mutairi, and Al-Duwaila (2015); Rufino and Machado (2015); Habbash (2016) all of which found a positive effect of firm size on the level of corporate social responsibility disclosure.
5.3. Profitability towards Corporate Social Responsibility Disclosure Level

The results show that profitability does not affect the level of social responsibility disclosure. The theory of legitimacy explains that a more profitable company will disclose social and environmental information with a broader level of disclosure than a less profitable company (Deegan et al., 2002). The results of this study are not in line with the theory of legitimacy. The results show that the profitability of sharia entities does not affect the level of corporate social responsibility disclosure. This is due to corporate social responsibility is a form of implementation of the maqashid shariah so that sharia entities continue to disclose corporate social responsibility regardless of the level of profitability. Despite the profitability of sharia banks down, Islamic banks continue to disclose corporate social responsibility. The results of this study support the results of previous research from Sembiring (2006); Haniffa and Cooke (2005); Juhanmi (2014); Rama and Meliawati (2014); Istianingsih (2015); Abdulhaq and Muhamed (2015); Habbash (2016); and Sunarsih and Ferdiyansyah (2017) who did not find the effect of profitability on the disclosure of social responsibility.

5.4. Leverage towards Corporate Social Responsibility Disclosure Level

The results of the current study find the effect of leverage on the level of corporate social responsibility disclosure. The higher the leverage, the greater the company's tendency to disclose social information. The results of this study support the theory of legitimacy. A high degree of dependence on debt can encourage a sharia entity to engage in a wider level of disclosure of social responsibility in order to fulfill the creditor's expectations (Roberts, 1992). In the context of Islamic entities, the meaning of stakeholders is broader than the general meaning because it includes creditor, shohibul mal, mudharib, muzakki, mustahik, and other interested parties. The increased interest of these stakeholders resulted in an increasingly widespread disclosure of corporate social responsibility. The results of this study support previous studies from Christopher and Filipovic (2008) and Juhanmi (2014) who found a positive leverage impact on corporate social responsibility disclosure rates.

6. CONCLUSIONS

The results of the current study show that firm size and leverage affect the level of corporate social responsibility disclosure. These findings have successfully confirmed the role of the theory of legitimacy in explaining the effect of firm size and leverage on the level of corporate social responsibility disclosure. Furthermore, the results of the current study also indicate that the level of tax aggressiveness and profitability does not affect the level of corporate social responsibility disclosure. This condition is possible because Sharia entities should still strive to disclose information about corporate social responsibility as a contribution to stakeholders irrespective of the amount of taxes paid to the State Treasury.

Further research may extend to a wider scope of both the object of the study and the research variables. The object of research can be more specifically directed at sharia entities in the banking, insurance and cooperative industries. The determinants of the corporate social responsibility disclosure level can be expanded by incorporating other variables that specifically meet Islamic criteria such as Islamic governance and maqashid sharia.

REFERENCES


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