

Ethical Issues in Tax Avoidance; Study in CSR Perspective, a Literature Review

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Abstrac. The tax avoidance still become an ethical issue in corporate tax planning. It is generally seen as irresponsible and unethical. Corporate Social Responsibility (CSR) is one of the benchmarks of corporate ethics. This study aims to examine the role of social responsibility as an ethical shield in implementing corporate tax avoidance through a literature review of 2020-2022 research. Companies with low social responsibility are seen to be more aggressive in tax avoidance. The review results show that social responsibility can act as a catalyst for tax avoidance. However, this does not rule out the possibility that companies also use social responsibility as a hedge against the potential consequences of aggressive tax avoidance practices. Policy makers can encourage corporate CSR activities, but the impact of these activities may differ depending on the motives of each company.

Keywords : Corporate Social Responsibility, Tax Avoidance, Tax Aggressiveness, Ethics of tax Avoidance, Corporate governance.

1. Introduction

A company is an entity that has various impacts on the economic matters in Indonesia. One of the important roles of companies is in terms of taxation, and this taxation has an impact towards the economic matters. Taxes are important and very crucial element in preparing the financing budget in Indonesia. Income derived from taxes managed by the goverment is used for state routine financing as well as expenditure for national development. The community plays a very important role in paying their tax obligations to participate in existing problems, both social and economic problems, the company is one of the taxpayers who is obliged to pay taxes in accordance with applicable regulations [16].

The result of research conducted by [20] shows that in 2012 - 2016 the tax revenues has decreased due to a decrease in the realization of tax revenues. It continued to experience a decline in realization starting from 94.40% to the lowest of 81.40% from 2012 to 2016 [19] .In addition, tax reductions can be

generated by business fraud in changing or suppressing tax data by using calculation gaps between fiscal and accounting profits, in other words this practice is known as tax avoidance. Tax avoidance in the eyes of the government, is a legal practice in which businesses take advantage of accounting weaknesses to reduce their tax obligations. However, this will ultimately have little impact on the amount of tax money the government receives.

According to The Law no. 36 of 2008, it is stated that companies can manage the costs incurred by the company as a deduction from fiscal profits and reduce the taxes owed. This is what companies can use as a way of tax avoidance. One of these costs is the cost that arises as a result of Corporate Social Responsibility (CSR) activities. Some CSR activities can reduce the company's income tax, so that with the CSR costs, the company can reduce fiscal profits and reduce the tax payable. This becomes the basis that CSR activities affect the corporate tax avoidance behavior. Companies can take advantage of CSR activities in tax avoidance strategies. CSR acts as a tax deduction and a shield against the negative effects of aggressive tax avoidance practices.

Companies that have good CSR performance should be able to avoid tax avoidance practices because the form of the company's participation in society is by paying taxes [6]. Thus, companies that have good CSR performance are less likely to do tax avoidance. But ironically, there are companies that have good CSR performance tend to practice in tax avoidance.

Various research results make research related to how CSR activities can influence company's decisions in terms of tax avoidance are interesting to do. Moreover, the characteristic of society in Indonesia is still very interested in CSR activities carried out by companies, so that CSR activities are important things that companies can do in order to contribute to society and the environment. Based on the background above, the researcher is interested in conducting research with the title **"Ethical Issues in Tax Avoidance; Study in CSR Perspective, a Literature Review"**.

2. Method

To support the validity result from this research, this study uses qualitative research methods by collecting data through literature studies. The author did a literature comparison through previous research journals that tested the same factors. Through the study literature, the

authors obtain relevant and accountable information. The author conducted a literature study of 17 journals and concluded the results.

3. Theoretical Framework

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is defined as an agreement between corporations and organizations to operate legally and ethically in order to help the economic matters [14]. Disclosure is often referred to as a communication process to certain groups that considers the interests of residents and society in the form of social responsibility towards environmental, social and economic impacts [4]. The ISO 26000 of international standard defines CSR as a task taken as a result of policies and choices, as well as community and environmental activities, for transparency in sustainable development and public health. Sourced from chapter 66 paragraph (2) of Law Number 40 of 2007 concerning Limited Liability Companies, it requires all business entities and corporations to state their social responsibility in the form of an annual report, in this case the aspect of CSR disclosure by an organization or company, on the other hand, is messages or information offered freely (voluntarily).

The disclosure of CSR itself is carried out by a business institution in order to gain support from the community and also maintain the value of the company itself. Corporations must carry out activities in accordance with the ideals and norms of society [13]. The disclosure of CSR is an act of disclosing corporate responsibility in the form of the economic, social and environmental sectors to the surrounding community or in this case commonly known as CSR Disclosure [15].

Tax Avoidance

The tax avoidance is the process of reducing the value of tax items which are the basis for tax imposition while remaining legal and in accordance with applicable tax laws and regulations [5]. Companies perform impairment by minimizing a person's tax burden by exploiting loopholes in a country's tax laws. In other words, tax avoidance can be a tactic adopted by taxpayers to reduce or eliminate their tax liability while remaining within legal parameters. Companies deliberately delay paying taxes to reduce the amount of money to be paid in taxes and increase their cash flow [21].

According to some literature, no consistent terminology has yet been developed with respect to the phenomenon that companies seek to reduce taxes. Besides "tax avoidance", other terms commonly encountered include "tax planning", "tax management", "tax shelter", "tax aggressiveness" and "tax

evasion”, the meaning of each of which depends on the intent and attitude of the author. Tax avoidance, being the broadest meaning of all terms, is regularly defined as “any activity that reduces corporate taxes relative to pretax income” [2]. The term tax avoidance is one of the most frequently used in the literature, thanks to broad definitions and avoiding ethical or legal judgments.

However, in practice it is difficult to provide clear limits on tax avoidance. In this study, the authors raise the results of research by [2] . which broadly defines tax avoidance, namely anything that reduces corporate tax relative to pre-tax profit. A term that has a similar meaning is tax aggressiveness. Corporate tax aggressiveness is a scheme or arrangement whose main purpose is to avoid taxes that are not in accordance with the objectives of the legislation [8].

4. Result

Various studies have been conducted to examine the factors that influence companies to carry out tax avoidance. Of these various factors, this study focuses on how CSR disclosure factors influence companies to implement tax avoidance.

Tabel 1. Previous Studies

| Title | Authors | Methodology | Results |
|--|--|-----------------------------------|---|
| The Effect of Corporate Social Responsibility Practices on Tax Avoidance; an empirical study in the French Context | Jamel Chouaibi, Matteo Rossi, Naouha Abdessamed (2022) | Linier Regretion Data Panel | Companies with no conduction of CSR activities are more aggressive in the avoidance of taxes than others |
| <i>Pengaruh Corporate Social Responsibility (CSR) dan Karakteristik Perusahaan terhadap Praktik Penghindaran Pajak Perusahaan yang</i> | Androni Susanto, dan Veronica (2022) | Regresi | CSR has a significant negative effect on tax avoidance practices. The greater the company's CSR performance, the greater the company's current tax or avoiding |

*Terdaftar di Bursa Efek
Indonesia.*

(The Effect of
Corporate Social
Responsibility (CSR)
and
Company Characteristics
on Tax Avoidance
Practices of Companies
Listed on the Indonesia
Stock Exchange)

Do socially responsible firms pay more taxes? Davis, A. K., Guenther, D. A., Krull, L. K., & Williams, B. M. (2016) *Literatur Review*

aggressive tax avoidance practices.

CSR has a significant negative effect on tax avoidance practices. The greater the company's CSR performance, the greater the company's current tax or avoiding aggressive tax avoidance practices.

Negative significant relationship between CSR and cash Effective Tax Rate (ETR) and found a significant positive relationship between CSR and tax-lobbying.

Companies that have high social responsibility are most likely to do tax avoidance.

Does corporate social responsibility influence corporate tax avoidance of Chinese listed companies Gulzar, M. A., Cherian, J., Sial, M. S., Badulescu, A., Thu, P. A., (2018) *Regresi*

| | | | |
|--|----------------------------|----------------------|---|
| <i>Pengaruh Karakteristik Perusahaan, Good Corporate Governance Dan Corporate Social Responsibility Terhadap Penghindaran Pajak (The Effect of Company's Characteristic, Good Corporate Governance and Corporate Social Responsibility towards Tax Avoidance)</i> | Ajeng Wijayanti (2017) | Regresi | CSR has a significant positive effect on tax avoidance. |
| Corporate Social Responsibility and Tax Avoidance : A Literature Review Effect of Company Characteristics, Good Corporate Governance and Corporate Social Responsibility on Tax Avoidance Corporate Social Responsibility and Tax Avoidance : A Literature Review | David Stephenson (2015) | Literature Review | This literature review examines 37 papers addressing the role of tax as a CSR subject. Three themes were identified in the literature: past efforts to relate tax avoidance and CSR, ethical aspects of tax avoidance, and the role of governance in tax avoidance decisions. Each of these themes leaves gaps in the research deserving further examination. Many researchers see tax avoidance as a part of CSR, although there is not unanimity on the matter. |

From table. 1 above, it can be seen that studies that examine CSR disclosure factors and company decisions to carry out tax avoidance have had mixed results. In this study, the authors tried to review the

literature on 17 research journals, which examined how the issue of tax avoidance carried out by companies can be influenced by CSR disclosures carried out by companies. As it can be seen that in carrying out CSR activities, companies incur a lot of costs. And the costs incurred can be deducted from the taxable income of the company's corporate income tax.

[17] who conducted research by reviewing some of the literature related to CSR and tax avoidance research found that after conducting a review of 17 papers addressing the role of tax as a CSR subject. Three themes were identified in the literature: past efforts to relate tax avoidance and CSR, ethical aspects of tax avoidance, and the role of governance in tax avoidance decisions. Each of these themes leaves gaps in the research deserving further examination. Many researchers see tax avoidance as a part of CSR, although there is no uniformity in the matter. [20] found that companies that carry out tax avoidance, because the CSR activities carried out will reduce the profits to be obtained so that the taxes paid by the company are low. The assumption that is built is that when a company carries out CSR activities, the company will incur significant costs. These costs are used by the company as a deduction from profits which will have an impact on the amount of tax to be paid by the company.

Another study conducted by [3] revealed that companies that have high social responsibility are most likely to do tax avoidance. According to Gulzar's research results (2018), companies prefer to carry out their social responsibility by incurring high CSR costs, thereby reducing company profits and this is one way to avoid taxes. Similar to the results of previous research conducted by [20], companies with high CSR costs tend to do tax avoidance by minimizing profits.

[22] conducted a study that examined the effect of CSR disclosure on tax avoidance with a sample of companies from 35 countries with different legal and institutional environments. This study finds strong evidence that CSR is positively related to tax avoidance. It also finds that in countries with weak country-level governance, firms with higher CSR scores engage in less tax avoidance, implying that CSR and country-level governance are substitutes.

[12] revealed the results of his research CSR activities are negatively related to tax avoidance. Using a sample of 1,477 Korean firms-year observations from 2004 to 2009 and controlling for other firm-specific determinants as well as industry and year fixed effects, I find that firms with CSR activity significantly associated with lower tax avoidance. According to the research sample, companies are more concerned with carrying out CSR in the form of activities for social services, satisfaction of employees and contributions to economic development contribute to lowering tax avoidance, CSR activities for financial

prudence, fairness and transparency and consumer protection do not. This study contributes to examine how CSR affects managers' decision-making on taxes.

Research conducted by [1] gave the result that companies with no conduction of CSR activities are more aggressive in the avoidance of taxes than others, confirming the idea that CSR could be seen as a facet of corporate culture that affects business corporate tax avoidance. Recent research conducted by [18] reveals that CSR has a significant negative effect on tax evasion practices. The greater the company's CSR performance, the greater the company's current tax or avoiding aggressive tax avoidance practices. A large current tax indicates that the company is not engaging in aggressive tax avoidance practices. This can happen because companies in Indonesia have the awareness to be responsible to stakeholders. Paying taxes is a way for companies to be socially responsible. In addition, companies that carry out CSR tend to attract public attention. Thus, companies that carry out CSR will avoid actions that can damage the company's reputation. These findings support the results of research by [7] [8] [9] [10] [11]. CSR has a significant negative effect on tax avoidance practices.

5. Conclusion

Companies have a very crucial role in the country's economy, and one of these is manifested by company compliance with taxation. The corporate income tax paid by companies to the state has many functions and will return to the welfare of society. On the other hand, in its operational activities, companies are required to carry out social responsibility to their stakeholders. Based on the literature study conducted, companies tend to maximize Corporate Social Responsibility (CSR) disclosure under the pretext of being a form of company contribution to the welfare of society. CSR activities carried out by the company will have an impact on costs incurred, and these costs according to the law can be deducted from taxable income. Different opinions were expressed by other companies who consider that paying taxes to the state is also a fundamental matter as a form of corporate social responsibility (CSR) to society.

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