The Mediating Role of Corporate Social Responsibility in the Relationship Between Institutional Ownership and Tax Avoidance

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ARTICLE INFO

ABSTRACT

Tax avoidance is an effort made by the company to reduce tax payments legally. The amount of tax expense paid by the company is very material so that it will affect the amount of profit earned by the company. This study aims to determine the effect of institutional ownership on tax avoidance and the mediating effect of corporate social responsibility. This study analyzes companies in the property & real estate sector listed on the Indonesia Stock Exchange for the period 2016-2021. The sampling technique used was purposive sampling technique, obtained a final sample of 15 companies. Path analysis is used to analyze the indirect relationship between institutional ownership and tax avoidance through corporate social responsibility. The results of the analysis show that institutional ownership has no effect on corporate social responsibility, institutional ownership and corporate social responsibility have no effect on tax avoidance. The results of path analysis did not find the mediating role of corporate social responsibility in the relationship between institutional ownership and tax avoidance.

ISSN: 2774-4256

Keywords: Tax Avoidance; Institutional Ownership; Corporate Social Responsibility.

Introduction

Tax collection carried out in Indonesia experiences several problems, including regulatory weaknesses in the field of taxation, lack of socialization, low level of awareness and understanding, poor economy, inadequate and inaccurate database, weak law enforcement in the form of supervision, and inconsistent application of weakening consequences (Dan, 2016).

Companies and taxpayers alike believe taxes to be a burden that will reduce net income. Businesses generate sizable profits, and the state treasury also pays a sizable amount of income tax. Therefore, taxpayers try to reduce the amount of tax paid. The act of reducing taxes is by doing tax avoidance. Tax avoidance is an action that is legalized in an effort to avoid or minimize the burden. Actions taken do not violate existing tax provisions, such as transacting on goods that are not tax objects.
The phenomenon of tax avoidance occurs at PT Ciputra Development Tbk. In 2016, PT Ciputra Development committed tax evasion by hiding its wealth with the aim of avoiding state taxes. The wealth that was successfully hidden by PT Ciputra Development amounted to US$ 1.48 billion or around 19.7 trillion (Tempo.co, 2016).

Tax avoidance actions can arise from opportunities that can be utilized, legislation and human resources, namely tax authorities. There are several factors that influence tax avoidance, namely institutional ownership. Institutional ownership is ownership of company shares by an institution or institution. These institutions can be government agencies, foreign institutions / foreign companies, banks, insurance companies, and other limited liability companies (Dakhli, 2021).

The results of Dakhli (2021) state that institutional ownership has a negative impact on tax avoidance. According to Putri & Lawita (2019) has a positive influence on tax avoidance. Meanwhile, according to Rohmatika & Amilahaq (2021), Pratiwi (2018) and Alya & Yuniarwati (2021) that institutional ownership has no effect on tax avoidance.

Researchers use other variables that become solutions or intermediaries for institutional ownership and tax avoidance. This variable is CSR. CSR is the company's responsibility for the impact of decisions and activities on society and the environment in a transparent, ethical manner, and contributes to sustainable development (Susanto & Veronica, 2022). In previous research, Dakhli (2021) used the mediating variable CSR to further explain the relationship between institutional ownership and tax avoidance. The results of this study state that CSR partially mediates the effect of institutional ownership on corporate tax avoidance. Meanwhile, according to Pratiwi (2018) the relationship between institutional ownership and tax avoidance cannot be mediated by CSR, so institutional ownership is not proven to have a direct or indirect impact on tax avoidance.

**Literature Review**

**Agency Theory**

Jensen & Meckling were the first to reveal about agency theory in 1976, namely the theory that explains the agency relationship as a contract between shareholders (principal) and management (agent). The use of this agency theory can take the form of a work contract that regulates the balance of rights and obligations between shareholders (principal) and management (agent) by considering overall profits. Conflicts of interest can arise because owners want to optimize profits while managers may have an incentive to reduce the taxes payable by the company.
Researchers apply agency theory to explain the relationship between institutional ownership and corporate tax avoidance. According to agency theory, the company can be defined as a contract agent between shareholders and managers, with the company's goal to maximize shareholder wealth.

Khan et al (2017) provide new evidence on the agency theory of corporate tax avoidance by showing that an increase in institutional ownership is associated with an increase in tax avoidance by using tax shelters. It is important to ensure that company owners can monitor and control the actions of managers so that tax avoidance does not harm the company or have a negative impact on government tax revenues.

Stakeholder Theory

Stakeholder theory was first introduced by Hannan and Freeman (1984) who argue that a stakeholder is a person or group of people who are influenced and influence the company's process of achieving goals (Freeman, 1984).

According to stakeholder theory, companies should provide benefits to all their stakeholders, including shareholders, creditors, customers, suppliers, governments, research communities, and other groups. Companies should maintain relationships with their stakeholders by meeting their demands and requirements, especially those who have influence over whether resources, such as labor, markets, or company products, will be used for company operations. The implementation of CSR is one way to uphold positive relationships with stakeholders. This strategy is expected to be well accommodated in order to build harmonious relationships (Pratiwi, 2018).

Tax Avoidance

Tax avoidance is the practice of reducing or eliminating one's tax liability by considering the associated impacts. Tax avoidance is usually associated with tax planning initiatives. In general, tax planning refers to the practice of designing a small amount of business while remaining within taxation parameters (Pratiwi, 2018).

The general public sees tax avoidance as detrimental to society as a whole. In the opinion of the local community, businesses should contribute to advancing the welfare of the wider community by paying taxes. Meanwhile, companies believe that tax avoidance may benefit the business.

Corporations that engage in tax avoidance are reluctant to participate in activities that involve national cooperation; instead, they focus more on lowering the amount of tax to be paid or paying as little tax as possible. In order for corporations to maximize profits, shareholders anticipate that the tax burden will be minimized.
Institutional Ownership and Corporate Social Responsibility (CSR)

Institutional ownership is the ownership of company shares by an institution. These institutions can be government agencies, foreign institutions / foreign companies, banks, insurance companies, and other limited liability companies (Tawang & Sari, 2017). Corporate Social Responsibility is essentially an effort of corporate or organizational responsibility in a sustainable manner for the impact caused by the decisions and activities that have been taken and carried out by the organization, where the impact will certainly be felt or affect the parties involved, especially society and the environment. If CSR is increasingly disclosed, it will provide a positive image of the company in the community so that it can increase company value. Research conducted by Andayani & Yusra (2019) and Yani & Suputra (2020) revealed that institutional ownership has a positive influence on CSR.

H1 : Institutional ownership has a positive effect on Corporate Social Responsibility (CSR).

Institutional Ownership and Tax Avoidance

Previous empirical studies have found that tax avoidance is related to institutional shareholders, although the results are mixed. Some previous studies argue that institutional ownership suppresses corporate tax avoidance behavior. This is because institutional shareholders can intervene with company management, assuming that company management behaves opportunistically with the aim of minimizing the amount of corporate tax debt to increase their personal wealth (Krisna, 2019).

Institutional ownership is seen as a key corporate governance mechanism that conducts effective monitoring of management decisions related to tax avoidance to reduce problems with tax avoidance to reduce agency problems and to monitor managers' activities. The agency theory of corporate tax avoidance suggests that increased institutional ownership is associated with increased tax avoidance by using tax shelters (Dakhli, 2021).

The high level of institutional ownership will be able to minimize the level of tax avoidance. This is considered to reduce conflicts from agency theory which says that agents and principals will have different interests and the existence of institutional ownership is considered to control and reduce existing agency conflicts (Dewi & Oktaviani, 2021). Research conducted by Dudi Pratomo (2021) and Dakhli (2021) revealed that institutional ownership has a negative effect on tax avoidance. The higher the institutional ownership, the lower the level of tax avoidance by the company.
H2. Institutional ownership has a negative effect on tax avoidance.

Corporate Social Responsibility (CSR) and Tax Avoidance

Corporate Social Responsibility (CSR) is a concept and action of a company to minimize the negative impact and maximize the positive impact of its operations on all stakeholders in the economic, social and environmental scope in order to achieve the goal of sustainable development.

CSR or corporate social responsibility is a company's responsibility to all stakeholders in the company, not only to shareholders but to the government through tax payments and the community around the company. If the company does tax avoidance, it means that the company does not fulfill its responsibility to contribute to improving the welfare of society (Tahar & Rachmawati, 2020).

This hypothesis is supported by stakeholder theory which states that companies that disclose high CSR will have lower tax avoidance. The higher the level of CSR disclosure made by the company, the lower the tax avoidance. Conversely, if the lower the level of CSR disclosure made by the company, the higher the tax avoidance. The results of research by Pratiwi (2018), Susanto (2022), Zoebar & Miftah (2020), and Sandra & Anwar (2018) reveal that CSR has a negative effect on tax avoidance.

H3: Corporate Social Responsibility (CSR) has a negative effect on tax avoidance.

Corporate Social Responsibility (CSR) Mediates the Effect of Institutional Ownership and Tax Avoidance

Research conducted by Putri & Lawita (2019) reveals that institutional ownership has a positive influence on tax avoidance. Research conducted by Andayani & Yusra (2019) and Yani & Suputra (2020) shows that institutional ownership has a positive effect on CSR. So far, institutional ownership affects CSR and tax avoidance. Taxes and CSR are both intended for public welfare. The existence of CSR is indirectly able to influence the relationship between institutional ownership and tax avoidance.

Stakeholder theory can explain the relationship between institutional ownership, tax avoidance, and CSR. CSR as a stakeholder is not only to shareholders but to the government through tax payments. If the company does tax avoidance, it means that the company does not fulfill its responsibility to contribute to improving the welfare of society, stakeholder theory can also explain how institutional ownership encourages companies to disclose CSR (Tahar & Rachmawati, 2020).

The results of Dakhli's research (2021) reveal that CSR mediates the effect of institutional ownership on tax avoidance.
H4. CSR mediates the effect of institutional ownership and tax avoidance.

Method

This research is a quantitative study using path analysis. The population in this study were all companies in the property & real estate sector listed on the IDX during the period 2016-2021. The criteria used in this study are companies that report their annual reports during the study period, do not experience losses and have a tax burden. After deducting the sample criteria, 90 observation data were obtained.

The regression equation in this study is as follows:

\[ CSR = \alpha + \beta_1 INST + \beta_2 SIZE + \beta_3 LEV + \beta_4 ROA + \epsilon \] …………………………………(1)

\[ ETR = \alpha + \beta_1 INST + \beta_2 CSR + \beta_3 SIZE + \beta_4 LEV + \beta_5 ROA + \epsilon \] ………………………………...…(2)

The dependent variable in this study is tax avoidance (ETR). Referring to research (Putri & Lawita, 2019), (Tahar & Rachmawati, 2020), (Dakhli, 2021), and (Nurmawan & Nuritomo, 2022) the calculation of tax avoidance uses ETR. The reason for using ETR is because ETR is the most widely used proxy for measuring tax avoidance by previous researchers. ETR is inversely proportional to tax avoidance. A high ETR indicates low tax avoidance. Conversely, if the ETR is low, it indicates high tax avoidance (Sugitha & Supadmi, 2016).

The independent variable in this study is Institutional Ownership (INST). Institutional ownership in this study is measured by the percentage of the number of shares owned by the institution divided by the number of shares outstanding (Muslim et al., 2020).

CSR is a mediating variable, measured using GRI (Global Reporting Initiative) standard indicators as in research (Sandra & Anwar, 2018), (Zoebar & Miftah, 2020), and (Tahar & Rachmawati, 2020). This study uses a checklist on CSR items that refer to GRI G4 with a total of 91 items. If item I is disclosed by the company, it will be given a value of 1 and a value of 0 if item I is not disclosed in the checklist table (Zoebar & Miftah, 2020). The control variables in this study are company size (SIZE) measured by the Natural Logarithm of total assets, leverage (LEV) measured by the ratio of total debt and total assets and profitability (ROA) measured by the ratio of profit before tax to total assets.

Result and Discussion
After tabulating the research data, data processing was then carried out. Table 1 shows the descriptive statistics of the research data

<table>
<thead>
<tr>
<th></th>
<th>ETR</th>
<th>INST</th>
<th>CSR</th>
<th>SIZE</th>
<th>LEV</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.044566</td>
<td>0.764201</td>
<td>0.245543</td>
<td>29.76529</td>
<td>0.368605</td>
<td>0.060111</td>
</tr>
<tr>
<td>Median</td>
<td>0.014408</td>
<td>0.801517</td>
<td>0.219780</td>
<td>29.89089</td>
<td>0.364822</td>
<td>0.047759</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.949495</td>
<td>0.994668</td>
<td>0.604396</td>
<td>31.74957</td>
<td>0.786681</td>
<td>0.201607</td>
</tr>
<tr>
<td>Minimum</td>
<td>7.30E-05</td>
<td>0.161618</td>
<td>0.054945</td>
<td>27.39421</td>
<td>0.031411</td>
<td>0.001078</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.108559</td>
<td>0.207920</td>
<td>0.118151</td>
<td>1.130759</td>
<td>0.177938</td>
<td>0.045052</td>
</tr>
<tr>
<td>Skewness</td>
<td>6.699374</td>
<td>-0.929045</td>
<td>0.738305</td>
<td>-0.346475</td>
<td>0.048950</td>
<td>0.962318</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>55.10503</td>
<td>3.109288</td>
<td>3.005812</td>
<td>2.348972</td>
<td>2.340622</td>
<td>3.564480</td>
</tr>
</tbody>
</table>

Based on table 1, the descriptive statistical test results show that the tax avoidance variable (ETR) ranges from 0.0007 to 0.949495 as the minimum and maximum values. The mean value is 0.044566 and the standard deviation is 0.108559. The mean value < standard deviation, this indicates a large deviation.

The institutional ownership variable (INST) shows institutional ownership ranging from 0.161618 to 0.994668 as the minimum and maximum values. Has a mean value of 0.764201 and a standard deviation of 0.207920. The mean value > standard deviation, meaning that the data deviation in the sample is relatively small.

The Corporate Social Responsibility (CSR) variable ranges from 0.054945 to 0.604396 as its minimum and maximum values. It has a mean value of 0.245543 and a standard deviation of 0.118151. The mean value > standard deviation, meaning that the sample data deviation is relatively small.

The research model selection shows that model I uses the Fixed Effect Model while model II uses the Random Effect Model.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>CSR</th>
<th>ETR</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>0.9055</td>
<td></td>
</tr>
<tr>
<td>INST</td>
<td>0.6287</td>
<td>0.1935</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.0000***</td>
<td>0.7602</td>
</tr>
<tr>
<td>LEV</td>
<td>0.6711</td>
<td>0.3834</td>
</tr>
<tr>
<td>ROA</td>
<td>0.9827</td>
<td>0.0001***</td>
</tr>
</tbody>
</table>

The first hypothesis is that institutional ownership has a positive effect on corporate social responsibility. Based on table 2, it can be seen that the profitability value is 0.6287. Then institutional ownership has no effect on corporate social
responsibility because the probability value > 0.05. Thus, institutional ownership has no effect on corporate social responsibility. These results reject the hypothesis that institutional ownership has a positive effect on corporate social responsibility. In Damayanti et al (2021) which examines the effect of good governance, institutional share ownership and profitability on the level of corporate social responsibility disclosure, it is stated that companies are less concerned with social activities including social disclosure activities and companies tend to be concerned with increasing stock prices. This is also possible in line with this study.

The second hypothesis is that institutional ownership has a negative effect on tax avoidance. Based on table 2 shows a probability value of 0.1935. Then institutional ownership has no effect on tax avoidance because the probability value > 0.05. Thus, institutional ownership has no effect on tax avoidance. These results reject the hypothesis that institutional ownership has a negative effect on tax avoidance. The results of this study are in line with Pratiwi (2018) and Dewi & Oktaviani (2021) which state that institutional ownership has no effect on tax avoidance. Institutional owners cannot be sure that they will become controllers to control the company properly for the actions taken by management. Institutional owners who do not undergo good supervision can potentially cause tax avoidance to occur. Agency theory according to Khan et al. (2017) which provides new evidence that increased institutional ownership is associated with increased avoidance is not proven in this study. Because the higher the low institutional ownership in the company cannot reduce tax avoidance.

The third hypothesis is that corporate social responsibility has a negative effect on tax avoidance. Based on table 2 shows a probability value of 0.9055. Because the probability value > 0.05, CSR has no influence on tax avoidance. This shows that CSR does not affect the tax avoidance of a company. This explanation rejects the hypothesis stating that CSR has a negative effect on tax avoidance. These results support the research of Hayati & Okmawati (2019) which states that corporate social responsibility has no effect on tax avoidance. Some things that can be the cause of these results are that there is a possibility that due to the low practice of CSR in Indonesia, its significance on tax avoidance has no effect. In other words, CSR cannot be used as an indicator of tax avoidance.

The fourth hypothesis is that corporate social responsibility mediates the effect of institutional ownership on tax avoidance. The results of the calculation of the mediating effect can be seen from the calculation of the sobel test which shows the t count of 0.45538259 is smaller than the t table value of 1.98667. Based on this explanation, the hypothesis that corporate social responsibility mediates the effect of institutional ownership on tax avoidance is rejected. The results of this study are in
line with Pratiwi's research (2018) which states that institutional ownership has no effect on tax avoidance directly or through CSR. This shows that the relationship between institutional ownership and tax avoidance cannot be mediated by corporate social responsibility.

**Conclusion**

Tax avoidance is classified as a legitimate or legal activity, but in the long run it will reduce state tax revenues. The purpose of this study is to determine the effect of institutional ownership on tax avoidance with corporate social responsibility as a mediating variable in property & real estate sector companies listed on the IDX in 2016-2021. The results showed that institutional ownership has no effect on corporate social responsibility, institutional ownership and corporate social responsibility have no effect on tax avoidance. The results of path analysis did not find the mediating role of corporate social responsibility in the relationship between institutional ownership and tax avoidance.

The limitations in this study are related to the completeness of financial reports and annual reports available on the Indonesia Stock Exchange website and on the website of each company. The lack of data availability causes the sample size to decrease. The data used is secondary data which may contain errors in entering data in the form of numbers.

**References**


