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The Impact of Corporate Social Responsibility and Capital Intensity on Tax Avoidance

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Abstract
This study aims to analyze the effect of Corporate Social Responsibility (CSR) and Capital Intensity on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2022 period. The research method used is multiple regression analysis with a sample of 18 companies with a total of 5 years of observation. The independent variables in this study are CSR measured by the amount of expenditure and capital intensity measured by the ratio between fixed assets and total assets. While the dependent variable is tax avoidance measured using the level of tax ratio. The results show that CSR has a negative effect on tax avoidance, which indicates that companies that carry out CSR activities show corporate responsibility, but there is also the possibility that the company is doing tax avoidance. On the other hand, capital intensity has a negative effect on tax avoidance, which means that not all companies deliberately utilize fixed asset depreciation costs to reduce tax avoidance. The findings provide insights into the important role of social responsibility and capital intensity in influencing corporate tax strategy in the Indonesian mining sector.

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Corporate Social Responsibility;
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1. Introduction

Taxes are one of the largest sources of income for a country, especially in Indonesia. Taxes have indirect benefits that are felt by the public, as they are used for the common good and public interests, not for personal gain. These include infrastructure development, subsidies, financing and government spending, as well as other public facilities. According to Law No. 28 of 2007, Article 1, Paragraph 1, taxes are mandatory contributions to the state owed by individuals or entities, enforced by law, without direct compensation, and are used for the needs of the state to the greatest extent possible for the progress and welfare of the people. Therefore, the government places great emphasis on tax payments, as tax contributions have a significant impact on the country's revenue.

The implementation of tax revenue in Indonesia is still not optimal, as seen from the average tax ratio in recent years, which has only been around 11%, while the target set by the government in the State Budget (APBN) is 13.11%(Tahar & Rachmawati, 2020). Taxes in the eyes of the state are a source of revenue to finance government operations. Meanwhile, for companies, taxes are a burden that will reduce the net profit generated by the company. The difference in interests causes the emergence of taxpayer non-compliance through resistance to taxes. The resistance carried out by the company is by taking tax avoidance actions.

Tax avoidance is a legal way to reduce tax liability, following the guidelines set by tax laws. Through tax avoidance practices, the state loses a significant amount of tax revenue. This action results in a reduction in the cash income that the government would receive in the State Budget (APBN). The agency theory in this study explains the issues that arise between stakeholders as principals and company management. In the context of tax avoidance, agency problems may occur between the company and the government. Agency issues, such as information asymmetry, arise when the government, acting as the principal, instructs the company to pay its tax obligations in accordance with tax laws (Juliana et al., 2020).

One of the factors that can influence tax avoidance practices is Corporate Social Responsibility (CSR). Corporate Social Responsibility (CSR) is a company activity related to the responsibility and ethics of carrying out its operational activities that consider economic, social, and environmental aspects. On January 1, 2009, Law No. 36 of 2008 on Income Tax (Income Tax Law No. 36/2008) came into effect, marking the fourth amendment to Law No. 7 of 1983. The regulations related to CSR are outlined in Article 6, which specifies the expenses that may be deducted from gross income in the calculation of Taxable Income (PKP)(Carolina et al., 2011). Several provisions were added to Article 6 of Income Tax Law No. 36/2008, all of which are related to CSR. This means that more CSR-related costs can be deducted from gross income as stipulated in Income Tax Law No. 36/2008 and this can lead companies to utilize tax law loopholes for tax avoidance.

Another factor that influences tax avoidance is Capital Intensity. Capital Intensity refers to the extent to which a company invests its assets in fixed assets. According to Ardyansah and Zulaikha (2014), the fixed assets owned by a company allow it to reduce taxes due to depreciation of these assets each year. Almost all fixed assets will experience depreciation, which becomes a depreciation expense in the financial statements. Meanwhile, this depreciation expense can be deducted from income in the tax calculation.

2. Method

In this study, the data used is secondary data, namely data obtained from pre-existing sources, such as records, evidence, or reports that have been archived. The data is taken from the annual financial statements of mining sector companies listed on the Indonesia Stock Exchange (IDX) for 2018-2022, which can be accessed through the site www.idx.co.id. The method used in this research is quantitative method with multiple linear regression analysis, which is carried out with the help of SPSS 20 application.

Tax avoidance in this study uses the Effective Tax Rates (ETR) measurement tool. This ETR is the most it is often used by previous research in identifying the level of tax avoidance in companies. If the ETR result is low, then the tax avoidance actions carried out by the company are even higher(Prasetyo & Arif, 2022). The ETR calculation is calculated by the following formula:

$$ETR = \frac{Income\ Tax\ Burden}{Profit\ Before\ Tax}$$

CSR is a company's commitment to business activities to act ethically and contribute to economic development. CSR is carried out by considering several aspects, namely economic, social, and environmental. With CSR, the company can improve the welfare of the community in the hope of getting a positive impact on the continuity of its business from the community. So, in other words, CSR is a way for a company to create a business that provides benefits for many people. The calculation of the CSR cost index uses the following formula:

CSR Cost Formula = ΣCSR cost

Based on Government Regulation No. 93 of 2010, there are several types of Csr costs that can be a deduction from gross income, including (Online Pajak, n.d.).

1) Donations for educational facilities delivered through educational institutions.
2) Donations in the context of research and development which are donations for development or research carried out in the territory of the Republic of Indonesia submitted through research and development institutions.
3) Donations in the context of sports coaching aimed at fostering, developing and coordinating a branch/combination of organizations/types of sports achievements delivered through sports coaching institutions.
4) Donations in the context of national disaster management that are delivered directly through the disaster management agency.
5) The cost of social infrastructure development incurred to build facilities and infrastructure for the public interest is non-profit.

Capital Intensity is a company activity where the company invests its capital in the form of fixed assets. The higher the fixed assets owned by the company, the higher the depreciation costs that must be incurred. The depreciation cost can reduce the company's profit so that the tax burden paid is also relatively low. The capital intensity measured in this study uses the fixed asset ratio. The fixed asset ratio is the ratio of fixed assets to the company's total assets. The measurement of fixed assets uses the following formula (Juliana et al., 2020):

Capital Intensity Ratio : $\frac{Total\ Fixed\ Asset}{Total\ Assets}$

1) The population taken in this study is mining sector companies lisred on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The criteria for the selection of samples to be studied are: Mining sector companies listed on the Indonesia Stock Exchange in 2018-2022.
2) Mining sector companies that report financial statements on the Indonesia Stock Exchange for 2018-2022, but researchers have limitations to obtain their financial statements.
3) Mining sector companies listed on the Indonesia Stock Exchange that did not suffer losses during the observation year, namely the 2018-2022 period.
4) Mining sector companies that are listed on the Indonesia Stock Exchange and report costs related to Corporate Social Responsibility activities during the observation year, namely 2018 2022.

The stages of analysis in this study are by collecting data and then the data is processed to form a data tabulation. In this study, the author also transforms data which is the processed with SPSS software.

3. Results and Discussion

The stages of analysis in this study are by collecting data obtained from the Indonesia Stock Exchange in the form of annual financial reports on mining sector companies that have been listed on the IDX for the 2018-2022 period through the website www.idx.co.id. After collecting data, the author then calculates the data using Microsoft Excel according to the existing formula, so that data tabulation is formed which will later be processed by SPSS software. In this study, the authors performed data transformation which aims to convert data from one format or format structure into another structure so that the data is easier to analyze or understand. The transformation used in this study is logarithmic transformation.

Descriptive statistics are used to describe the existing data in an informative way to make it easier to understand the variables used in the research. An overview of the data used from the amount of data (n) such as the mean value, the median indigo, and the mode value and dispersion measures such as the range, variance, and standard deviation of each variable. In this study, the author uses three variables, namely Corporate Social Responsibility (X1), Capital Intensity (X2), and Tax Avoidance (Y). Here are the results of the descriptive statistics:

Table 1. Descriptive Statistical Analysis (Before Outlier)

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	90	7,477	11,796	9,87952	1,210496
CAPITAL INTENSITY	90	,178	,909	,61812	,182079
TAX AVOIDANCE	90	-2,768	,986	-,74258	,499070
Valid N (listwise)	90				

After data processing, it was first found that the distributed data was abnormal. Therefore, the author decided to conduct an analysis of the outliers. Outliers are cases or data that have special characteristics and appear very different from other observations, this data appears in the form of extreme values both for one variable and for a combination of several(Pentagon et al., 2019). In this study, the author uses outlier testing using the casewise diagnostics method, namely by removing the standard deviation value of more than 3. After the outlier test using the casewise diagnostics method, 4 samples of data were deleted, so that the data that initially amounted to 90 data remained to 86 data. The following is a table of the results of the descriptive statistical analysis after the outlier:

Table 2. Descriptive Statistical Analysis (Before Outlier)

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	86	7,477	11,796	9,93141	1,193406
CAPITAL INTENSITY	86	,178	,909	,61755	,185449
TAX AVOIDANCE	86	-2,103	-,313	-,73292	,344065
Valid N (listwise)	86				

Based on table 2, the results of the descriptive statistical test obtained from 86 data after the outlier obtained the following information: The independent variable (X1) Corporate Social Responsibility has a minimum value of 7.477 obtained from Trans Power Marine Tbk in 2021 and the maximum value of 11.796 obtained from Indo Tambangraya Megah Tbk in 2022 while the average value is 9.93141 and the standard deviation is 1.193406. The independent variable (X2) Capital Intensity has a minimum value of 0.178 obtained from Tembaga Mulia Semanan Tbk in 2022 and a maximum value of 0.909 obtained from Toba Bara Sejahtera Tbk in 2020 while the average value is 0.61755 and the standard deviation is 0.185449. The dependent variable (Y) Tax Avoidance has a minimum value of -2.103 obtained from Transcoal Pacific Tbk in 2018 and a maximum value of 0.313 obtained from Merdeka Copper Gold in 2020 while the average value is -0.73292 and the standard deviation is 0.344065.

The normality test in statistical analysis aims to determine the influence of independent variables and dependent variables following the normal distribution. If the data in the study is distributed normally, the data obtained has met a good regression model. The normality test in this study uses the Kolomgrov-Smirnov (K-S) statistical test, the data will be classified as normal if the Asymp.Sig (2-tailed) is more than 0.05. The following is a table of the results of the normality test on the SPSS software application:

Table 3. Data Normality Test

		Unstandardized Residual
N		86
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	,30634467
Most Extreme Differences	Absolute	,141
	Positive	,080
	Negative	-,141
Kolmogorov-Smirnov Z		1,307
Asymp. Sig. (2-tailed)		,065

Based on the results of the normality test in table 4.4 Asymp. Sig. (2-tailed) shows a number of 0.065 where the number is greater than the number 0.05, so the data can be said to be normally distributed.

A statistical test t was conducted to test the influence of corporate social responsibility variables, capital intensity has a partial effect on tax avoidance. The results of the t-test in this study can be seen in the following table:

Table 4. Hypothesis Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,611	,308		-5,231	,000
	CSR	,113	,028	,392	4,012	,000
	Capital Intensity	-,398	,181	-,214	-2,190	,031

Based on the results of the t-test in table 4, it can be concluded that:

1) The variable Corporate Social Responsibility (X1) shows a regression coefficient value of 0.113 with a significance value of 0.000 less than 0.05 and t has a positive value of 4.012. In this case, corporate social responsibility using Sigma CSR measurement is interpreted as the higher the value of Sigma CSR, the higher the tax avoidance. Therefore, it can be concluded that the hypothesis that states corporate social responsibility has a positive and significant effect on tax avoidance.

2) The capital intensity variable (X2) showed a regression coefficient value of -0.398 with a significance value of 0.031 where the value was less than 0.05 and a negative t-value of -2.190. In this case, capital intensity using asset ratio measurement is interpreted as the higher or lower the value of the capital intensity ratio, the lower the tax avoidance value. It can be concluded that the hypothesis that capital intensity has a positive effect on tax avoidance is rejected. that the hypothesis that capital intensity has a positive effect on tax avoidance is rejected.

The results of the data analysis prove that corporate social responsibility has a positive and significant effect on tax avoidance. The results of the data analysis used CSR sigma measurements based on 20 samples of mining sector companies from 2018-2022. The results of this study are in line with the theory of agency which explains that there is a relationship between agents as company managers and principals as the government or external parties of the company which often cause conflicts of interest(Prasetyo & Arif, 2022). The agency theory explains that agents as the management of companies tend to act for their own interests, including minimizing the tax burden, while the principal, namely the government, expects to maximize tax revenue(Jao, 2022). In this context, Corporate Social Responsibility can be used by management as a strategy to reduce the Company's reported profits, so that the taxes to be paid are smaller. This research is in line with previous research (Juliana et al., 2020) which stated that Corporate Social Responsibility has a positive effect on tax avoidance. (Liana Permata Sari & Santosa Adiwibowo, 2017) stated that Corporate Social Responsibility has a positive effect on the avoidance of accidents. The results of this research are inversely proportional to (Mardianti & Ardini, 2020) stating that Corporate Social Responsibility has no effect on tax avoidance.

The results of the data analysis that have been carried out state that Capital Intensity has a negative effect on tax avoidance. It can be seen from the hypothesis test table that the Capital Intensity variable has a t-value of -2.190 with a sig value of 0.031 where the value is less than 0.05, so H2 with the allegation that Capital Intensity has a positive effect on tax avoidance is rejected. This study uses CAPIN measurements based on 18 samples of mining sector companies from 2018 to 2022. Based on the agency theory that explains the relationship between the agent (manager) and the principal (external) that can cause a conflict of interest. In this context, Capital Intensity refers to the proportion of capital intensity in the company's total assets related to investors. Although some studies show that Capital Intensity has a positive effect on tax avoidance, the results that show a negative effect can have a variety of reasons such as company managers have an interest in improving their company's performance by investing the funds available in the company into fixed assets, fixed assets that are invested with high value are not always used as an opportunity or a loophole to commit tax avoidance but rather to support the company's operational activities in the future. The results of this study are in line with research conducted by (Rifai & Atiningsih, 2019)which states that Capital Intensity has a negative effect on tax avoidance. (Viryatama, 2020) which states that Capital Intensity has a negative effect on tax avoidance. It is inversely proportional to research (Juliana et al., 2020) which states that Capital Intensity has an effect on tax avoidance.

4. Conclusion

Based on the results of the research and discussion in the previous chapter, it can be concluded Corporate Social Responsibility has a positive and significant effect on tax avoidance. This is because there is a difference in interests between the company's management who wants to generate as much profit as possible and the government who wants to maximize taxes from the company's profit. Capital Intensity has a negative effect on tax avoidance. This can happen because the level of capital investment does not directly affect the company's tax avoidance decision. Tax avoidance can bring greater reputational risk that impacts companies with significant assets and there are many other factors that are more influential such as management strategies, market conditions, and tax compliance.

In agency theory, managers as agents are often faced with a dilemma between personal interests and the interests of shareholders as principals. In this case, managers may be more likely to avoid taxes to maximize reported profits, especially in companies with high capital intensity. However, this study also shows that managers who are more active in CSR implementation tend to be more compliant with tax obligations, perhaps due to external pressure from shareholders and the public who expect companies to carry out transparent and responsible business practices.

The theoretical implication of the results of this study for future research is that further research can dig deeper into how agency conflicts between managers and shareholders affect corporate tax policy, especially in the context of social responsibility and the use of fixed assets. Future researchers can also explore how factors such as shareholder monitoring, ownership structure, or managerial incentives affect tax avoidance behavior from an agency theory perspective. In addition, future research can examine whether there are differences in the influence of agency theory on tax avoidance between companies that have high and low CSR disclosure, and how this can affect the value of the company in the market. For future research, these findings can be used as a basis to further examine how tax policies can be influenced by external factors such as government regulations or shareholder preferences, as well as how other companies in different sectors or industries can adopt best practices in tax management and social responsibility.

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