

# Do Institutional Ownership and CSR Activities Impact Tax Avoidance Among Indonesian Listed Firms

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**Abstract:** *Indonesia records a lower tax ratio than ASEAN countries, raising the issue regarding tax avoidance practices among firms. This study aims to evaluate whether institutional ownership and corporate social responsibility (CSR) activities affect the practice of corporate tax avoidance. The sample is companies listed on the Indonesia Stock Exchange during 2019-2021. We analyse fifty-two companies from cyclical and non-cyclical consumer sectors. This study uses three control variables: profitability, company size, and pandemic period. We do not find sufficient evidence that institutional ownership or CRS activities affect corporate tax avoidance practices. However, we found different results on the company's profitability. The higher the company's profitability, the lower the tendency to commit to tax avoidance. This study also found no differences in tax avoidance practices before and during the COVID-19 pandemic.*

**Keywords:** Tax Avoidance; Institutional Ownership; CSR; Indonesian Listed Firms

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## 1. Introduction

Most countries rely on tax revenue as their revenue source (Eskandar & Ebrahimi, 2020). However, companies may try to minimize their tax payments, legally or illegally. Tax avoidance is a company's effort to reduce tax payments through various means (Jarboui, Saad, & Riguen, 2020) that do not violate any legal provisions (Darussalam & Septriadi, 2017). Tax avoidance occurs at the individual and corporate levels (Raditya, Dalimunthe, & Rizkianto, 2020). Tax payment is perceived as a burden for a company because it reduces the portion of net income entitled to shareholders. Thus, shareholders strongly encourage management to minimize the company's tax costs (Ouyang et al, 2020).

To examine corporate avoidance practices, it is necessary to understand how corporate decision-making is carried out. The ownership structure of a company influences its tax planning strategies (Li, Liu, & Wang, 2021) because different owners may have different motivations for corporate decisions (Kovermann & Velte, 2019). Institutional investors generally hold a large portion of a company's stock and are thus motivated to interfere in corporate tax decisions (Ouyang, Xiong, & Huang, 2020).

On the other hand, tax avoidance reflects bad business ethics because it reduces a country's revenues needed for public welfare funding (Rudyanto & Pirzada, 2021). Tax avoidance activities imply reputational risks, which result in public questioning of the legitimacy of the

company's organization (Annuar, Salihu, & Obid, 2014). Companies that avoid taxes may engage in Corporate Social Responsibility (CSR) to create the impression of their compliance with social norms and to prevent the negative impacts of tax avoidance on society (Alsaadi, 2020). CSR refers to a strategy whereby a company carries out its business activities in an ethical, friendly, and beneficial manner for society in terms of development (Salhi et al., 2019). Companies with high levels of CSR have a good reputation in society. Companies might openly announce their CSR activities to mitigate public backlash risk over tax avoidance. This measure shows they are still socially responsible, even though they do not pay their fair share of taxes. Thus, companies might engage in CSR activities to hedge against the consequences of tax avoidance activities (Abid & Dammak, 2021). However, companies will rationally balance the costs and benefits of investing in CSR (Lin et al., 2017) despite it helping reduce the negative impact of tax avoidance (Alsaadi, 2020).

Based on the background above, this study aims to answer whether the company's ownership structure and CSR activities affect the practice of corporate tax avoidance in Indonesia. This article consists of five sections. The background is presented in the first section, followed by the literature review and hypothesis development in the second section. We present the research method in the third section. Analysis and discussion are presented in the fourth section, followed by conclusions in the fifth section.

## 2. Literature Review

Tax management is a comprehensive effort carried out continuously by taxpayers related to taxes to maximize after-tax profits (Fitria, 2019). A company will try to find ways to reduce the tax burden to retain its profit. According to Mao (2019), a type of company's tax management is tax avoidance. Santoso and Rahayu (2013) state that tax avoidance is a legal tax management effort because it uses loopholes in the applicable tax regulations. Tax avoidance only violates the intent and spirit of tax provisions, but not the provisions themselves (Darussalam & Septriadi, 2017).

In contrast to tax avoidance, tax evasion is considered illegal. Tax evasion is an action to minimize the tax burden by going against tax laws (illegal), which can result in criminal sanctions. Companies will enjoy higher cash flows from tax savings (Marzuki & Syukur, 2021), but this comes with several marginal costs for companies. Excessive tax avoidance increases the risk of a company committing illegal tax evasion, thereby risking tax fines, implementation costs, reputation costs, and political costs (Salehi & Salami, 2020; Setiawan et al, 2019). Moreover, excessive tax avoidance practices increase the negative risk to the company's cash flow when audited by the tax authorities. While additional tax payments and fines imposed by the tax authorities can affect the cash flow available to the company, the impact will affect the company's reputation (Annuar et al., 2014). Thus, a company will choose the optimal level of tax avoidance. The optimal level of tax avoidance is a trade-off between the benefits of high cash flow or corporate profits and a lower level of tax avoidance (Kovermann & Velte, 2019) to minimize the risk of legal action or tax audit.

### 2.1 Institutional Ownership and Tax Avoidance

Marzuki and Syukur (2021) mention the role of board ownership in *tax aggressiveness* practices. The ownership structure is the percentage of share ownership between internal and external parties in a company (Wang, Hua, & Hu, 2021). Institutional ownership is shares owned by other companies. Institutional investors are generally large investors, such as banks, insurance companies, and investment companies, who hold a larger proportion of shares.

According to Eksandar & Ebrahimi (2020), the presence of institutional investors can lead to changes in corporate behaviour and procedures. Institutional investors tend to pay more attention to a company's strategic decisions (Ouyang, Xiong, & Huang, 2020) than other shareholders because they hold a significant percentage of a company's shares and cannot easily sell them. Institutional investors have much control over the company's ongoing activities and will monitor tax planning activities more accurately (Darsani & Sukartha, 2021).

Previous studies do not show a conclusive finding regarding the relationship between ownership structure and corporate tax avoidance practice. Dakhli (2021) examined the relationship between institutional ownership and tax avoidance and showed that institutional ownership negatively affected tax avoidance. However, Eskandar and Ebrahimi (2020) previously found that institutional ownership positively affects tax avoidance. Thus, we hypothesize that institutional ownership influences corporate tax avoidance practices (H1).

## **2.2 Corporate Social Responsibility and Tax Avoidance**

In recent decades, companies have been required to operate considering their environmental impact with higher concern for society (Wiwaha & Dalimunthe, 2025), mainly through corporate social responsibility (CSR) activities. CSR is a voluntary company involvement mechanism focusing on social concerns in the company's stakeholder interactions (Apriliyani et al, 2021) to support the communities in which they operate. A company usually reports its CSR activities using sustainability reports (Rudyanto & Pirzada, 2021).

However, there is a skeptical view regarding sustainability reporting. According to Apriliyani et al (2021), the company's objective in implementing sustainable reporting disclosure is to fulfill its legal, economic, ethical, and political responsibilities.

Moreover, there is a suspicion that companies that minimize their tax payment obligation may engage in CSR to create the impression of compliance with social norms and reduce the negative consequences of tax avoidance practices on society (Lin, Cheng, & Zhang, 2017). According to Liu and Lee (2019), companies use CSR as a strategic tool to neutralize reputational damage due to earnings management or tax avoidance. Companies may engage more in CSR activities to counterbalance negative views associated with aggressive tax reporting (Lin et al., 2017). Thus, in this study, we propose the hypothesis that CSR activities impact corporate tax avoidance practices (H2)

## **3. Methods**

The object of this study is companies listed on the Indonesia Stock Exchange that had annual financial reports for 2019-2021. This study used secondary data from the company's annual, sustainability, and website reports.

The research model is as follows:

$$ETR_{it} = \beta_0 + \beta_1 INST_{it} + \beta_2 CSR_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 DPandemic_{it} + \varepsilon_{it}$$

Where:

ETR: *Tax avoidance measurement*

INST: *Institutional Ownership*

CSR: *Corporate Social Responsibility*

SIZE: *Firm Size*, measured as the natural log of total assets (Ln TA)

ROA: *Return on Assets* measured as net income divided by total assets  
DPandemic: Dummy variable, mark 1 for 2020 and 2021; mark 0 (zero) for 2019

In this study, the proxy used to measure the level of tax avoidance is the Effective tax rate (ETR). ETR can measure the company's ability to reduce its tax payments relative to pre-tax income (Dakhli, 2021) and represents the percentage of its actual tax payments from its commercial profit. The ETR method chosen in this study is ETR Differential, which refers to Hanlon & Heitzman (2010) as follows:

$$ETR\ Diff = \text{Statutory ETR} - \text{GAAP ETR}$$

$$\text{GAAP ETR} = \frac{\text{Worldwide total income tax expense}}{\text{e total pre-tax accounting income}}$$

ETR Differential is the difference between statutory ETR and GAAP ETR, where statutory ETR is the general income tax rate by the Indonesian Income Tax Law, such as the applicable tax rate for 2019, which is 25%, and the applicable tax rate for 2020 and 2021, which is 22%.

Income tax expense is the total tax obtained from current and deferred tax expenses. The tax expense used in this study is the current tax expense, which is calculated based on the applicable tax rate multiplied by the current year's taxable profit, and if there is a shortage or excess of income tax payments. A low ETR is assumed to reflect a low tax burden due to tax avoidance practices (Kovermann & Velte, 2019). Conversely, a high ETR indicates that the company has paid or been subject to a reasonably large tax on its income, thus indicating low corporate tax aggressiveness (Mohandas et al, 2019). Meanwhile, Rahman (2021) states that institutional ownership is measured by the number of shares owned by institutional investors divided by the number of shares issued. In this study, the proxy used to measure the level of institutional ownership is the number of shares owned by institutional investors. The formula used to calculate institutional ownership is as follows:

$$\text{Institutional Ownership} = \frac{\text{Institutional shares}}{\text{outstanding shares}}$$

The proxy used for CSR measurement in this study is the CSR score, which GRI guides concerning 91 disclosure items, considering economic, environmental, and social aspects. Referring to the research of Mohandas et al. (2019) and Rudyanto & Pirzada (2021), the CSR score is calculated by scoring each disclosure item reported by the company. Each disclosed item is marked with a value of 1. Otherwise, the value is 0.

This study's CSR score calculation is based on information from sustainability reports, annual reports, and company websites. There are 91 disclosure items according to GRI-G4 used for CSR Score assessment. For each indicator disclosed by the company in the available information, marked with the value of 1, the total of all items disclosed is used as the basis for calculating the CSR Score. The formula for calculating the CSR score is as follows:

$$\text{CSR Score} = \frac{\sum Xi}{ni}$$

$\sum Xi$ : The amount of the firm's CSR disclosure

$ni$ : Total CSR score (91 items)

In Indonesia, sustainability reporting began in 2000, and companies use the Global Reporting Initiatives (GRI) guidelines as a reference for creating sustainability reports (Apriliyani et al, 2021). The GRI Guidelines regulate sustainability reporting in three aspects of the Triple Bottom Line for adequate measurement and reporting of economic, environmental, and social performance. The Global Reporting Initiative Index (GRI) allows companies to create a core or comprehensive report on the CSR activities undertaken by the company. Based on the GRI G4 guidelines, there are 91 (ninety-one) items that the company must disclose.

#### 4. Result and Discussion

Fifty-two companies became research samples, with details of 21 companies from the consumer cyclical sector and 31 from the consumer non-cyclical sector. A summary of descriptive statistics of each variable is presented in Table 2.

**Table 1: Descriptive Statistics of Variables**

<i>Variable</i>	<i>Means</i>	<i>Median</i>	<i>Maximum</i>	<i>Minimum</i>	<i>Std.Dev</i>
<i>ETR</i>	-0.0635	-0.0031	0.2497	-1.3165	0.2301
<i>INST</i>	0.6050	0,6108	0.9714	0.1333	0.2279
<i>CSR</i>	0.6364	0.6208	0.8571	0.5054	0.0841
<i>SIZE (ln)</i>	22.42	22.69	31.062	14.557	5.6862
<i>ROA</i>	0.086	0.0708	0.2645	0.0022	0.0644

Table 2 presents descriptive statistics of each variable used in this study. The data's maximum tax rate value shows that the highest tax rate is 24.9%, slightly below the provision of 25%. However, the average ETR value of minus 6.3% indicates that the average level of tax compliance is relatively low or the level of tax avoidance is high. The average value of institutional ownership in the companies that are the study samples is 60%, with a minimum ownership of 13% and a maximum of 97%. Meanwhile, the company's average CSR activity disclosure index is 63%, with a minimum value of 50% and a maximum of 85%.

Before conducting the regression, we tested the classical assumption. The test results show that this research model does not contain multicollinearity or autocorrelation. There are indications of heteroscedasticity in the model, but this risk is minimized by adding company size to the model as a control variable.

Furthermore, Table 3 summarizes the regression results from the model. The F-statistic is 4.14 with a prob. of 0.00149. This finding shows that the model is valid for making conclusions. Furthermore, Table 3 presents the results of the t-test of each variable in the model.

**Table 2: Regression Result**

<b>Variables</b>	<b>Coefficients</b>	<b>Prob.</b>	<b>Conclusion</b>
INST	0.064442	0.4174	Do not support the hypothesis
CSR	-0.207924	0.3496	Do not support the hypothesis
SIZE	0.000973	0.7555	Do not support the hypothesis
ROA	1.144183	0.0001	Support hypothesis
DPANDEMI	0.001710	0.9649	Do not support the hypothesis
F-Statistic	4.140150		Model Valid
Prob. (F-Statistic)	0.001496		
Adjusted R-Squared	0.091978		

Source: *views output*

The t-test results of the model show that the institutional ownership variable has a positive coefficient. This finding means that the higher the institutional ownership, the higher the level of tax compliance, or the lower the company's tax avoidance practices. However, the p-value of the coefficient of this variable is 0.4174, which means that we cannot reject H-null. This conclusion differs from Ouyang, Xiong, and Huang (2020) and Dakhli (2021) views. This difference may be due to different tax regulations. Indonesia is a country that does not apply a progressive corporate income tax rate. Alternatively, the difference may be due to the relatively low ETR level during the research period. The results differ if the study used data over a longer period.

The t-test results of the CSR variable show a negative coefficient. This finding indicates that the higher the disclosure index of a company's CSR activities, the lower its tax compliance or the higher its tax avoidance practices. However, the p-value of the coefficient of this variable is only 0.3496. The finding means that the relationship between CSR activities and tax avoidance practices cannot be statistically significant. However, although it cannot be statistically significant, this finding is still in line with the conclusions of Rahman (2021) and Chih-Wen Mao (2019). Referring to Mao's opinion (2019), this negative coefficient indicates that reporting corporate CSR activities in Indonesia is more of a business strategy than reflecting a moral attitude of social responsibility. Mao (2019) stated that the relationship between CSR activities and tax avoidance practices depends on the level of social responsibility. Companies that carry out CSR activities as a form of moral responsibility will have a low level of tax avoidance. Conversely, companies that carry out CSR activities as part of their corporate strategy will have a high level of tax avoidance. Another finding in this study is a significant relationship between company profitability and tax avoidance practices. A positive and significant coefficient indicates that the higher the company's profitability, the lower the tax avoidance practices. ROA measures profitability here. This model has controlled for company size so that the significant relationship between profitability and tax avoidance practices is not due to size. Finally, this study found no significant difference between tax avoidance practices before and during the pandemic. Before and during the pandemic, tax avoidance practices were very similar, with a coefficient value of 0.00 and a probability of 0.96.

## 5. Conclusion

Descriptive statistics of the data show that the Indonesian company's effective tax rate (ETR) is relatively very low compared to its statutory rate. However, this study did not find sufficient evidence to conclude that institutional ownership and companies' CSR activities affect their tax avoidance practices. The conclusion of this study implies that the government does not need to pay special attention to companies with high institutional ownership or massive CSR activities. The risk of tax avoidance in companies with high ownership levels is not significantly different from that of companies with low levels of institutional ownership. Likewise, the company's CSR activities are not considered a form of tax avoidance. However, this study has several limitations. First, the period of this study is only three years. Moreover, the last two years were the pandemic, which created significant changes in business activities. A more extended research period may produce different conclusions. Second, the research sample was only 52 companies. A larger number of companies may produce different conclusions.

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## **Conflict of Interest Statement**

The authors declare that there is no conflict of interest regarding the publication of this study.

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