

From Good Deeds to Tax Strategies: The Interplay of CSR, Profitability, and Leverage on Tax Avoidance in Indonesia

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Abstract

This research investigates the influence of Corporate Social Responsibility, profitability, and leverage on tax avoidance strategies within Indonesian companies listed in the Bloomberg FEB Undip database between 2016 and 2023. Tax avoidance is quantified using the Cash Effective Tax Rate. The study employed purposive sampling to select its sample. Findings indicate that CSR, profitability, and leverage have not been the primary determinants of tax avoidance behavior among Indonesian companies. Furthermore, the study observed considerable variability in CSR and leverage disclosures, alongside a tendency towards significant tax avoidance in certain firms.

Keywords: Tax Avoidance; Corporate Social Responsibility; Profitability; Leverage, Corporate Tax.

Introduction

In recent decades, corporate tax avoidance practices have garnered significant attention, prompting in-depth discussions on corporate ethics and fiscal implications. This issue is crucial due to its impact on state revenue and wealth distribution, thereby affecting the government's capacity to fund public welfare programs. In Indonesia, high rates of tax avoidance have resulted in an estimated state tax revenue loss of USD 6.48 billion (Firmansyah et al., 2022). This situation is further exacerbated by reports of major companies like Google and PT Adaro aggressively shifting profits to low or no-tax countries, illustrating the extensive nature of this problem and its impact on a country's tax revenue potential (Firmansyah et al., 2022). Furthermore, Indonesia's tax ratio, hovering around 10%-11% compared to other nations, highlights existing loopholes in the tax system that are exploited for tax avoidance, raising questions about fairness and corporate contributions to national development.

Another interesting aspect in Indonesia is the obligation for companies to carry out Corporate Social Responsibility, as regulated in the Limited Liability Company Law, although Indonesian tax regulations do not directly regulate the term CSR (Bandiyono & Dewangga, 2020). CNN Indonesia in September 2024 reported that Bank Indonesia allegedly misused the CSR funds it distributed. This indicates that weak supervision over the implementation of CSR activities allows companies to merely fulfill their obligations without demonstrating substantive responsibility (Mkadmi & Ali, 2024). This condition raises crucial questions about the extent to which companies' commitment to social responsibility, particularly through Corporate Social Responsibility practices, can influence their tendency to engage in tax avoidance activities. This phenomenon of CSR and tax avoidance in Indonesia necessitates further research to understand the interconnection between these two phenomena within the context of Indonesian regulations and business practices.

Literature reviews on Corporate Social Responsibility and tax avoidance show inconsistent findings. For example, a study by Firmansyah et al., (2022) found a positive relationship between political connections, investment opportunities, and tax avoidance, which was weakened by CSR disclosure. Research by Rashid et al., (2024) indicated a significant negative relationship with tax avoidance, but this relationship was weakened by strong political connections. Conversely, research by Mkadmi & Ali, (2024) found no significant direct relationship between CSR and Tax Avoidance but did find significant relationships with financial ratios. These inconsistent previous research results indicate that the relationship between CSR and tax avoidance is not universal but depends on specific contexts or conditions.

Therefore, this research aims to explore more deeply the influence of CSR on tax avoidance in Indonesia, by considering company characteristics and the prevailing regulatory dynamics. It is hoped that the results of this research can provide a more comprehensive understanding of the complex interaction between corporate social responsibility and tax strategies amidst Indonesia's ever-evolving business landscape.

Literature Review and Hypothesis Development

Corporate Social Responsibility

Corporate Social Responsibility is defined by (Carroll, 2015) as the societal expectations of an organization at a given time, encompassing economic, legal, ethical, and philanthropic duties. Globally, CSR has become an essential component of business operations, extending beyond legal compliance to include a commitment to sustainable development and societal welfare (Dewi & Mabrur, 2022). In Indonesia, CSR is regulated by the Global Reporting Initiative and is widely practiced, with common activities focusing on education, community development, and the work environment (Firmansyah et al., 2022; Qutait & Salem, 2025).

Companies engage in CSR for various reasons, including enhancing corporate reputation and image, meeting regulatory requirements, and pursuing strategic objectives for risk management and long-term stakeholder value creation. Some studies also suggest that CSR implementation can be motivated by other factors, such as managing stakeholder relationships or as a strategy to reduce regulatory scrutiny

(Firmansyah et al., 2022). In developing countries like Indonesia, CSR implementation has several unique motivations. According to Mkadmi & Ali, (2024), CSR in Indonesia tends to be undertaken by large companies with high reputation needs. Meanwhile, according to Qutait & Salem, (2025), CSR is often used as an image management tool, including in developing countries. Thus, it can be concluded that CSR reporting is highly motivated by corporate image in social responsibility, but can this image influence the company's tax reporting? Various studies have indicated that the motives behind CSR implementation extend beyond merely fulfilling social obligations, serving instead as a strategy to build a positive image or even as a tool to cover up less ethical practices (Susilowati, 2025).

The Influence of CSR on Tax Avoidance

Cambridge Dictionary explains corporate social responsibility as the expected role of a company to focus not only on profit and products, but also to be active in its contribution to society and the environment. CSR is often interpreted as allocating resources through initiatives that can bring rapid profit or benefit to shareholders (Karavitis et al., 2025). According to Mkadmi & Ali, (2024), CSR is an action that businesses must take related to legal rights in certain situations. It can be interpreted that CSR involves fulfilling legal and ethical obligations, so the company's view will prioritize compliance and basic responsibility. Thus, CSR is seen as fulfilling duties/obligations to stakeholders.

Several studies have linked the relationship between CSR and tax avoidance. Rashid et al., (2024) and Karavitis et al., (2025) show a negative relationship between CSR disclosure and tax avoidance, contrary to Mkadmi & Ali, (2024) which found no relationship between CSR and tax avoidance. According to Hanlon & Heitzman, (2022), there is no universally accepted definition of tax evasion, and many studies use various terms and definitions to interpret the concept. Tax avoidance is generally defined as activities to reduce the taxes paid, which are associated with various accounting actions that will later affect the amount of tax expense that must be paid. This practice involves interpreting tax loopholes to legally minimize a company's tax liability, unlike tax evasion which involves illegal actions (Firmansyah et al., 2022).

Indonesia is an ideal country for researching CSR and tax avoidance due to its unique dual role. The Indonesian government acts as both a tax collector and the regulator for all companies in Indonesia. This creates a dynamic in the relationship between companies and the state concerning taxes and social responsibility. Therefore, the researcher formulates the following hypothesis:

H1: CSR significantly affects tax avoidance

The Influence of Financial Ratios on Tax Avoidance

The conflict of interest between management and stakeholders makes management willing to engage in tax avoidance to increase after-tax profit, which will later increase their compensation. On the other hand, excessive tax avoidance practices also create audit risks and can damage the company's reputation (Wardhani, 2023). ROA is a financial ratio that can be used to measure management's efficiency in generating profit from its assets (Fitriyani & Fitriana, 2020). Many studies use ROA as a proxy for

profitability. Empirically, companies with high ROA are often more scrutinized by stakeholders, encouraging them to reduce tax avoidance practices to avoid increasing legal and reputational risks. Some studies have found a negative relationship between ROA and tax avoidance. Mocanu et al., (2021) indicates that companies are more aggressive in tax avoidance. Research Hossain et al., (2024) states that profitability is one of the main factors influencing a company's tendency to engage in tax avoidance. Mohamad Ariff et al., (2024) highlights the link between financial performance and tax avoidance, where companies with financial constraints tend to engage in tax avoidance more than those with high profitability. Ansar Majeed & Yan, (2019) found that profitability measured by ROA leads to more transparent financial statements and tends to reduce tax avoidance. Kalbuana et al., (2023) conducted research in Indonesia regarding financial characteristics and tax avoidance, finding results consistent with global literature, that profitability measured by ROA tends to reduce tax avoidance. Based on the empirical evidence above, the following hypothesis can be concluded:

H2: ROA has a negative effect on Tax Avoidance

The Influence of Liquidity Ratios on Tax Avoidance

Often, managers face financial pressure due to debt, leading to closer scrutiny by creditors. In such situations, managers become more cautious and tend to reduce tax avoidance aggressiveness to avoid worsening the company's financial risk (Mohamad Ariff et al., 2024; Salehi et al., 2024). Conversely, high liquidity ratios can incentivize managers to find ways to conserve company cash, one method being tax avoidance, to meet debt obligations. Research by Kim & Im, (2017); Salehi et al., (2024) indicates that external pressures, including financial leverage and corporate governance, often influence tax avoidance. According to Mohamad Ariff et al., (2024), leverage and creditor oversight significantly impact a company's tax policy. Other studies reveal that high liquidity signifies good cash flow, making companies more likely to comply with tax regulations and pay their taxes as stipulated, rather than the opposite (Khairunnisa & Muslim, 2020). Based on the preceding explanations, the following hypothesis can be formulated:

H3: Liquidity has a positive effect on tax avoidance

Research and Methods

This research is a quantitative study with an explanatory research approach that aims to test the influence of CSR, profitability, and liquidity on tax avoidance. The population in this study consists of all companies listed on the Indonesia Stock Exchange for the period 2016-2023, with a total of 84 listed companies. Sample selection used the purposive sampling method with the criteria of being listed on the Indonesia Stock Exchange and providing complete data for CSR, ROA, DER, and CETR variables for 8 consecutive years. The final number of companies is 68, multiplied by 8 years, resulting in a preliminary total sample of 544. Researchers excluded samples with negative CETR values, bringing the final total sample to 459. Secondary data was obtained from the Bloomberg database for the period 2016-2023.

Tax avoidance is measured using the Cash Effective Tax Rate proxy; a lower CETR indicates tax avoidance. CSR is measured by ESG Score, Profitability is measured by ROA (net income before tax divided by total assets), and liquidity is measured by DER (total liabilities divided by total equity). The data analysis technique used is descriptive analysis and multiple linear regression analysis, with data processing performed using IBM SPSS statistical software with the following regression model:

$$CETR = \alpha + \beta_1 ESGD + \beta_2 ROA + \beta_3 DER + \varepsilon$$

Result and Discussion

The descriptive statistics present the following overview. The ESG score, with a minimum of 13 and a maximum of 77, averages 43.28, suggesting a moderate level of CSR disclosure among Indonesian companies. This indicates that while most companies in Indonesia exhibit good ESG disclosure, some still provide minimal information. The tax avoidance variable, proxied by CETR, ranges from 0.0028 to 10.39 with a mean of 0.54. This average low CETR suggests a propensity for higher tax avoidance within Indonesian corporations. The CETR's standard deviation of 1.17 points to considerable variation in tax avoidance practices across companies. An average ROA of 0.0746 indicates that the majority of companies are maintaining healthy profitability. The presence of a negative minimum value signifies that some companies incurred losses, although the maximum ROA reached a substantial 0.719. The ROA's standard deviation of 0.0898 suggests a relatively homogeneous distribution of profitability data among the companies. The mean DER of 0.98 implies that the corporate capital structure is generally balanced between debt and equity. However, the maximum DER of 117.14 represents companies with a disproportionately high level of debt relative to equity, qualifying them as outliers. The DER's standard deviation of 5.54 further underscores this deviation, despite most companies falling within the low to moderate DER range.

Table 1 Descriptif Statistic

Variable	N	Minimum	Maximum	Mean	Std. Deviation
<i>ESGD</i>	459	13	77	43,13	13,79
<i>CETR</i>	459	0,003	10,39	0,54	1,17
<i>ROA</i>	459	-0,223	0,719	0,075	0,09
<i>DER</i>	459	0,00	117,14	0,98	5,54

The multiple linear regression analysis revealed that ESGD has a positive coefficient of 0.007, with a significance value of 0.091. This suggests that a one-unit increase in ESGD is associated with a 0.007 increase in CETR, implying a 0.007 decrease in tax avoidance. However, this association did not meet the 5% significance level. ROA demonstrated a negative coefficient of 0.274, with a significance value of 0.657. This indicates that heightened profitability tends to reduce CETR, thus increasing tax avoidance, although this effect was not statistically significant at the 5% level. Similarly, DER exhibited a negative coefficient of 0.006, significant at 0.565, suggesting that a higher DER is associated with a decrease in CETR, and consequently an increase in tax avoidance; however, this effect was also not significant.

Table 2 Regression Output

Variable	Coefficient (B)	t-value	Sig. (p-value)	Conclusion
ESGD	0.007	1.696	0.091	Not significant
ROA	-0.274	-0.445	0.657	Not significant
DER	-0.006	-0.576	0.565	Not significant

The research findings indicate a lack of significant association between ESGD and tax avoidance. This outcome is consistent with previous studies Kim & Im, (2017); Mkadmi & Ali, (2024); Salehi et al., (2024), which suggest that corporate social responsibility engagement does not invariably dictate tax avoidance strategies. Factors such as corporate governance and tax avoidance are influenced by a multitude of variables, particularly in developing nations where CSR reporting practices vary widely, potentially leading to non-significant results. In Indonesia, ESG disclosure has not yet emerged as a primary corporate management strategy, often being implemented in a more formalistic manner. While ESGD explains a considerable portion of the variation in CSR, the moderate average suggests that a critical mass of companies is not comprehensively elaborating on ESG principles. Given the extensive eight-year research period, it is plausible that technical factors may also be influencing CETR, the proxy used for tax avoidance.

Profitability, as indicated by ROA, did not yield statistically significant results concerning tax avoidance. This observation aligns with existing research Permata et al., (2025); Salehi et al., (2024), which highlights the often inconsistent and statistically insignificant relationship between profitability and tax avoidance, particularly within developing economies. Alternative dominant factors, such as corporate governance and capital structure, may also contribute to the diminished effect of profitability. Furthermore, the homogeneity of profitability within this study's sample potentially limited the emergence of statistically significant relationships. Consequently, these findings suggest that, within the Indonesian corporate landscape, managerial decisions regarding tax avoidance are more heavily influenced by factors other than profitability.

The research findings on Leverage, proxied by the Debt-to-Equity Ratio, indicate no significant effect on tax avoidance. This finding aligns with studies Al-Lozi & Obeidat, (2016); Permata et al., (2025) that also found leverage does not always play a crucial role in determining a company's tax policy, particularly in developing countries or specific industries. Descriptive data shows a wide distribution of DER, but the majority of companies have a low DER, leading to variability that results in an insignificant relationship between DER and tax avoidance.

Conclusion

This study aims to test the influence of Corporate Social Responsibility, Profitability, and Leverage on tax avoidance in companies listed on the Indonesia Stock Exchange from 2016 to 2023. Based on the results of descriptive statistical analysis and multiple linear regression, it was found that none of the independent variables, ESGD, ROA, and DER, had a significant effect on tax avoidance. This indicates that the implementation of CSR, the level of profitability, and Leverage have not yet become dominant factors influencing tax avoidance behavior in Indonesian companies. These results also strengthen the

findings of several previous studies that the relationship between these three variables and tax avoidance is still inconsistent and influenced by various other internal and external company factors.

The limitations of this research include the inability to generalize the findings to companies not listed on the IDX, as only secondary data from companies listed on the Indonesia Stock Exchange was used. This study only analyzes three main variables without incorporating other factors that can influence avoidance. Further research should be conducted by expanding variables, such as corporate governance, firm size, and industry characteristics, to gain a more comprehensive understanding of the determinants of tax avoidance in Indonesia.

Further research suggestions include conducting analysis with a larger sample and diverse tax avoidance measurements, as well as considering the moderating or mediating influence of other variables such as audit quality and managerial incentives.

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