



THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY, PROFITABILITY, CAPITAL INTENSITY, SIZE COMPANY AND FINANCIAL DISTRESS ON TAX AGGRESSIVITY (Empirical Study of Manufacturing Companies Listed on the IDX in 2017-2019)

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ABSTRACT

This study aimed to examine and analyze the impact of corporate social responsibility, profitability, capital intensity, company size, and financial distress on tax aggressiveness. The population in the study was manufacturing companies listed on the IDX in 2017-2019. The measurement of tax aggressiveness used the effective tax ratio. Sampling was purposive sampling and obtained 177 samples with three years of observation. The analysis in this study used the classical assumption and hypothesis test of multiple linear regression analysis with F-test, t-test, and the coefficient of determination processed using the SPSS version 25. The results of this study indicate that the variable of capital intensity does not affect tax aggressiveness. In comparison, the variables of corporate social responsibility, profitability, company size, and financial distress affect tax aggressiveness.

INTRODUCTION

Taxes are mandatory contributions to the state possessed by individuals or entities that are coercive based on the law by not obtaining compensation directly and used for the needs of the state for the greatest prosperity of the people (Law No. 28 of 2007 Article 1 paragraph 1). Taxes are one of the largest state revenue sources in financing routine and development expenditures. The government's development was intended for the welfare of the Indonesian people. The government can implement its programs to encourage economic growth by developing infrastructure and other public facilities. To implement the program, the government requires funds in the form of state revenue.

The Indonesian government continues to strive to maximize state tax revenue to achieve the target according to the state budget that has been made. The government's goal to maximize revenue from the tax sector contradicts the company's goal as a taxpayer. Companies that are corporate taxpayers have tax obligations. The higher the income earned, the higher the tax burden that the company must pay. Companies always attempt to maximize profits by streamlining expenses, including taxes, because the company must bear these costs. Accordingly, the company made a strategy to minimize the tax burden.

Lack of awareness and concern for taxpayers about the significant role of taxes and reluctance to pay taxes when earning income can lead to aggressive actions such as tax evasion. Tax aggressiveness is defined as managerial behaviour conducted by company management by making the tax burden obtained lower than the actual amount. Tax aggressiveness occurs due to interest differences between business actors as taxpayers and the government. Several factors can affect tax aggressiveness, including corporate social responsibility, profitability, capital intensity, company size, and financial distress.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the relationship between the authorizing party (principal) and the

authorized party (agent). Menurut Luayyi (2010) states that in agent or agency theory, there is a contract or agreement between resource owners and managers to manage the company and achieve the company's main goal, i.e., maximizing profits to be obtained. Thus, it allows managers to conduct various ways to achieve these goals, either in a good or an adverse way for numerous parties.

Agency theory emerges when there is a working relationship agreement between the principal, who has authority, and the agent or party authorized to run the company (Nugraha and Meiranto, 2015). Managers (agents) have an obligation to provide information about the company to the owner of the company (principle) because managers are considered to understand and comprehend the situation and recognize the actual condition of the company (Ardyansah and Zulaikha, 2014).

In this theory, there is a contract between resource owners and managers to manage the company and achieve the company's main goal of maximizing profits. Thus, it enables managers to take various ways to achieve these goals, either in a good or a detrimental way for other parties.

The difference in interests between the principal and the agent can affect various issues relating to the company's performance, including the company's corporate tax policy. The tax system in Indonesia that employs a self-assessment system provides authority to companies to calculate and report their taxes. The use of this system can provide opportunities for agents to manipulate taxable income to be lower so that the tax burden paid by the company is lower (Ardyansah and Zulaikha, 2014)

The relationship between agency theory and this research is that bad management of tax aggressiveness will lead to a conflict of interest due to information asymmetry. It occurs because of interest differences between managers in reporting company activities or performance. The manager (agent) will report a higher income or profit in the financial statements to obtain compensation.

1. The Impact of Corporate Social Responsibility on Tax Aggressiveness

A company's contribution to realizing national development for the welfare of society can be made by paying taxes. According to Goh et al.

(2019), they claim that the relationship between CSR disclosure and tax aggressiveness lies in the company's main goal of obtaining maximum profit without eliminating social and environmental responsibility, so the higher the profit the company earns, the higher the taxable income.

Companies that disclose corporate social responsibility positively impact their companies because they are considered to have contributed to social and environmental aspects and give the impression that the company is not exclusively using resources.

Based on research by Setyoningrum and Zulaikha (2019), and Nurcahyono and Kristiana (2019), corporate social responsibility does not affect tax aggressiveness.

H₁: Corporate social responsibility affects tax aggressiveness

2. Effect of Profitability on Tax Aggressiveness

Profitability is the company's ability to generate profits from the activities conducted by the company. Profitability is also a management performance measurement tool in managing company assets, as noticed from company profits. Every company strives to maximize the profits earned and is obliged to pay taxes. The income earned by the company is usually directly proportional to the taxes paid, so the higher the profit the company earns, the higher the tax burden that the company must bear.

Companies with large profits are frequently considered successful in managing their management and following the expectations of company owners. The higher the profitability a company obtains, the more the company reduces tax aggressiveness.

Based on research conducted by Yanti & Hartono (2019), profitability affects tax aggressiveness.

H₂: Profitability affects tax aggressiveness

3. The Impact of Capital Intensity on Tax Aggressiveness

Capital intensity or capital intensity ratio is a company's investment activity associated with an investment in fixed assets and inventories. Capital intensity can also be defined by how the company

sacrifices using funds for operating activities and financing assets to obtain company profits.

The company's investment in fixed assets will incur a depreciation expense from the fixed assets invested. Liu and Cao (2007) in Ardyansah (2014) state that with a legal depreciation method, the depreciation expense can be deducted from profit before tax. Therefore, the higher the fixed assets and depreciation costs, the lower the effective tax ratio the company will have.

Based on research conducted by Indradi (2018), and Simamora and Rahayu (2020), the capital intensity does not affect tax aggressiveness.

H₃: Capital intensity affects tax aggressiveness

4. The Impact of Company Size on Tax Aggressiveness

Company size can be interpreted as a scale where the company can be classified according to various aspects, such as by considering the size of its assets. The greater the assets possessed by the company, the more company's productivity will increase. It will definitely result in higher profits and affect the taxes that the company must pay.

The assets possessed by a company are related to the size of the company. The bigger the company, the higher the total assets it has. Assets will depreciate yearly and can reduce the company's net profit. Therefore, it reduces the tax burden the company must pay.

Research conducted by Leksono et al. (2019), Setyoningrum and Zulaikha (2019), and Yanti and Hartono (2019), company size negatively affect tax aggressiveness.

H₄: Company size affects tax aggressiveness

5. The Impact of Financial Distress on Tax Aggressiveness

When a company encounters financial distress, the action that the company can take is to struggle to restore the situation in various ways and to restore the company's financial condition. Companies in a condition of financial difficulties will further increase tax aggressive activities, and the possibility of these actions will be further enhanced if global financial difficulties occur outside the company.

Financial distress is significantly considered in affecting the level of tax aggressiveness because when a company has financial difficulties, the company will find a solution, such as by manipulating the company's accounting policies so that the company's profit, especially its operational profit, increases and the company's debt is paid

off where companies usually accomplish it with aggressive tax report (Richardson et al., 2015a).

Research conducted by Octaviani and Sofie (2019) shows that financial distress does not affect tax aggressiveness.

H_5 : Financial distress affects tax aggressiveness

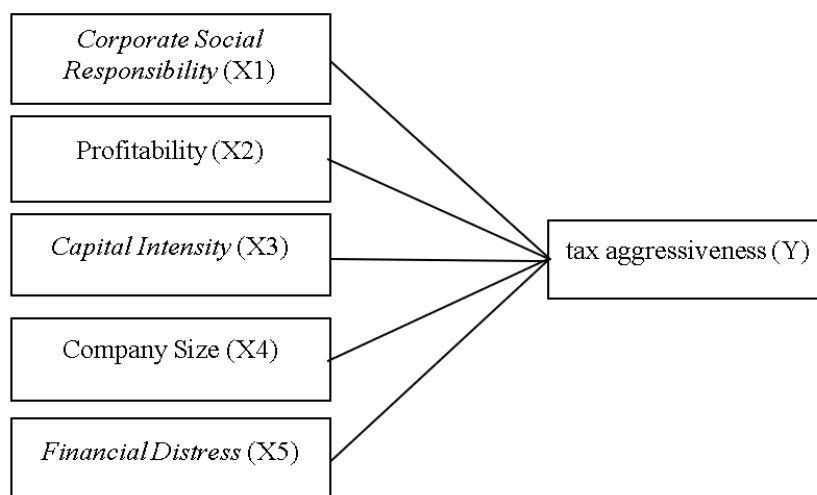


Figure: Framework

RESEARCH METHOD

The population in this study was manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. The sampling technique in this study was a purposive sampling method. Purposive sampling is a sampling technique with a certain consideration. This technique was conducted by determining the criteria required in sampling. The sample in this study has the following criteria:

1. Manufacturing companies listed on the Indonesia Stock Exchange during 2017-2019.
2. Companies whose financial statements have a fiscal year ending on December 31.
3. The company presents its financial reports in rupiah currency, and the required data is fully available.
4. The company did not suffer losses during the observation period.

1. Dependent Variable

The dependent variable is the variable affected to be an impact because there are variables. In this study, the dependent variable is tax aggressiveness. Tax aggressiveness is an action taken by a company to minimize the tax burden. Tax aggressiveness is

measured by calculating the effective tax rate (ETR) by dividing the amount of the tax burden by income before tax. The ETR formula proposed by Lanis and Richardson (2012) is as follows:

$$ETR = \frac{\text{Income tax expense}}{\text{Income before tax}}$$

2. Independent Variable

The independent variable is a variable that affects the dependent variable. The independent variables in this study are corporate social responsibility (X1), profitability (X2), capital intensity (X3), company size (X4), and financial distress (X5).

a. Corporate Social Responsibility

The indicators to calculate the extent of Corporate Social Responsibility disclosure come from the Global Reporting Initiative (GRI) version 4.0, which totals 91 items. Measurements are made by giving 1 point for each indicator disclosed by the company and 0 points for indicators not disclosed by the company. The equation is employed as follows:

$$CSRI_i = \frac{\sum xy_i}{ni}$$

CSRI_i : Broad index of corporate CSR disclosure i
 $\sum xy_i$: value = 1 if item y is disclosed; 0 = if y is not disclosed
 N_i : number of company items i, $n_i = 91$

b. Profitability

Profitability is the company's business in obtaining the maximum profit. Profitability is measured through Return on Assets (ROA), which is an indicator to determine the company's financial performance. The higher the ROA value, the better the company's performance, and vice versa. If the lower the ROA value, the worse the company's performance. ROA can be calculated using the following formula:

$$ROA = \frac{\text{net profit after tax}}{\text{total assets}} \times 100\%$$

c. Capital Intensity

Capital intensity shows how much a company invests in assets. Capital Intensity is one of the strategies used by the company to maximize the company's fixed assets. According to Rodriguez & Arias (2012), capital intensity is measured using the ratio of net fixed assets divided by total assets. The equation is as follows:

$$CAPIN = \frac{\text{Net Fixed Assets}}{\text{Total Assets}}$$

d. Company Size

Company size shows the identity of small and big companies. Company size is proxied by Ln total assets. Company size calculation with

natural log (Ln) is intended to reduce excessive data fluctuations without changing the proportion of the actual original value, Nurfadilah et al. Nurfadilah, et al (2016) in Leksono et al. (2019).

$$\text{Size} = \log(\text{Total Aset})$$

e. Financial Distress

Financial distress is a situation when a company's operational cash flow cannot fulfill its responsibilities at the due date. However, the company is still able to accomplish its operational activities. According to Octaviani & Sofie (2019), the measurement of a company's financial distress is calculated using the Zmijewski model:

$$X\text{-score} = -4,3 - 4,5 \text{ ROA} + 5,7 \text{ DAR} - 0,004 \text{ CR}$$

Based on the Zmijewski model, there is a cut-off of 0 with the criterion that if the result $X < 0$, the company is reported as not encountering financial distress. If the result $X > 0$, the company is reported as encountering financial distress.

The multiple linear regression equation in this study is formulated as follows:

$$AP = \alpha + \beta_1 \text{ CSR} + \beta_2 \text{ PR} + \beta_3 \text{ CAPIN} + \beta_4 \text{ UP} + \beta_5 \text{ FD} + \epsilon$$

Information:

AP = Tax Aggressiveness
 α = Constant
 $\beta_1 \dots \beta_5$ = Variable coefficient
 CSR = Corporate Social Responsibility
 PR = Profitability
 CAPIN = Capital Intensity
 UP = Company Size
 FD = Financial Distress
 ϵ = errors

RESULTS AND DISCUSSION

Table 1: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
AP	156	1625,00	38730,00	25715,4744	4801,83697
CSR	156	3297,00	24176,00	6544,27	3101,38744
PR	156	121,00	71602,00	9514,94	10158,07716
CAPIN	156	1661,00	77454,00	36283,95	17248,35934
UP	156	1099207,00	1454649,00	1243843,22	70539,65043
FD	156	-676367,00	598172,00	-250863,58	135267,29458

Table 2, F-test

	F count	Sig.	Information
Uji F	8,368	0,000	Significant

Based on table 2 data, it shows that the calculated F value is 8.368 with a significance level of 0.000. the result is below the specified probability level of 0.05, so this research model is good.

Table 3, R² test

R	R Square	Adjusted R Square	Std. Error of the Estimate
0,467	0,218	0,192	4316,23634

Based on the test results for the coefficient of determination or R² in the table, it shows that the adjusted R² value is 0.192. It means that 19.2% of tax aggressiveness is affected by corporate social responsibility, profitability, capital intensity, company size, and financial distress. Meanwhile, the remaining 80.8% is affected by other variables not examined in this study.

Based on the results of testing the classical assumptions, multiple linear regression analysis can be conducted in this study. Linear regression analysis is required to determine the regression coefficients and their significance so that it can answer the hypothesis. The results of the regression analysis with SPSS are presented in table 4 as follows

Table 4: Results of Multiple Linear Regression Analysis

	Coefficients	t	Sig	Information
(Constant)	10448,224	1,544	0,125	
CSR	-0,393	-2,871	0,005	H1: Accepted
PR	-0,121	-3,082	0,002	H2: Accepted
CAPIN	0,036	1,726	0,086	H3: Rejected
UP	0,016	2,774	0,006	H4: Accepted
FD	0,008	2,724	0,007	H5: Accepted

The Impact of Corporate Social Responsibility on Tax Aggressiveness

Based on the test results, it is comprehended that corporate social responsibility affects tax aggressiveness. The corporate social responsibility significance level of 0.005 is lower than the alpha significance value of 0.05, so H1 is accepted.

This study's results prove corporate social responsibility's impact on tax aggressiveness. The

higher the level of corporate social responsibility a company expresses, the lower the level of tax aggressiveness is. These results explain that the higher the corporate social responsibility disclosure level the company conducts, the more potential it will be to conduct tax aggressiveness. It occurs because companies that conduct tax aggressiveness attempt to divert consideration so that companies disclose CSR activities more extensively to gain positive societal aspirations.

The results of this study are supported by research from Rohman (2016), Gunawan (2017), and Mustika (2017). However, the results of this study are not supported by research from Nurcahyono and Kristiana (2019) and Setyoningrum and Zulaikha (2019).

The Impact of Profitability on Tax Aggressiveness

Based on the test results, it is comprehended that profitability affects tax aggressiveness. The profitability significance level of 0.002 is lower than the alpha significance value of 0.05, so H2 is accepted.

The results of this study prove the impact of profitability on tax aggressiveness. Profitability proxied by ROA indicates that the higher the value of ROA the company generates, the higher it will increase the amount of tax the company must bear. In addition to the company's high tax burden, it can lead to a preference for companies to conduct tax aggressiveness.

The results of this study are supported by research from Andhari and Sukartha (2017) and Yanti and Hartono (2019). However, the results of this study were not supported by research from Ardyansah and Zulaikha (2014) and Hidayat and Fitria (2018).

The Impact of Capital Intensity on Tax Aggressiveness

Based on the test results, it is recognized that capital intensity does not affect tax aggressiveness. The significance level of the capital intensity of 0.086 is stated to be higher than the alpha significance value of 0.05, so H3 is rejected.

The results of this study prove that capital intensity does not affect tax aggressiveness. Capital intensity describes how much the company invests its assets in fixed assets and inventories. Companies

with high fixed assets do not use these fixed assets for tax evasion but for the company's operational and investment interests. Therefore, the company does not intentionally have high fixed assets to conduct tax avoidance actions but rather to support operational activities and investments made by the company.

The results of this study are supported by research from Indradi (2018) and Simamora and Rahayu (2020). However, the results of this study are not supported by research from Octaviani and Sofie (2019).

The Impact of Company Size on Tax Aggressiveness

Based on the test results, it is recognized that company size affects tax aggressiveness. The significance level of the company size of 0.006 is lower than the alpha significance value of 0.05, so H_4 is accepted. The results of this study indicate that company size affects tax aggressiveness. The larger the size of the company, the higher the risk of the company conducting tax aggressiveness. In agency theory, there is a difference in the interests of management (agent) and the owner, so it requires a work contract involving both of them. Agents are required to provide benefits to stakeholders so that they are considered acceptable. Large companies tend to be able or stable to generate profits. This situation will increase the tax burden, encouraging companies to practice tax aggressiveness.

The results of this study are supported by research from Yanti and Hartono (2019). However, the results of this study were not supported by research from Nurfadilah et al. (2015).

The Impact of Financial Distress on Tax Aggressiveness

Based on the test results, it is comprehended that financial distress affects tax aggressiveness. The financial distress significance level of 0.007 is lower than the alpha significance value of 0.05, so H_5 is accepted.

Financial distress affects tax aggressiveness. It is because companies encountering financial distress tend to face problems related to increasing costs, decreasing access to cost sources, and being unable to pay credit when due. Consequently, managers tend to find solutions by conducting tax aggressiveness.

The results of this study are supported by research from Richardson et al. (2015). However, the results of this study are not supported by research from Octaviani and Sofie (2019).

CONCLUSION AND SUGGESTION

The results showed that corporate social responsibility, profitability, company size, and financial distress affect tax aggressiveness. Meanwhile, the capital intensity does not affect tax aggressiveness. These results indicate that the investment in assets possessed by companies is not employed by companies to conduct tax aggressiveness because companies can use assets efficiently.

Suggestions for further research include adding, for instance, independent commissioners and earnings management variables. Correspondingly, it can expand the sample to all companies listed on the IDX and extend the observation period.

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