THE BIDIRECTIONAL INTERACTION BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND TAX AVOIDANCE: THE MODERATING ROLE OF AUDIT QUALITY

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Abstract

This study analyzed the two-way connection between corporate social responsibility (CSR) and tax avoidance and examined how audit quality moderated the relationship. The previous study by Hajawiyah et al. (2022) examines the bidirectional effect of CSR and tax avoidance but with different moderating variables, which is risk management. Samples of this study were companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. A simultaneous test and a two-stage least squares (2SLS) regression were employed in data analysis. The results showed that audit quality did not moderate the relationship between corporate social responsibility and tax avoidance. It was also revealed that tax avoidance had no effect on corporate social responsibility and audit quality could not decrease the influence of tax avoidance on corporate social responsibility. This study also found no correlation between corporate social responsibility and tax avoidance. This study contributes to the current body of literature on tax avoidance and corporate social responsibility. Previous studies only measured a one-way correlation between tax avoidance and corporate social responsibility, while this study examined the two-way interaction and the role of audit quality in the correlation between corporate social responsibility and tax avoidance. The findings of this study can be used as a reference for company management in formulating plans and strategies related to corporate social responsibility and tax avoidance.

Keywords: Corporate Social Responsibility, Tax Avoidance, Audit Quality, Bidirectional

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1. INTRODUCTION

Tax avoidance is often conducted by companies to avoid and delay tax payments by taking advantage of the grey areas or loopholes in tax laws, therefore their acts cannot be regarded as tax offenses (Pratiwi & Djakman, 2017). Such opportunistic acts could pose long-term risks for the company and the shareholders' expectations (Minnick & Noga, 2010). Tax avoidance actions can bring difficulties for the company in the future (Sari & Martani, 2010). Companies need to gain maximum profit for shareholders and are held accountable for social and environmental issues. Therefore, corporate social responsibility (CSR) involves three elements: profit, people, and the environment. CSR programs are reported in the company's annual reports and publishing sustainability reports (Hajawiyah et al., 2022).

There is a connection between tax avoidance and corporate social responsibility since taxes play a crucial part in companies' management and affect society's well-being (Vacca et al., 2020). The establishment and maintenance of public infrastructure and public welfare, education, and health are all funded by taxes. The community health and welfare are facilitated by taxes (Sikka, 2013). On the other side, Richardson et al. (2013) tax avoidance is an irresponsible act that can reduce tax revenue, resulting in material losses that can widen social inequality (Baudot et al., 2020).

On the one hand, CSR practices reflect corporate ethics that should inhibit companies from conducting unethical behaviors, including tax avoidance. However, some companies undertake CSR activities to conceal unethical behaviors.

Several prior studies have examined the relationship between CSR and tax avoidance. Lanis and Richardson (2015) found that CSR negatively affected tax avoidance. Corporate taxes positively correlated with society's well-being. Superior CSR performance reduced the likelihood of tax avoidance (Karthikeyan & Jain, 2018). Rakia et al. (in press) found that a high level of CSR is negatively associated with tax avoidance in firms with a higher percentage of women on the board. Another research found that CSR positively influenced tax avoidance (Zeng, 2019). Companies with higher CSR scores are more likely to commit tax avoidance. CSR is often employed by company managers to conceal potentially dangerous yet advantageous tax avoidance strategies, as well as to mitigate the reputational and image damages resulting from these acts. This finding is comparable to the findings reported by Alsaadi (2020) who similarly found that there is a positive association between CSR and tax avoidance. As found by Pratiwi and Djakman (2017), tax avoidance provided significant advantages for corporate social responsibility. This finding is comparable to the findings reported by Whait et al. (2018) who similarly found that tax avoidance had a significant beneficial influence on CSR. On the contrary, Zeng (2016) discovered that tax avoidance and CSR had an inverse relationship. This suggests that CSR will increase in proportion to the degree to which the tax burden is increased. Firms engaged in tax avoidance are likely to increase CSR to alleviate potential public concerns and to show that they are meeting community expectations (Abdelfattah & Aboud, 2020).

Inconsistencies in the results of previous studies show that it is necessary to examine the moderating role of audit quality in the two-way relationship between CSR and tax avoidance. Audit quality is an essential feature of corporate governance that inhibits the company management from conducting opportunistic acts. Quality audits provide a robust monitoring tool that reduces the intention to perform tax avoidance. Consequently, organizations that are professionally audited may not be exposed to the reputational concerns associated with tax avoidance practices. On the other side, companies with limited resources could not utilize CSR as a strategy to counteract any adverse reactions resulting from tax avoidance. Companies that are audited by incompetent auditors tend to engage in tax avoidance to gain maximum revenue (Desai & Dharmapala, 2006). Tax avoidance practices may result in unfavorable reactions. Therefore, companies that are audited by less professional auditors show a greater tendency to use CSR as a strategy to anticipate the negative impacts of tax avoidance.

This study examined the manufacturing companies listed on the Indonesia Stock Exchange listed manufacturing from 2018 to 2020. Annual reports and sustainability reports serve as secondary data sources. Besides giving contributions to literature related to CSR and tax avoidance, the results of this study also enrich the literature on law implementation. Corporate culture was employed to examine the impacts of corporate social responsibility (CSR) on tax avoidance as well as the impact of tax avoidance on CSR. In this quantitative study, the Durbin–Wu–Hausman (DWH) test (also called Hausman specification test) was performed to investigate the relationship between CSR and tax avoidance concurrently (Hausman, 1978). Panel regression (ordinary least squares, OLS) and STATA software were also employed to examine the impacts of corporate social responsibility (CSR) on tax avoidance, the impact of tax avoidance on CSR, and the combined effect of CSR and tax avoidance. It is necessary to explain the unclear relationship between CSR and tax avoidance in order to see if CSR leads to tax avoidance or vice versa.

Examining the relationship between CSR and tax avoidance is crucial because it addresses the research gap in this matter. This research adds to the literature on corporate social responsibility and tax avoidance by highlighting the moderating influence of audit quality on the relationship between CSR and tax avoidance. This research also provides the most current empirical results based on the corporate financial statements from 2018 to 2020. This information is also helpful in determining the measures and strategies regarding the relationship between the two variables.

The remainder of the paper is organized as follows. A review of the literature and development of hypotheses are presented in Section 2. The research methodology is provided in Section 3. Section 4 explains the testing findings, including descriptive statistics and hypotheses testing. Section 5 contains a detailed discussion. Section 6 highlights the study's conclusion, limitations, and implications for management and future research.

2. LITERATURE REVIEW

2.1. Theory of corporate culture

Good moral principles need to underpin the judgments made by businesses (Col & Patel, 2019). This indicates a negative association between CSR and tax avoidance. Companies should not become involved in any endeavours that potentially disadvantage the society. Companies engaging in corporate social responsibility activities can benefit a wide range of stakeholders, including workers, consumers, suppliers, regulators, creditors, and society. Tax avoidance must be set aside from corporate social responsibility if the government is also deemed one of these stakeholders. If a company's culture drives its actions, companies with high CSR are not likely to perform tax avoidance. Garriga and Melé (2004) discovered that corporate social responsibility (CSR) is one of the indicators of corporate ethics. However, Amidu et al. (2016) found the indication that companies exploit CSR to avoid paying taxes. CSR has been commonly used to conceal unethical business tactics, such as tax avoidance schemes. This study discusses the concept of corporate culture based on its first establishment (Col & Patel, 2019).

2.2. Corporate social responsibility

Corporate social responsibility (CSR) is "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large", as stated by the World Business Council for Sustainable Development (WBCSD Stakeholder Dialogue on CSR, 1998, as cited in Watts et al., 1999, p. 3). In the meantime, CSR is defined by ISO 26000 as the responsibility of organizations following the impacts of their operational activities on society and the environment through transparency and ethical behavior that contribute to sustainable development, including public health and welfare (International Organization for Standardization, 2010).

2.3. Tax avoidance

Companies find taxes as costs that can decrease their revenue. Many companies attempt to lower the tax burden to ensure that company profits are at their highest possible level. Companies may accomplish this goal in several ways, one of which is through engaging in tax avoidance practices. According to Preuss (2010), tax avoidance is the practice of obtaining tax advantages through complicated transaction management in some ways without violating the relevant legislation. Therefore, tax avoidance can be regarded as an activity made by a firm to minimize or postpone tax payments without violating the law. This may be accomplished via tax havens or tax credit programs.

2.4. Audit quality

The quality of an audit can be judged based on the reputation of the public accounting offices that audits the firms. The Big Four public accounting offices are Ernst & Young (EY), Deloitte, KPMG, and PricewaterhouseCoopers (PwC), all of which showed lower incidences of fraud and are hence more trustworthy. The Big Four are known for their dependability in reporting financial statements while simultaneously preserving their autonomy and professionalism (Tandean & Winnie, 2016). In Indonesia, the Big Four accounting companies are monitored by both the Financial Services Authority (*Otoritas Jasa Keuangan, OJK*) and the Directorate General of Taxes (DGT), ensuring that the audit judgments are produced by credible accounting firms.

2.5. Hypotheses development

Referring to the theory of corporate culture, decisions made by businesses should reflect ethical behavior, which results in a negative connection between corporate social responsibility and tax avoidance. Companies should avoid behaviors that could lead to unfavorable effects on society. CSR provides benefits to a wide range of stakeholders, including the government. Tax avoidance has been assumed to share compatibility with corporate social responsibility (Qodraturrasyid et al., 2019).

Shafer and Simmons (2008) stated that professionals who neglect social and ethical responsibility tend to engage in aggressive tax avoidance schemes. Zeng et al. (2010) state that socially responsible companies do not avoid taxes. Companies that disclose complete CSR-related information tend not to be tax-aggressive (Lanis & Richardson, 2012). Hoi et al. (2013) concluded that companies with increased irresponsible CSR activities are likelier to engage in tax aggressiveness.

Thus, the first research hypothesis is formulated as follows:

H1: CSR negatively affects tax avoidance.

According to Zeng (2016), tax avoidance and corporate social responsibility (CSR) are negatively correlated. This supports the hypothesis that higher tax burdens are associated with higher CSR levels. Zeng (2016) found the corporate culture theory accurate. Tax avoidance is against the principles of corporate social responsibility, where according to the corporate culture theory, the government is regarded as a stakeholder. The notion of corporate culture implies a negative correlation between corporate social responsibility and tax avoidance. If corporate culture impacts company choices, firms that conduct more significant tax avoidance will also have low levels of corporate social responsibility.

Companies are expected to be more careful by avoiding taxes to maintain their reputation (Lanis & Richardson, 2012). Laguir et al. (2015) state that the higher the activity on the social dimension of CSR, the lower the level of tax avoidance; the higher the economic dimension, the higher the level of tax avoidance. Karthikeyan & Jain (2018) also concluded that there is a negative relationship between CSR and tax avoidance.

Therefore, the following research hypotheses are formulated as:

H2: Tax avoidance negatively affects CSR.

H3: CSR and tax avoidance are concurrently related.

The audit theory argues that external audit effectiveness depends on audit quality (Knechel et al., 2013). Financial reports audited by the Big Four accounting firms are of better quality than those audited by other firms. If the audit is of high quality, managers are less likely to participate in tax avoidance (Abid & Dammak, 2022), instead, managers will provide more CSR information.

Thus, we can also formulate some more research hypotheses:

H4: Audit quality moderates the relationship between corporate social responsibility and tax avoidance.

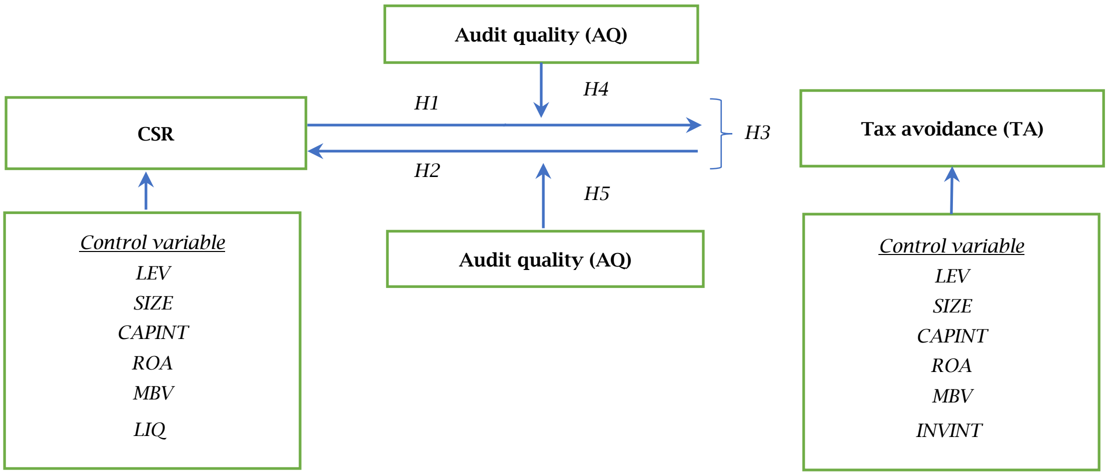
H5: Audit quality moderates the relationship between tax avoidance and corporate social responsibility.

3. RESEARCH METHODOLOGY

3.1. Sample and data description

Companies in the industrial sector listed on Indonesia Stock Exchange (IDX) from 2018 to 2020 are the focus of this research. Samples were purposively selected based on predetermined criteria. Companies that used different currencies other than the Indonesian rupiah (IDR) attempted to use the NVivo software to evaluate their annual or sustainability reports but were unsuccessful. The CSR data were gathered using the document review method. Financial data were obtained through Thomson Reuters Datastream. Information about audit quality, CSR, and tax avoidance were obtained by examining the annual and sustainability reports. An empirical methodology was utilized for this study. In the first step of the analysis, the secondary data underwent Hausman's specification error test to determine if Eq. (1) and (2) had a contemporaneous relationship. The data were evaluated via the 2SLS method if Hausman's test for specification error demonstrated a contemporaneous connection between CSR and tax avoidance.

Figure 1. Research framework



3.2. Regression model

Equations (1) and (2) demonstrate that the model, used in this research, was developed based on Hajawiyah et al. (2022) with modifications to the moderation variables. Equation (1) tested the hypotheses *H1* and *H4*, while Eq. (2) tested the hypotheses *H2* and *H5*. The Durbin-Wu-Hausman (DWH) specification test determined whether tax avoidance and CSR coexisted under the third hypothesis (*H3*).

$$TA_{i,t} = \alpha + \beta_1 CSR_{i,t} + \beta_2 AQ_{i,t} + \beta_3 CSR_{i,t} * AQ_{i,t} + \beta_4 LEV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 CAPINT_{i,t} + \beta_7 ROA_{i,t} + \beta_8 MBV_{i,t} + \beta_9 INVINT_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$CSR_{i,t} = \alpha + \beta_1 TA_{i,t} + \beta_2 AQ_{i,t} + \beta_3 TA_{i,t} * AQ_{i,t} + \beta_4 LEV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 CAPINT_{i,t} + \beta_7 ROA_{i,t} + \beta_8 MBV_{i,t} + \beta_9 LIQ_{i,t} + \varepsilon_{i,t} \quad (2)$$

3.3. Variable measurement

Book tax difference (BTD) was employed to measure tax avoidance as it has been regarded as capable of providing more accurate data regarding business tax avoidance. BTD is measured as the difference between book income and taxable income in a given period. BTD should give more information than the effective tax rate (ETR) on tax avoidance (Chen et al., 2010).

The overall measurement of BTD used in this study is according to Comprix et al. (2011). The BTD can be calculated by deducting the anticipated taxable income from the accounting-based pre-tax income used in the calculation. This strategy was preferred for less complicated and reliably produces the desired outcomes. This method was chosen because it is simple but still gives consistent results. Chen et al. (2010) compared to other more advanced methods such as BTD measurement by Tang and Firth (2012).

Total BTD was calculated using the following formula (Comprix et al., 2011):

$$BTD_{i,t} = BI_{i,t} - \frac{CTE_{i,t}}{STR_t} \quad (3)$$

where, $BTD_{i,t}$ = The gap between profit before tax in the financial accounts and taxable income; $BI_{i,t}$ = Accounting income or pre-tax book income; $CTE_{i,t}$ = Current tax expenses; STR_t = Statutory tax rate (income tax rate).

NVivo software was used to calculate the percentage of CSR disclosure coverage. CSR disclosure coverage represents the proportion of terms (keywords) in the company's annual and sustainability statements that reference *CSR*. As suggested by Verbeeten et al. (2016), CSR-related keywords were drawn from the fourth generation of the Global Reporting Initiative Guidelines (GRI G4), which have been adapted to Indonesian conditions. The percentage of keywords covered in the annual or sustainability report was determined using the formula below. Alternative methods to measure CSR disclosure is using content analysis according to the GRI G4 checklist.

$$Percentage\ of\ keyword\ coverage = (number\ or\ keywords)/(number\ of\ words) \times 100\% \quad (4)$$

In this study, audit quality (*AQ*) is considered as a moderating variable. Referring to Tandean and Winnie (2016), a dummy variable with a value of 1 was used if the firm is audited by one of the Big Four accounting firms: Ernst & Young (EY), Deloitte, KPMG, and PricewaterhouseCoopers (PwC). On the other hand, if the firm is audited by a public accounting firm other than the Big Four companies, they were scored 0.

The control variables utilized to investigate the link between *CSR* and tax avoidance included *LEV, SIZE, CAPINT, ROA, MBV*, and *INVENT*. These factors were considered valid by previous researchers as control variables in the model since they influenced tax avoidance. *LEV* is predicted to have a positive effect on tax avoidance, because the higher the company's debt to total assets, the higher the interest rate, which can be a deduction for corporate taxable income so that the tax paid will be smaller. A higher interest rate can be deducted from the company's taxable income, resulting in a lower amount of tax bill. *SIZE* is projected to have a favourable impact on tax avoidance. Larger firms are more likely to engage in tax avoidance. Businesses with a considerable amount of fixed assets (*CAPINT*) will also have a substantial amount of BTD.

According to Chen et al. (2010), accounting depreciation expenses and tax depreciation expenditures differ. Companies that generate a high return on assets (*ROA*) have a greater propensity to engage in tax avoidance strategies to lower the amount of taxes they are required to pay. A company's current market price ratio to its book value is known as the *market-to-book value* (*MBV*) *ratio*. Companies with a high inventory turnover rate are more likely to engage in tax avoidance practices (*INVINT*).

Variables *LEV, SIZE, CAPINT, ROA, MBV*, and *LIQ* are the control variables used to determine the impact of tax avoidance on corporate social responsibility. Since these variables affect tax avoidance, previous researchers suggested that these variables can be included in the model as control constructs. Companies with substantial leverage are required to have stronger CSR programs to meet stakeholders' expectations and monitoring, particularly creditors (Brammer & Millington, 2005). Costs associated with political monitoring are significantly increased for businesses with large firm sizes. As a direct result, huge companies are compelled to participate in an increasing number of outstanding CSR activities (Lanis & Richardson, 2013). Businesses with high capital intensity are more visible to the public, thereby encouraging corporate social responsibility (Lanis & Richardson, 2013). Companies that generate a high return on assets will have greater financial management flexibility, enabling them to allocate more funds for corporate social responsibility (Gantyowati & Agustine, 2017). The ratio of a company's market value to its book value is one method used to control its growth. The knowledge gap between management and investors is even more significant regarding company growth.

Companies need to publish more data on CSR (Gaver & Gaver, 1993) because they have more outstanding cash available for CSR reporting. Companies with high liquidity will create better CSR reports (Gandullia & Piserà, 2020). Table 1 contains the operational definitions of variables in this study.

Table 1. Variable definitions and operationalization

Variable	*Operational definitions*
$TA_{i,t}$	Tax aggressiveness is assessed using total BTD (Comprix et al., 2011).
$CSR_{i,t}$	Corporate social responsibility is assessed using NVivo query results.
$AQ_{i,t}$	Suppose the firm is audited by one of the Big Four accounting firms (Price Waterhouse Cooper — PWC, Deloitte Touche Tohmatsu — Deloitte, Klynveld Peer Marwick Goerdeler — KPMG, and Ernst & Young — E&Y), audit quality scores 1 and vice versa.
$LEV_{i,t}$	Leverage, or the ratio of total debt to total assets.
$SIZE_{i,t}$	Company size is represented by the natural logarithm of total assets.
$CAPINT_{i,t}$	Capital intensity: the ratio of property, plant, and equipment to total assets.
$ROA_{i,t}$	Return on asset is calculated by dividing net income by total assets.
$MBV_{i,t}$	Market-to-book value ratio.
$INVINT_{i,t}$	Inventory intensity is the ratio of inventory to total assets.
$LIQ_{i,t}$	Cash in comparison to the total asset.

4. RESULTS

Companies in the manufacturing sector listed on the Indonesia Stock Exchange during 2018 and 2020 make up the study's population. Purposive sampling was employed to select 117 units of analysis as samples. The analysis of descriptive data is summarized in Table 2.

Table 2. Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
TA	-0.0120607	0.0555729	-0.1939028	0.3955118
CSR	0.0600766	0.0408477	0.0248576	0.1957459
LEV	0.1529519	0.1564267	0.000000	0.6121603
SIZE	29.16913	1.719753	25.6895	33.49453
CAPINT	0.3435394	0.1583992	0.0177115	0.8371512
ROA	0.0888843	0.1003358	-0.2188217	0.4319882
MBV	3.120314	5.553956	0.1461136	50.22371
INVINT	0.1983147	0.1127796	0.0141037	0.6124649
Dummy variable	**% number of samples with AQ = 1**		**% number of samples with AQ = 0**	
AQ	41.52%		58.48%	

Source: STATA output.

The descriptive statistics in Table 2 show that the *BTD* value of the tax avoidance (*TA*) variable ranges between -0.1939 (lowest) to 0.3955 (highest). Companies with a greater *BTD* value engage in a greater degree of tax avoidance. The sample is free of heteroscedasticity and multicollinearity issues as seen from the results of the classical assumption test. This study employs the tolerance value and variance inflation factor (VIF) to determine if multicollinearity exists. The results of the multicollinearity test indicate that no VIF value exceeds 10 (Table 3). The Breusch–Pagan/Cook–Weisberg test was conducted to identify the presence of heteroscedasticity. The results indicate an issue with heteroscedasticity. The generalized least square (GLS) test was then employed to solve this issue.

Table 3. Multicollinearity test results

Variable	VIF	1/VIF
SIZE	8.77	0.114025
CAPINT	3.55	0.28169
INVINT	3.54	0.282486
ROA	3.09	0.323625
MBV	2.29	0.436681
LEV	2.25	0.444444
AQ	1.84	0.543478
BTD	1.46	0.684932
Mean VIF	3.36	

Source: STATA output.

The sample is evaluated for simultaneity using the Hausman specification error test before assessing the model. Hausman's specification error test (Ghozali, 2011) employed in this study consisted of these following steps.

1. Run a regression on *CSR* using *LEV, SIZE, CAPINT, ROA, MBV, INTANG*, and *LIQ* to obtain the error value prediction.
2. Run a regression on *TA* using *CSR, LEV, SIZE, CAPINT, ROA, MBV, INTANG, INVINT*, and anticipated error values.
3. Conducting a t-test for the expected error coefficient under the null hypothesis that *CSR* and *TA* have no simultaneous relationship.

The null hypothesis is rejected if the value is statistically significant, indicating a simultaneous relationship between *CSR* and *TA*. Nevertheless, if the result is insignificant, the null hypothesis cannot be rejected, indicating that no simultaneous relationship between *CSR* and *TA* exists. The outcome of the Hausman specification test is negligible, indicating no correlation between *CSR* and *TA*. There is no meaningful simultaneous relationship between error and endogenous variables. Equations (1) and (2) were regressed using OLS because neither of them shared a simultaneous relationship. Tables 4 and 5 present the detailed Panel data multiple regression results.

Table 4. Panel data multiple regression (on *TA*) results for Model 1

Variable	Predicted sign	Coefficient	Prob.
CSR	-	-0.2668639	0.1645
AQ	-	-0.0277034	0.2475
*CSR*AQ*	+/-	-0.3560493	0.103
LEV	+	-0.0241723	0.359
SIZE	+	0.0550178	0.017**
CAPINT	+	0.2390737	0.002***
ROA	+	0.3293459	0***
MBV	-	0.0063321	0***
INVINT	-	0.2898213	0.002***
N			117
R-squared			46,05%
Prob (F-stat)			0.0000

*Note: *** significance at 1%, ** significance at 5%, * significance at 10%.*
Source: STATA output.

CSR has no significant impact on a company's tax avoidance as shown in Table 4. This indicates that *H1* cannot be accepted. Size, capital intensity, return on assets, market value, and inventory intensity are influenced by the variables under control.

Table 5 presents that tax avoidance does not have any significant impact on *CSR*, thereby *H2* is rejected. The third hypothesis (*H3*) that proposes a coinciding connection between tax avoidance and corporate social responsibility is also rejected. The Hausman specification error test results indicate no connection between corporate social responsibility and evading taxes.

Table 5. Panel data multiple regression (on *CSR*) results for Model 2

Variable	Predicted sign	Coefficient	Prob
TA	-	-0.13594	0.3155
AQ	+	-0.01449	0.3285
*TA*AQ*	+/-	-0.24285	0.2005
LEV	+	0.08143	0.054*
SIZE	+	-0.02717	0.075*
CAPINT	+	0.165974	0.01***
ROA	+	0.379541	0***
MBV	-	0.002063	0.008***
LIQ	-	0.08143	0.054*
N			117
R-squared			50,58%
Prob (F-stat)			0.0000

*Note: *** significance at 1%, ** significance at 5%, * significance at 10%.*
Source: STATA output.

R-squared (R^2) is 46.05% in Model 1, indicating that the independent variables in Model 1 may account for 46.05% of the variation in the dependent variable. R-squared (R^2) is 50.58% in Model 2, implying that independent variables in Model 2 can account for 50.58% of the variance in the dependent variable respectively.

5. DISCUSSION

5.1. The effects of CSR on tax avoidance

Table 4 shows that CSR does not affect tax avoidance. This result contradicts corporate culture theory which asserts that firms with a high CSR will rarely engage in tax avoidance. Based on culture theory, if the government is deemed a shareholder, tax avoidance should be handled differently from corporate social responsibility activities. Consequently, socially responsible corporations have low tax avoidance rates if corporate culture influences corporate decisions. This conclusion contradicts Lanis and Richardson (2015), Karthikeyan and Jain (2018), Alsaadi (2020), Abdelfattah and Aboud, (2020), Abid and Dammak (2022), and Jiang et al. (2022).

This result conforms to the results of Wijayanti et al. (2016). Companies with extensive CSR initiatives may not necessarily engage in tax avoidance as CSR cannot be used as a sign of tax avoidance. This is possible because corporations in Indonesia engage in CSR mainly to fulfill government requirements and CSR initiatives in Indonesia remain voluntary. Despite CSR, companies continue to evade taxes, particularly in countries with weak law enforcement (Wijayanti et al., 2016).

5.2. The effects of tax avoidance on CSR

As seen in Table 5, tax avoidance does not affect *CSR*. This conclusion does not support *H2* of this study stating companies with high levels of tax avoidance will make important CSR disclosures to reduce the risk associated with their tax avoidance behavior. This may occur because corporations must consider the reputational consequences of tax avoidance. Similarly, businesses must evaluate how CSR reporting affects their corporate reputation.

The results of this study are different from risk management theory which suggests that a company will attempt to reduce the risk of reputational damage from tax avoidance by increasing CSR disclosure, The results contradict the findings of Pratiwi and Djakman (2017) and Lanis and Richardson (2013). Table 5 indicates that *LEV, SIZE, CAPINT, ROA, MBV,* and *LIQ* are the control variables that influence *CSR*.

5.3. The moderating effect of audit quality on CSR and tax avoidance

The findings indicated that audit quality did not affect the effect of CSR on tax avoidance. The fourth hypothesis (*H4*) stating audit quality may reduce the influence of corporate social responsibility on tax avoidance is rejected. Higher audit quality is projected to prevent managers from participating in tax avoidance.

5.4. The moderating effects of audit quality on tax avoidance and CSR

According to the findings, audit quality does not have any bearing on the effect of tax avoidance on CSR. This study provides evidence that contradicts *H5* stating that audit quality may reduce the effect of tax avoidance on CSR.

6. CONCLUSION

This study demonstrates that *CSR* does not affect tax avoidance, and audit quality does not moderate this relationship. The results of this study also suggest that tax avoidance does not affect *CSR* and audit quality cannot moderate the effects of tax avoidance on CSR. Likewise, no significant relationship was found between CSR and tax avoidance. This result is essential that CSR disclosure and tax avoidance strategies do not affect each other. When formulating tax strategies, companies in Indonesia do not consider CSR. On the other hand, companies in Indonesia do not consider tax when developing CSR strategies.

The observation period in this study (2018–2020) was restricted. Therefore, this study only demonstrates short-term insights about the relationship between *CSR* and tax avoidance. This paper also used NVivo software to count the percentage of keyword coverage as a proxy of CSR Disclosure. This paper also uses total BTD used as a proxy for tax avoidance.

The results of this study can be used as a reference for company management in formulating CSR and tax avoidance strategies. Other proxies for assessing CSR performance, such as ESG score, can be regarded in future research. It is necessary to investigate the long-term effects of these variables. This study measured *CSR* using NVivo evaluation based on keywords derived from GRI G4 recommendations.

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