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Environmental Disclosure and Tax Aggressiveness of Property and Real Estate Sector Companies: Evidence from Indonesia

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Abstract---*There have been a lot of researches concerning the corporate social responsibility and tax aggressiveness in Indonesia. However, this study provides particular attention into the effects of environmental disclosure (corporate social responsibility) on tax aggressiveness on property and real estate sector companies. This study also provides a test using some control variables, such as company size (SIZE), and leverage (LEV) to robust the analysis. Based on 103 samples of Indonesian publicly listed property and real estate sector companies, the results indicate that corporate social responsibility firm significantly negative related to tax aggressiveness, while firm size and leverage surprisingly are not significantly related to tax aggressiveness.*

Keywords---*corporate social responsibility, environmental disclosure, firm leverage, firm size, tax aggressiveness,*

I. Introduction

Indonesia is one of the countries that use tax as a source of income (revenue) that used to funding national development. However on a company perspective (taxpayer), tax is a cost that necessary to be eliminated within the company. According to IFRS tax categorized as an expense. Therefore, the cost of the tax is expected to be minimized. There is a different view of tax saving from the taxpayer and government. If we see from the taxpayer side, as long as the taxpayer has some specific strategy about tax saving and no rules that regulate, it's legal. But the government hopes that existing tax regulation is not used as a tactic to minimize company taxes because it will reduce the state's income and revenue, also it can harm the state.One kind of tax saving is tax aggressiveness. According to [1] , tax aggressiveness is related to tax planning activities carried out by companies to reduce their tax expenses. A company with high-level tax aggressiveness are characterized by low transparency of information reporting. Financial information on this company becomes complex so that it reaches the limit where this information cannot be conveyed to stakeholders clearly and adequately.

Tax aggressiveness contains a broader meaning than tax avoidance [2]. Basically, tax avoidance is an attempt to reduce the value of taxes that must be paid explicitly through various tax saving strategies. Actual tax aggressiveness is the legal and illegal level of the strategic way to save taxes. Thus, tax aggressiveness can potentially be tax avoidance and even tax evasion.

From the government side, tax aggressiveness is an activity that will bring harm to the state. Example of cases in the world that harm the government about tax aggressiveness is BHP Ltd, James Hardie Ltd and News Corporation Ltd [3]. Meanwhile, in Indonesia, similar cases include tax avoidance from a property company with tax arrears of billions of rupiah, it's causing the commissioner to be held as a hostage [4].

[3]state that there is a relationship between Corporate Social Responsibility and the level of tax aggressiveness. Every activity carried out by the company will have social contact with the community both directly and indirectly. Corporate

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Social Responsibility (CSR) is a form of corporate concern for the community, especially for the community around the company. [5] uses the term "3P" which is profit, people, and the planet where the company will succeed if not only pay attention to profit but also pay attention to the welfare of the community and care about the environment. In addition, [6] states that Carroll introduces CSR pyramids where the first level is economic responsibility (seeking profit), the second level is the responsibility to comply with applicable law, the third level is the responsibility in having an obligation to carry out fair business practices and at the top of the pyramid is additional responsibility, which requires positive support from the community.

The Laws of the Republic of Indonesia number 40 of 2007 concerning Limited Liability Company Article 74 states that every company which runs in the field of natural resources is obliged to carry out CSR, and if the company violated by not doing CSR, it will be subject to sanctions. Activities in the Property Industry and real estate greatly affect the condition of natural resources around the location of buildings such as land and groundwater. Therefore, companies operating in the property and real estate industry are included in the category that is required to carry out CSR.

This research is expected to provide information for companies (especially property and real estate companies) in responding to CSR actions so that they can have a broad impact not only on company performance but also on taxation. For investors, it will be useful as a consideration in evaluating social responsibility that can affect the company's sustainability and the image of the company. And for regulators, such as the Directorate General of Taxes, it can be used as material for consideration in policy making to identify the risk of corporate tax aggressiveness. To see further how the influence of corporate social responsibility and tax aggressiveness, this study re-conducted the test using linear regression.

II. Theory and Development of Hypotheses

This study uses the theory of legitimacy as a foundation in explaining the relationships between variables. [7] explain that legitimacy is an important thing for the company. Without legitimacy, the company won't survive in continuing the company's operations. Legitimacy is determined by factors such as social norms and values. Organization behavior towards its environment is a determining factor in legitimizing the company's activities in the view of society. Between the company and the community indirectly there is a social contract so that the disclosure provided by the company about its social environment becomes an important thing [8]. This means that there is a relationship between the success of the company and the social contract, especially in the community. One type of responsibility given by companies in terms of their social environment is CSR. This responsibility is a company policy in increasing public attention that aims to get the company to gain legitimacy from the community [9]. Moreover, company’s intellectual capital will be more giving positive effect to firm profitability if company disclose environmental related report more completely [10].

The research results of [3] indicate there is an influence between CSR and tax aggressiveness. The company's actions to minimize tax burdens aggressively are considered as an action that cannot be socially accountable. Therefore the company diverts the burden into a CSR burden. Its purpose to restore the positive legitimacy of the community. [11] also stated that the payment of taxes in the community perspective is a form of dividend/remuneration from the company in the community. If the company carries out tax aggressiveness to reduce the tax that must be paid, it is considered unfair to the community. In accordance with legitimacy theory, companies should convince the public about the activities carried out that it is in accordance with the norms and values of the community so that the activities carried out can be accepted by the community.

Further, [12]explained that CSR and aggressive taxation had a significant negative relationship. In the research conducted there were 4 CSR indicators in assessing their influence on aggressive tax. First, the relationship between CSR in the social dimension to aggressive taxation is the higher the level of CSR that is carried out, the lower the company conducts aggressive tax so that both have a negative relationship. Second, the relationship of CSR involved with human resource activities is negatively related, the better the work environment of the company, the lower the aggressive tax rate. This is based on previous research which explains that companies that are more involved in CSR activities will pay corporate taxes fairly so that aggressive tax behavior gets smaller. Based on the description of the relationship between CSR and the tax aggressiveness, the hypothesis proposed in this study is:

Disclosure of corporate social responsibility has a negative effect on tax aggressiveness.

III. Research Methods

Sample and Variable

The number of samples used in this study was 38 property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2014-2016. The data used are financial reports and annual reports of companies listed on the Indonesia Stock Exchange (IDX) in the 2014-2016 period obtained from www.idx.co.id.

Variable Measurement

Tax aggressiveness is the dependent variable measured by the ETR proxy, as used by previous research [1], [10]). ETR proxy is the proxy that is most widely used in research on tax aggressiveness, this is due to the low value of ETR can be a clear indicator that the company is conducting tax aggressiveness.

Disclosure of corporate social responsibility of the company is an independent variable measured by matching items disclosed by the company.Disclosure items refer to the Global Reporting Initiative Generation (GRI G4) with a total of 91 disclosures whose indicators consist of six categories, 9 economic indicators, 34 environmental indicators, 16 social indicators, 12 human rights indicators, 11 community indicators, 9 indicators of product responsibility. The measurement of CSR disclosure in this study was carried out by giving a score of 1 (one) for each item disclosed, and a score of 0 (zero) for items not disclosed.

Control variables in this study consisted of company size (SIZE) and leverage (LEV). The use of control variables is expected to minimize the influence of outside variables that are not examined against the relationship between independent and dependent variables in this study.

Analysis Method

The data analysis method used in this study is a linear regression model. Analysis using a linear regression method is useful to determine the direction of the relationship between the independent variable and the dependent variable and to predict the value of the dependent variable if the value of the independent variable increases or decreases. Regression equation models in this study are:

$$ETR = \alpha_0 + \beta_1 CSR + \beta_2 SIZE + \beta_3 LEV + e \tag{1}$$

IV. Result and Discussion

Descriptive Analysis

The description of the research results is presented in the table below. The purpose of the descriptive analysis is to describe the description of the research variables.

Table 1. Descriptive test results

	N	Minimum	Maximum	Mean	Std.Deviation
CSR	103	.1648	.4835	.262983	.0483997
ETR	103	.0001	.9663	.124881	.1619224
SIZE	103	23.7283	31.4510	29.009821	1.4479819
LEV	103	.0036	.7261	.195754	.1400337
Valid N (listwise)	103				

Disclosure value of Corporate Social Responsibility is indicated as CSR. The minimal value of CSR is 0.1648 (PT Cowell Development, Tbk (COWL) year 2014, PT Bumi Serpong Damai, Tbk (BSDE) year 2015. PT Duta Anggada Realty, Tbk (DART) year 2015 and PT Plaza Indonesia Realty, Tbk (PLIN) year 2015). The maximal value of CSR is 0.4835 is the from the PT Bumi Citra Permai, Tbk (BCIP) at the year of 2016. The value of tax aggressiveness in this study has an average of 0.124881 with a standard deviation of 0.1619224. The minimum ETR value for the 2014-2016 period is 0,0001 (BKSL and RDTX companies). While the maximum value of ETR for the 2014-2016 period of 0.9663 belongs to the SCBD company.

V. Linear Regression Models Analysis

The following are the summary results using a simple linear regression model:

Table 2: Linear Regression Model Test Result

Model	**Unstandardized Coefficients**	
	B	**Std. Error**
(Constant)	.797	.348
CSR	-.801	.325
SIZE	-.017	.012
LEV	.153	.119

Dependent Variable: ETR

Source: Secondary Data Processed

Based on the results of table above, a linear regression equation can be arranged as below:

ETR= 0,797 – 0,801 CSR – 0.017 SIZE + 0,153 LEV + e

Determination Coefficient Test (R^2)

The Determination Coefficient (R^2) is essential to measure how far the model's ability to explain variations in the independent variable. The following are the results and interpretations to test the coefficient of determination (R^2):

Table 3. R^2 Result.

Model	R	RSquare	Adjusted R Square	Std. Error of the Estimate

1	.278a	.077	.049	.1578926

Predictors: (Constant), LEV, CSR, SIZE

Source: Secondary Data Processed

Individual Parameter Significance Test (t-Test)

Individual parameter significance test (t-test) is performed to show how far the influence of one independent variable individually in explaining the variation of a dependent variable. The results of the partial significance test can be seen in the table below:

Table 4. Partial Significance Test Result (t-Test).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
	(Constant)	.797	.348		2.289	.024
1	**CSR**	-.801	.325	-.239	-2.466	.015
	SIZE	-.017	.012	-.152	-1.463	.147
	LEV	.153	.119	.133	1.286	.201

Dependent Variable: ETR Source: Secondary Data Processed

Based on the table, we can find out the analysis below:

1. The t-test value of the disclosure variable for corporate social responsibility (CSR) is equal to -2,466 with a significance level of 0.015, indicating that disclosure of corporate social responsibility (CSR) in the company's annual report has a significant influence on the tax aggressiveness of real estate and property companies listed on the Indonesia Stock Exchange 2014-2016.
2. Variable t-test value of company size (SIZE) is -1.463 with a significance level of 0.147, indicating that the size of the company in the financial statements does not have a significant effect on the tax aggressiveness of real estate and property companies listed on the Indonesia Stock Exchange in 2014-2016.
3. The t-test value of the leverage variable (LEV) is 1,286 with a significance level of 0.201, indicating that leverage (LEV) in the company's financial statements does not have a significant effect on the tax aggressiveness of real estate and property companies listed on the Indonesia Stock Exchange in 2014-2016.

VI. Discussion of the Hypothesis

The Disclosure Effect of Corporate Social Responsibility Company on Tax Aggressiveness

In the previous table, the results of the linear regression show that the corporate social responsibility disclosure regression coefficient is -0.801 with a significance level of 0.015. The corporate social responsibility disclosure level is below 0.05, which means that the disclosure of corporate social responsibility has a significant influence and has a negative direction on corporate tax aggressiveness. In this paper, tax aggressiveness is measured by ETR. The lower ETR, the higher tax aggressiveness. Thus this study does not successfully supports the hypothesis that disclosure of corporate social responsibility has a negative effect on tax aggressiveness. On the contrary, corporate social responsibility has a positive effect on it.

[13] states that if the company views CSR and the tax payment behavior as a contribution to the community, the two activities have a negative relationship. When companies take a strategy to minimize the tax burden (tax aggressiveness is higher, ETR is low), contributions to society are diverted to other activities, namely by increasing CSR activities. But if CSR is done for the purpose of risk management, then both will have a positive direction. That means, the more CSR activities carried out by the company, the company will be more ethical and responsible to the community. Thus the level of corporate tax aggressiveness will be low (marked by a high ETR value).This is done in order to minimize business risks. According to [14] CSR companies tend to have higher cash level as a precautionary motive against trade credit risk.

The results of this study are in line with the research conducted by [9]who suggested that there is a positive relationship between corporate social disclosure and tax aggressiveness. But other research by [9] says that companies that are more socially responsible are less likely to carry out tax avoidance. Thus the results of this study are not consistent with [9].Then there are other studies that are not in line, namely [15] that companies with good quality of corporate social responsibility disclosure will pay higher taxes than companies that have poor disclosure of corporate social responsibility. If viewed from [13] Indonesian property and real estate companies listed at IDX look more at CSR and tax payment behavior as a contribution to society. This result is in accordance with the legitimacy theory that organization behavior towards its environment is determined from factor in legitimizing the company's activities in the view of society.

The Effect of Control Variables on Tax Aggressiveness

The firm size (SIZE) control variable has a significant level of 0.147. This value is above the significance value of 0.05, indicating that company size (SIZE) has no effect on tax aggressiveness. This research is in line with the research conducted by [16] which states that firm size (SIZE) does not affect tax aggressiveness. Because every company will certainly try to save tax imposition or also taking action tax aggressiveness indirectly. Meanwhile, The leverage variable (LEV) has a significant level of 0.201, indicating that leverage (LEV) in the company does not affect tax aggressiveness. The results of the study indicate that leverage has no effect on ETR. The results of this study explain that company management does not take advantage of the opportunities available to minimize the tax burden through the use of debt. This can be due to the use of debt by companies not merely to reduce the tax burden but the use of debt is indeed needed by the company to carry out their operations.

VII. Conclusion

This research was conducted to examine the effect of corporate social responsibility on tax aggressiveness in real estate and property companies listed on the Indonesia Stock Exchange. Based on the analysis, the disclosure of corporate social responsibility has a positive effect on tax aggressiveness. This means that the higher the disclosure of corporate social responsibility of the company, the higher likely the company to do the tax aggressiveness (lower ETR). Meanwhile, company size (SIZE) and leverage (LEV) do not affect tax aggressiveness This is because the action to carry out tax aggressiveness is a choice for the company. The size of the company cannot determine whether the company carries out tax aggressiveness. Likewise with leverage (LEV) companies that have no relationship to tax aggressiveness.

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