

Sustainability Reporting and Tax Aggressiveness: Evidence from a Public Company in Indonesia

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Abstract: This study aims to describe tax avoidance or tax aggressiveness committed by a public company in Indonesia. To maintain company sustainability, taxation strategy must always be supported by a non-financial system. In Indonesia, sustainability report disclosure is voluntary, but the Indonesian government handles the issue by requiring the inclusion of social and environmental activities in the report as taxable operational costs. The research sample of this study comprises public companies listed on the Indonesia Stock Exchange, which have submitted sustainability reports separately. A total of 68 companies were involved, from which 132 datasets were obtained for further analysis via regression test. This research introduces a new way to measure tax aggressiveness (fiscal effective tax rate) to supplement the results generated by the existing measure (GAAP effective tax rate). The development of research shows that sustainability reporting has a significant effect on tax aggressiveness committed by public companies in Indonesia.

Keywords: public company, sustainability report, tax aggressiveness.

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INTRODUCTION

Tax can control the economic system of a state. Almost every government in the world considers tax as the primary source of their income, and therefore, taxation plays a crucial role in their budget, especially in the expenditure section. The 1945 Constitution, in Article 23A, Amendment III, has stated that. This statement confirms that tax is a mandatory levy required by the laws without direct return. Tax determines the company's fate, but tax also helps the company maximize its earning and deliver an excellent return to stakeholders. Every company knows that it must achieve tax expense efficiency if they want to attain optimum earning and ensure that they can still operate (Cerioni, 2014; Joshi, 2020). All actions against tax impact heavily on company managerial activities. Any actions taken by managers to minimize the company's tax expense are tax aggressiveness or tax avoidance. Tax aggressiveness is one born of company management activities to press down and minimize tax expense that the company must pay (Kim & Im, 2017; Ariefiara et al., 2019). Even tax aggressiveness is a common managerial strategy used by all companies globally (Abdelfattah & Aboud, 2020).

A public company in Indonesia can also commit tax aggressiveness. Organization for Economic Cooperation and Development (OECD) describes tax aggressiveness or tax avoidance as an effort by taxpayers



to reduce their tax payable (Drake et al., 2019). Table 1 shows that for five years, the tax revenue realization has not been optimized. The Ministry of Finance noted that tax revenue in January 2019 increased by 8.82% compared to 2018, but specific industrial sectors, for example, the manufacturing industry, only contributed 20.8% of tax revenue. The manufacturing industry should be able to provide an enormous revenue contribution. Efforts to legally take advantage of tax facilities or regulatory, tax loopholes are made to reduce tax payments.

Table 1 Actual Tax Revenue Period 2015-2019

Year	2015	2016	2017	2018	2019
Target	1,294.26	1,355.20	1,450.9	1,424	1,577.6
Realization	1,060.83	1,105.81	1,399.8	1,315.9	1,332.1
Access	81.96%	81.60%	91%	92.4%	84.4%

Source: <https://pajak.go.id/>

One relevant opinion was given by Zeng (2019), which is said that the company that commits tax aggressiveness is considered as socially irresponsible and legally questionable. Regarding Law No.40/2007, Article 74, on social and environmental responsibilities, the company is required to contribute other than the financial aspect to society and the environment around the company, and this contribution takes a form as social and environmental responsibilities.

It must be noted that social and environmental responsibilities are difficult to be enforced if there is no shared understanding between the company, government, and society (Abbott & Monsen, 1979; Freeman & Reed, 1983; Berger-Walliser & Scott, 2018). Until now, social and environmental responsibilities stated in the sustainability report are still voluntary. Lack of understanding and knowledge concerning the disclosure of social and environmental responsibilities has triggered some political mechanisms, including tax avoidance. According to Khalil & O'sullivan (2017); Wang et al. (2020), the early concept of social and environmental responsibilities consisted of four elements, which respectively are: 1) economic responsibility; 2) legal responsibility; 3) ethical responsibility, and 4) voluntary responsibility. The company's social and environmental responsibilities are voluntary organizational mechanisms to emphasize company attention on society and the environment around the company and its interaction with company stakeholders (Lestari et al., 2019). The disclosure of company performance on culture, environment, and the economy is made separately from annual reporting, and this separation helps increasing the level of accountability, responsibility, and transparency of the company on the eye of investors and other stakeholders (Khalil & O'sullivan, 2017; Odoemelum et al., 2020; Zhyhlei et al., 2020). Sustainability report has become a good trend, and every progressive company begins to feel necessary to conduct sustainability reporting to inform their performance on society, environment, and economy to company stakeholders (Bird & Davis-Nozemack, 2018; Nurim & Asmara, 2019; Samuel et al., 2019; Meutia et al., 2020; Permatasari et al., 2020). Therefore, sustainability reporting always contains information about financial and non-financial performances, and this information is for the sake of company sustainability (sustainable performance).

Indonesia does not yet have a regulation that discloses costs due to company activities that cause environmental degradation in a mandatory manner. PSAK No. 1 of 2009 states that environmental costs disclosure can be presented separately from the financial statements. Law Number 32 of 2009, Law Number 40 of 2007, Government Regulation Number 47 of 2012 bind companies to social and environmental responsibility. One of the steps to implementing green accounting in CSR has adopted global standards, namely GRI G4. Almost all companies in the world have used the GRI G4 standard. GRI contains three main categories, namely economic, environmental, and social. The GRI G4 concept measures cost based on each company

disclosure index, which is calculated compared to the number of items expected to be disclosed by the company.

This research is done to examine the effect of sustainability reporting on tax aggressiveness. Disclosing information about finance, society, and the environment, shows its contribution to the culture and environment and becoming a managerial strategy, which probably involves tax aggressiveness, to maintain company sustainability. Some relevant researches were conducted by Whait et al. (2018); Alsaadi (2020); Rudyanto & Pirzada (2021). In general, the result of these researches indicated that Corporate Social Responsibility (CSR) affected tax avoidance. Social and environmental activities have been arranged to become a taxable operational expense (also called deductible expense), and therefore, it may reduce the company's taxable income. Minimizing tax expense, which is then known as tax aggressiveness, is an everyday activity among the largest companies in Indonesia (Pratama, 2018). Different findings were given by Bird & Davis-Nozemack (2018); Mohanadas et al. (2019); Vacca et al. (2020). Their researches showed that Corporate Social Responsibility does not affect tax avoidance. Social and environmental responsibilities are fulfilled only to preserve company image and prestige in recent and future years. Making a report about social and environmental responsibilities is an activity done by the company to serve the government's obligation, and it does not necessarily produce tax aggressiveness (Zeng, 2019).

Previous research has strengthened allegations of CSR activities as a form of sustainability reporting. GRI G4 with 91 measurement indicators shows a more significant role for companies to society and the environment. This has an impact on the cost of CSR activities, which is also getting more significant. The cost of CSR activities is a deductible expense and reduces the company's tax burden. Companies carry out CSR activities as a form of utilization of tax facilities that affect taxable income. This research refers to the GRI G4 measurement indicator and fiscal-based tax aggressiveness measurement, which is not directed in previous studies. This is also reinforced by the legitimacy theory and agency theory that efforts to take advantage of tax facilities carried out by agents are to fulfill stakeholder interests and gain recognition from society and the environment (Gray et al., 1996). Corporate and community social contracts affect the company's strategy. The social contract must run in harmony without conflict and give good prestige in the future. The researcher will examine the effect of sustainability reporting on tax aggressiveness in a public company in Indonesia. Previous researches were not yet consistent in explaining the relationship between sustainability reporting and tax aggressiveness.

METHODS

Research is aimed to understand the effect of sustainability reporting on tax aggressiveness in a public company in Indonesia. The population in this study is companies listed on the Indonesian stock exchange 2014-2018. The research sample was obtained using purposive sampling with two criteria, which respectively are: 1) the company must at least publicize a sustainability report separately from the annual report, and 2) the company must have the value of G-ETR and F-ETR between 0 and 1. The research sample involves 68 companies that have submitted sustainability reports in the period 2014-2018, which is made separately from the annual report. Secondary data used by the research are financial statements downloaded from www.idx.co.id.

The independent variable in this study is sustainability reporting, and the dependent variable is tax aggressiveness. There are 5 (five) control variables measured in this research, and these include company size (SIZE), capital structure (LEVERAGE), company growth (GROWTH), capital intensity (CI), and profitability (ROA). Tax Aggressiveness (TA) is an effort by the company to engineer its tax payment or minimize tax

payable expense without violating taxation laws. Variable TA is measured using two (2) proxies, namely GAAP effective tax rate (G-ETR) that uses a commercial approach, and fiscal effective tax rate (F-ETR) that uses a fiscal policy.

Sustainability Report (SR) discloses company activities as the manifestation of company responsibility to stakeholders regarding its organizational performances (social, environmental, and economic performances) to produce sustainable development. SR is company information regarding economic, environmental, and government performance and an organizational commitment to sustainable development. GRI G4 is an international standard that can communicate its business's impact on economic, social, and environmental aspects. The SR variable uses content analysis for each measurement item based on GRI-G4. The GRI G4 concept measures cost based on the disclosure index of each company, which is calculated compared to the number of items expected to be disclosed by the company.

Company Size (SIZE) indicates the capability of the company or the actual size of the company. This variable is measured by comparing the change in company assets with previously owned assets (Ln total assets). Capital Structure (LEV) is the ratio of how far a company asset can be used to finance company debt. This variable is measured by comparing total debt with total equity. Company Growth (GROWTH) represents the capability of a company to develop in the future. This variable is measured through the comparison between market price and the book value of company stock. Capital Intensity (CI) is about how many assets the company invests in fixed assets and supplies. Variable CI is measured through the comparison between total fixed assets and total assets. Profitability (ROA) refers to the capability of a company to produce earnings by utilizing assets. Variable ROA is measured with the comparison between after-tax earnings and total assets. The following table shows the summary of the variables and their measurement.

Table 2 Variables and Its Measurement

Variable	Measurement of Variable
G-ETR	Company's tax expense (commercial) divided by before-tax net earnings
F-ETR	Company's tax expense (fiscal) divided by taxable income
SR	The number of company disclosure divided by the number of disclosure based on GRI-G4. Disclosure of items based on content analysis
SIZE	Natural logarithm (Ln) of total asset
LEV	Total debt divided by total equity
GROWTH	Total equity divided by total stock
CI	Total net fixed asset divided by total asset
ROA	After-tax earnings divided by total asset

The data used include the panel data period 2014-2018. Data testing is done using linear regression. Three tests are involved, namely descriptive statistic test, classical assumption test, and hypothesis test. The descriptive statistic test uses the values of mean, minimum, maximum, and standard deviation. Classical assumption test comprises of four tests, which are: 1) normality test that uses non-parametric Kolmogorov-Smirnov (KS); 2) multicollinearity test that uses the values of tolerance and variance inflation factor (VIF), where VIF value of ≥ 10 shows multicollinearity; 3) heteroscedasticity test that uses Glejser test at a significance level of 0.05, where the level above 0.05 indicates that there is no heteroscedasticity; and 4) autocorrelation test that uses Durbin Watson test. Hypothesis test involves the F-test, determination coefficient test, and t-test.

The regression model is constructed in stages, which is explained as follows:

$$G-ETR = \alpha + \beta_1 SRDI + e \dots (1)$$

$$F-ETR = \alpha + \beta_1 SRDI + e \dots (2)$$

$$G-ETR = \alpha + \beta_1 SRDI + \beta_2 SIZE + \beta_3 LEV + \beta_4 GROWTH + \beta_5 CI + \beta_6 ROA + e \dots (3)$$

Where:

G-ETR : GAAP effective tax rate (Y1)

F-ETR : Fiscal effective tax rate (Y2)

α : Constant

$\beta_1 \beta_2 \beta_3 \beta_4 \beta_5 \beta_6$: Regression Coefficient of Independent Variables

SRDI : Sustainability Report Disclosure Index (X)

e : Error

Control variables used in this research are:

SIZE : Company Size

LEV : Leverage, or Capital Structure

GROWTH : Company Growth Level

CI : Capital Intensity

ROA : Return on Asset, or Profitability

RESULTS AND DISCUSSION

There are 68 companies involved, and all have publicized sustainability reports in the period 2014-2018. Total data obtained are 340 test data. Results of purposive sampling and outlier test give a researcher with 132 data. The detail of the data is provided in the following Table 3.

Table 3 Data of Sample for Testing

Description	Number of Company	Observation Period	Number of Test Data
A company that publicizes SR	68	Five years	340
A company that does not publicize SR	(20)	Five years	(100)
A company that has values of G-ETR and F-ETR below 0 or above 1	(18)	Five years	(90)
Number of observation data for five years	30	Five years	150
Number of outlier data			(18)
Number of data used for testing			132

A descriptive statistic test over 132 sample data on public companies is described in Table 3. Tax aggressiveness is an effort to minimize a company's tax expense by exploiting fissures in taxation laws. Average value of tax aggressiveness (TA) is 0.26 (for G-ETR) and 0.28 (for F-ETR). Both values are close to 0, which indicates that these values are low and that the company has a strong intention to commit tax aggressiveness to minimize tax expense. What the company will do is to exploit the opportunity existing in tax policy and tax facility. It is done by correcting negative fiscal items, which as a result, it gives the company smaller taxable income and lower tax expense. A sustainability report is a commitment of the company to disclose its social, environmental, and economic activities based on the requirement of GRI-G4. The average

value for sustainability report (SR) disclosure is 0.3, and this value is too small compared to a large number of companies in Indonesia. Sustainability reporting is an activity with a huge cost. Only two sectors are the most frequent and more consistent in sustainability report disclosure, and these are the finance and banking sectors. However, these sectors' environmental items are different from those of other sectors, such as manufacture, mining, and agriculture. The latter three sectors have the highest score of sustainability reporting.

Company Size (SIZE) is determined from the total asset, total sale, earning level, tax expense, etc. The average value of company size is 31.48. Leverage (LEV) is associated with a company policy to obtain a funding source for its operations. The average value of leverage is 0.48, which is relatively high, signifying that the company supports 48% of its equity from third-party debt. The public company relies its capital source on the owner or stockholder and current year earnings. Company Growth (GROWTH) represents the company's capability to develop and produce earnings in the future. The average value of company growth is 0.48, which is relatively high, and indicating that growth volume is quite high and company profitability is improving. Based on this finding, the company must have enhanced its operational capacity that later increases company earnings. Capital Intensity (CI) is the company's capability to invest its asset, mostly fixed assets, to the company operating. The average value of capital intensity is 0.38, which is relatively high. Public companies that publicize sustainability reports separately from annual reports are dominated by two sectors: the finance and banking sectors. In these two sectors, the demand for a fixed asset to be used in operational is not high. Profitability (ROA) refers to the capability of a company to produce earnings by utilizing its assets. The average value of profitability is 0.37, which is considered low, indicating that managing its assets to create optimum earning is still lacking. This situation is quite apparent in the finance and banking sectors.

Table 4 Results of Descriptive Statistic Test

Variable	N	Minimum	Maximum	Mean	Std. Deviation
G-ETR	132	0.19	0.44	0.26	0.04
F-ETR	132	0.00	0.98	0.28	0.19
SR	132	0.08	1.00	0.30	0.18
SIZE	132	26.67	34.72	31.48	1.59
LEV	132	0.05	0.98	0.48	0.26
GROWTH	132	0.01	6.51	0.48	0.59
CI	132	0.01	1.00	0.38	0.24
ROA	132	0.01	0.12	0.37	0.03

The classical assumption test is conducted with four stages. A normality test is performed, and the result shows that the value of Kolmogorov Smirnov Z is 0.66, and the value of the asymptotic sign is 0.200. Both findings signify that residual data are typically distributed. A multicollinearity test has been conducted, and the result reveals that all independent variables have tolerance values above 0.1 or have VIF values less than 10, which signifies that there is no multicollinearity problem. Autocorrelation test is implemented, and the result shows that the Durbin Watson value is 1.8116 and the dl value is 1.6220 ($dU < d < 4-dU$ or $1.8116 < 2.063 < 2.1884$), which can be said that there is no autocorrelation. A heteroscedasticity test has been carried out using the Glejser test, and the result reveals that the significance level of the independent variable is less than 0.05, which indicates no heteroscedasticity.

Hypothesis test involves the F-test, determination coefficient test, and t-test. F-test is conducted on the research model, and the result shows that the F-count value is 8.822, and the significance value is 0.000, which signifies that the regression model is fit. A determination coefficient test has been carried out, and the result reveals that the adjusted R^2 value is 0.148, which indicates that the independent variable has affected tax

aggressiveness by 14.8%. In comparison, the remaining 85.2% is allegedly affected by other factors beyond the independent variable in this research. The implementation of the t-test is aimed at GAAP effective tax rate and fiscal effective tax rate, and the result is presented in Table 5.

Table 5 Result of Hypothesis Test

Model	GAAP effective tax rate		The fiscal effective tax rate	
	β	Sign.	β	Sign.
SR	-0.054	0.005	-0.020	0.075
SIZE	-0.012	0.000	0.003	0.163
LEV	0.013	0.336	0.006	0.000
GROWTH	0.023	0.000	-0.011	0.494
CI	-0.020	0.153	0.054	0.027
ROA	-0.007	0.578	0.002	0.247

Table 5 shows that 1) sustainability report has a negative and significant effect on tax aggressiveness, either based on proxy G-ETR or proxy F-ETR with a significance level of 0.05 and 0.1; 2) Company size and company growth have a significant effect on tax aggressiveness based on proxy G-ETR, while leverage and capital intensity have a significant impact on tax aggressiveness based on proxy F-ETR. Sustainability Reporting affects tax avoidance negatively. A determination coefficient test has been conducted, and the result reveals that the contribution to sustainability reporting on tax aggressiveness is small.

Sustainability Report (SR) Disclosure done by the company is improving, and it signifies that the company becomes more aware of its responsibility to society and the environment (Khalil & O'sullivan, 2017). It is hoped that the fulfillment of responsibility would increase company image and prestige in the future. However, the company's high contribution to society and the environment can increase the proportion of operating expenses, serious impact on earning and tax expense. Some relevant researches were conducted by Whait et al. (2018); Alsaadi (2020); Rudyanto & Pirzada (2021). The more serious problem is that the cost spent on social and environmental activities is classified as a tax item, making the cost named deductible expense. Therefore, it is not surprising if its high contribution to social and environmental matters will force the company to commit tax aggressiveness or tax avoidance. Disclosing information about finance, society and the environment are showing the contribution of the company to society and the environment and becoming a managerial strategy, which probably involves tax aggressiveness, to maintain company sustainability. Every company knows that it must achieve tax expense efficiency if they want to attain optimum earning and ensure that they can still operate (Cerioni, 2014; Joshi, 2020). Making a report about social and environmental responsibilities is an activity done by the company to serve the government's obligation, and it does not necessarily produce tax aggressiveness (Zeng, 2019).

This is also reinforced by the legitimacy theory and agency theory that efforts to take advantage of tax facilities carried out by agents are to fulfill stakeholder interests and gain recognition from society and the environment (Gray et al., 1996). Corporate and community social contracts affect the company's strategy. The social contract must run in harmony without conflict and give good prestige in the future. The company's main reason is to obtain optimum earning, maintain business sustainability, and get stakeholder trust. Stakeholders always hope that the company will grow because the growing company will give them a good return or dividend in recent or future days. Company management it expects to manage company issues, take responsibility for their work, and give stakeholders the best performance (Bird & Davis-Nozemack, 2018). The achievement of optimum earning indicates good performance. Tax aggressiveness is a strategy used by the company to exploit taxation. Tax aggressiveness has a strong impact on earning the achievement, company

cash flow, owner equity, creditor rights, etc. Taxation laws give some opportunities to conduct tax aggressiveness because taxpayers can choose accounting policy, accounting method, tax facility, and tax incentive that they consider benefiting with them. The manager is always a company. Opportunism can be prevented by emphasizing social and environmental interests over their interest. Sustainability report disclosure is essential to be carried out because it enables the company to maintain company image, optimize earning, and gain public legitimacy. Taxation laws require the company to state social and environmental costs in the report with the name of a deductible expense, affecting the company's earning achievement.

Control variables have been tested, and those with significant contribution to tax aggressiveness include company size, leverage, company growth, and capital intensity. Bigger company size can increase its capability to pay tax because a bigger size is associated with more significant assets. However, although the asset is big, the company must still do tax aggressiveness to reduce its tax payable if the current cash flow is limited. High leverage signifies that the capital structure of the company is dominated by third party debt. Usually, the company takes the obligation to cover several costs, such as an administrative cost, notary cost, the interest cost, and others, which may later affect its capability to pay tax. Company growth is profitable if the company can maximize its earnings and improve company equity, signifying that it can achieve optimum earning. However, achieving optimum earnings is not without a problem because the company can only maximize earnings through tax aggressiveness strategy to minimize tax expense by exploiting fissures in taxation laws. Capital intensity is said to be higher if a fixed asset is more than the current assets. The fixed asset can support the company's operations in the long term, which allows the company to predict its capability to produce consistent earning.

CONCLUSION

This research aims to examine the effect of the disclosure of sustainability reporting on tax aggressiveness efforts in public companies in Indonesia. The regression test results prove that the disclosure of sustainability reporting has a significant negative effect on tax aggressiveness. In Indonesia, sustainability report disclosure is still voluntary, but the issue is already solved by requiring the company to state its social and environmental activities as taxable operational costs (deductible expenses). The disclosure of the sustainability report certainly supports the company's efforts to achieve optimal profit in the future. The research findings make a major contribution to the field of accounting and taxation, especially related to tax planning efforts and increasing taxpayer compliance. Another contribution is providing input and recommendations for companies and the government to be able to show good performance through financial and non-financial strategies, efforts to establish appropriate accounting policies or methods, and take advantage of tax facilities provided by the government. Another limitation is that the researcher measures sustainability report disclosure without scoring, and therefore, the justification of disclosure validity depends on researcher wisdom. A further limitation is that some companies are not showing the fiscal reconciliation in the notes at a financial statement, and therefore, the researcher is difficult to estimate the measurement indicator of the fiscal effective tax rate. Research has contributions to the company and government. For the company, this research provides discourse and thought that fiscal reconciliation is needed, and taxation strategy must be implemented. It is hoped that this research will increase the company's capability in formulating the proper accounting policy, determining the accurate accounting method, and utilizing taxation facilities provided by the government. Moreover, this research describes the government regarding which taxation rule and tax facility can improve taxpayers' compliance. Some suggestions are given in the next study, which respectively is: that annual report

should be used as a reference in scoring the sustainability report when the separated sustainability report cannot be found; That's the measurement indicator of fiscal effective tax rate must be used as a new measure of tax aggressiveness, and finance and banking sectors must be differentiated from other sectors because both have different characteristic and a policy from those of another industry.

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