DOES CSR AND YOUNG BOARD DIRECTOR INFLUENCE THE PRACTICE OF TAX AGGRESSIVENESS?

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Abstrak

This research aims to prove empirically the influence of corporate social responsibility and young board of director towards tax aggressiveness. The sample that used in this study is 60 manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018. This research using multiple linear regression analysis method. The result of this research indicates that corporate social responsibility has a significant influence towards the tax aggressiveness. Meanwhile, young board director do not have a significant influence towards the tax aggressiveness of the company. This result correlate with previous research that the higher corporate social responsibility disclosed indicates the higher tax aggressiveness conducted by the company.

Kata Kunci: Corporate Social Responsibility; Youngboard Director; Tax Aggressiveness; Manufacturing Companies; Indonesian Stock Exchange.

Abstract


Keyword: Tanggung Jawab Social; Direktur Muda; Agresivitas Pajak; Perusahaan Pabrikasi; Bursa Efek Indonesia.


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INTRODUCTION

According to World Bank (2019) Indonesia is the sixteenth biggest economy on the planet by nominal GDP and the seventh biggest as far as GDP (PPP). A youthful and dynamic majority rule government, wealthy in a wide range of characteristic assets just as social decent variety, Indonesia is urbanizing and modernizing quickly. Interestingly with most OECD nations and many developing economies, around half of the populace is under 30 years of age, and the working age populace proportion is set to ascend during the following decade (World Bank, 2019). Reasonable macroeconomic strategies and progress in auxiliary changes have been perceived by credit ranking agencies, and
Indonesia has moved up universal rankings of seriousness and the business condition. Since 2015 Indonesia has jumped 34 places in the World Bank’s Ease of Doing Business positioning to 72nd (World Bank, 2017).

Even so, Indonesia’s revenue on tax side is not going the same way as the economic was reported. Stretching economic activity in Indonesia is not free from the role of tax in it. Tax has become the backbone of the country. Its contribution to state income more vital. In 2019, tax revenue accounted for 82.5 percent of total revenue country (Kemenkeu Indonesia, 2019). That is, all costs needed to run the wheels of government and provide access to basic services for the community, depends on the tax receipt. Unfortunately, the level of public awareness is deep, paying taxes is still far from expectations. If compared to its economic activity, Indonesia has not been able to collect tax in ideal amount. This can be seen from the low tax ratio in Indonesia.

In 2018, Indonesia’s tax ratio is only reached 11.5 percent. That is, the portion of the tax that can the state collected only about 11 percent of the total Indonesian economic activity (Kemenkeu Indonesia, 2019). As indicated by information gave by the Finance Ministry (2019), from January-August, the administration brought IDR 801.16 trillion up in tax income or equivalent to USD 56.84 billion, which represents 50.78% of the duty income focus in the 2019 state spending plan. It just indicated a 0.21% expansion from that gathered during a similar period the prior year, during which tax income had risen 16.52%. Albeit a wide range of assessments recorded positive development, the builds were still a lot lower than that in earlier years. Personal duty receipts, for instance, just became 10.6%, which was lower than 16.4 in January-August the prior year (Kemenkeu Indonesia, 2019).

The company is one of the taxpayers who contributes the most in state tax revenue. Meanwhile, for companies, taxes are a burden that will reduce net income so that companies always want to pay tax to a minimum (Astuti & Aryani, 2017). The tax burden is burdensome for companies and their owners, so there are efforts to avoid tax (Chen, 2010). Efforts to legally exempt tax are called tax avoidance. In tax law, tax avoidance is not prohibited even though it often gets unfavorable attention from the tax office because it is considered to have a negative connotation. But unfortunately tax avoidance causes the state to lose tens to hundreds of billions of rupiah each year in the state revenue of the tax sector.

Tax aggressiveness conducted by the company has negative impacts on many parties i.e. the government, shareholders and even the company itself. For the government, there is a decrease in the state revenue from the tax that can be used to fund the provision of public goods in the community such as the development of infrastructure, education, health and others. In addition, tax aggressiveness can also damage the company reputation to the stakeholders and even lead to the termination of the company business operations (Erle, 2008). Watson (2012), Lanis et al. (2015), and Zeng (2016) stated that Corporate Social Responsibility (CSR) is associated with tax aggressiveness, it is also often being done by firms to decrease the number of tax avoidance firms could possibly do and also to decrease the amount paid for tax purposes. Firms highly focused on promoting CSR activities are likely to reduce their tax avoidance activities (Lopez-Gonzalez, et al. 2019). Therefore, as suggested by previous research that future research about the firms practising CSR is less-likely undertake the aggressive tax act with the goals of maximizing profit (Zeng, 2016), this research will be examining about the firm’s CSR act still with the goals of maximizing profit but in more spesific, to decrease the tax payments in which are part of tax aggressiveness act.
The diversity of the board is believed able to bring the company to the better performance. Having a wide scope of aggregate traits, as opposed to covering or repetitive characteristics, helps the board altogether in satisfying its duties of giving great corporate administration and vital oversight. Diversity affects board effectiveness (Li & Wahid, 2017), the impact of board diversity on dividend payout policy is particularly conspicuous for firms with potentially greater agency problems of free cash flow, suggesting that a diverse board helps to mitigate the free cash flow problem (Byoun, et al. 2016). This research will be focusing one criteria of board demographic diversity, the age diversity, specifically the Young Board of Director. Firms were more likely to undergo major changes in corporate strategy if they were run by younger managers(Wiersema & Bantel, 1992). While on the other hand, research has suggested that cognitive abilities, including learning ability, reasoning and memory decrease as people age(Burke & Light, 1981).

Here, the researcher classify the term young BOD reffers to the directors whom are 50 and under. It is stated that the youngest grouped are ranged from 11-29 years, the middle-aged are from 30-59 years, and the old are ranged from 60-100 years(Cameron, 1969). While member of public company board of directors range from early 20s up to over 75 (Pereira, 2018), he than separate the range of age to examine the variance skills of the director between 20-40, 41-50, 51-60, and 61-70 and those above. Hence, this research separates the range according to the variance of skills into two which are the 50 and under and those 51 above. These classification is also according to some prior census and research, such as according to the PWC census in 2018 of the S&P 500 companies in which focus on the young member of the BOD whom are 50 and under. Most younger corporate board members are actively connected to the business world on a day-to-day basis, in turn, they are more likely to work with millennials and are closer to their experiences. Those young member of the board experience with digital transformation and data and analytics, which can help boards oversee new opportunities and challenges, and drive company growth(PWC, 2018). It is also stated in the World Economic Forum that seventeen percent of the incoming members on boards are 50 or younger and this increasingly “young” representation is based on the need for more tech savvy board members to manage market disruption(Aziz, 2018). Low average age of directors (which suggests high age diversity as most board members are over 50) is linked to high market value of an organization compared with its book value (Bonnet al., 2004).

Based on the explanations above, there are two hypotheses examined:

H1: CSR does has influences toward tax aggressiveness
H2: Young board of director does has influences toward tax aggressiveness

RESEARCH METHOD

The sample in this research is using purposive sampling approach based on the criteria that have been set, as follows: manufacturing companies listed on the stock exchange in 2016-2018, use IDR as the currency, never suffered loss during the stated period, never done the tax benefit act, and last, company must have all the data needed. To measure tax aggressiveness, we refer to ETR model by Hanlon and Heitzman(2010). While the corporate social responsibility will be measured using CSDI formula (Ariwendha & Hasyir, 2015) and young board of directors measured using dummy. All of
the data gathered will be analyzed using multiple regression. Here is the formula of the regression model:

\[
TAG = \beta_0 + \beta_1 CSR + \beta_2 YBOD + \epsilon \quad [1]
\]

Whereas:
- \( TAG \) = Tax Aggressiveness
- \( CSR \) = Corporate Social Responsibility
- \( YBOD \) = Young Board of Director
- \( \epsilon \) = Error

**RESULT AND DISCUSSION**

**Descriptive Analysis**

Descriptive statistics only presents general information of the variables that being tested in this research. It reveals the calculation results of mean, minimum, maximum, and standard deviation for each variable, which consists of seventy-five samples. Table 1. below shows the summary of descriptive statistic of each variable for this research, by using Eviews

<table>
<thead>
<tr>
<th>Table 1. Descriptive Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAG</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Std. Dev.</td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

Based on the table 1 presented above, the result explained the descriptive analysis testing are as follows:

**Tax Aggressiveness (TAG)**

Based on table 1 above, from 180 observational data, the minimum value of the tax aggressiveness is 0.00441 and the maximum value is 0.97121. Thus, the tax aggressiveness of this sample are ranged from 0.00441 to 0.97121. The mean and median values on tax aggressiveness are 0.268527 and 0.25624 at the standard deviation of 0.12387. The mean value is greater than the standard deviation 0.268527 > 0.12387.

**Corporate Social Responsibility (CSR)**

Based on table 1 above, from 180 observational data, the minimum value of corporate social responsibility is 0.010989 and the maximum value is 0.527473. Thus, corporate social responsibility are ranged from 0.010989 to 0.527473. The mean and median values on corporate social responsibility are 0.175275 and 0.148352 at the standard deviation of 0.100878. The mean value is greater than the standard deviation 0.175275 > 0.100878.
Young Board of Director (Young BOD)

Based on table 1 above, from 180 observational data, the minimum value of young board of director is 0 and the maximum value is 1. Thus, young board of director are ranged from 0 to 1. The mean and median values on young board of director are 0.611111 and 1 at the standard deviation of 0.488857851. The mean value on young board of director is greater than the standard deviation 0.611111 > 0.488857851.

Model Selection Tests

Chow test

Chow test is a test to estimate whether common effect method is better than fixed effect model to be used in this study (Widarjono, 2007).

<table>
<thead>
<tr>
<th>Table 2. Chow Test</th>
<th>Redundant Fixed Effects Tests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects Test</td>
<td>Statistic</td>
</tr>
<tr>
<td>Cross-section F</td>
<td>6.237070 (59,118)</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
<td>254.789552</td>
</tr>
</tbody>
</table>

The result of Chow test show that the probability cross-section chi-square are 0 which is lower than 0.05. Based on this test, the cross-section model that should be used is fixed effect.

Hausman test

Hausman test is a test used to see the evaluation of fixed and random coefficients on coefficients (Schwert, 2010). The result is chosen based on the Hausman statistic.

<table>
<thead>
<tr>
<th>Table 3. Hausman Test</th>
<th>Correlated Random Effects – Hausman Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test Summary</td>
<td>Chi-Sq. Statistic</td>
</tr>
<tr>
<td>Cross-selection random</td>
<td>2.172704</td>
</tr>
</tbody>
</table>

The result of Hausman Test show that the cross-section random probability is 0.3374 which higher than 0.05. Based on this test, the cross-section model that should be used is random effect.

Breusch-Pagan test

Breusch-Pagan test here is used to detect cross-sectional dependence. The test is use to determine which cross-section model should be use on this research as the result of the Chow test and Hausman Test are different.

<table>
<thead>
<tr>
<th>Table 4. Breusch-Pagan test, Ommitted Random Effects - Lagrange Multiplier Test</th>
<th>Cross-Section Period</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>One-Sided</td>
<td>One-Sided</td>
</tr>
<tr>
<td>Breusch-Pagan</td>
<td>69.96830 (0.0000)</td>
<td>1.111374 (0.2918)</td>
</tr>
</tbody>
</table>

The result of Breusch-Pagan Test show that the probability value is 0 which is lower than 0.05. It means that based on this test, fixed effect model are rejected and random effect model is the right model to be used on this research.
Thus, based on the testing result of each cross section model, the model used in this research are random model effects.

Classical Assumption Tests

Normality test

Normality test is usually conducted by researchers to see whether the data were normally or not. The result is shown in Figure 1 below on the graphic of Jarque-Bera normality test on E-views.

This research does not pass the normality test as the Jarque-Bera is 1300.485 and the probability is 0 which is lower than 0.05, or in other word, the data were not normally distributed. However, as the sample size increases, normality parameters become more restrictive and it becomes harder to declare that the data are normally distributed (Ghasemi & Zahediasi, 2012). So for very large data sets, normality testing becomes less important. Gujarati (2007) once stated that the normality test may not become important in big set of data (more than 30 total data). This research is based on observation of 60 companies in 3 years, so the total is 180 observations which is a big set of data.

Heteroscedasticity test

Heteroscedasticity is a systematic change in the spread of the residuals over the range of measured values. To satisfy the regression assumptions and be able to trust the results, the residuals should have a constant variance (Frost, 2019). Glejser test is used on this research to test on heteroscedasticity in this research as Glejser test regresses the variables to the residual absolute.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.077258</td>
<td>0.018262</td>
<td>4.230448</td>
<td>0.0000</td>
</tr>
<tr>
<td>CSR</td>
<td>0.002342</td>
<td>0.057312</td>
<td>0.040862</td>
<td>0.9675</td>
</tr>
<tr>
<td>YOUNG BOD</td>
<td>-0.014360</td>
<td>0.015601</td>
<td>-0.920464</td>
<td>0.3586</td>
</tr>
</tbody>
</table>

Based on the result of the data generated, it shows that the probability value of both CSR and YOUNG BOD were higher than 0.05 which is 0.9675 and 0.3586. Therefore, it is concluded that there is no heteroscedasticity problem on this research.
Autocorrelation test

There should be no autocorrelation occurred. Therefore, researcher uses the Durbin Watson test model on autocorrelation to test whether autocorrelation problem occurred or not in this research.

| Table 6. Durbin Watson Test Model on Autocorrelation Test |
|---------|---------|---------|---------|---------|
| dL      | dU      | DW      | 4-dU    | 4-dL    |
| 1.7224  | 1.7901  | 1.972526| 2.2099  | 2.2776  |

The table 6. above shows that the DW is 1.972526 which is higher than dU (1.7901) and lower than 4-dU (2.2099). This means that there is no autocorrelation occurred.

Multicollinearity test

The aim of multicollinearity test is to test whether there is correlation between variables in regression model (Ghozali, 2016). In this research the test on multicollinearity is used by analyzing the correlation matrix between independent variable. The correlation between independent variables should be less than 0.80. if it is more than 0.80, there is indication of multicollinearity.

| Table 7. Correlation Matrix between Each of Independent Variable |
|------|---------------|
| CSR  | 1             |
| YOUNG_BOD | 0.001867     |

Table 7 above showed the coefficient correlation between CSR and young board of director are 0.001867. Therefore, it means that there is no indication of multicollinearity problem between the independent variables on this research; as the coefficient correlations of both variables were lower than 0.80.

Multiple Regression Analysis Result

| Table 8. Multiple Linear Regression Model |
|-------|-----------------|--------|-----------|---------|
| Variable | Coefficient | Std. Error | t-Statistic | Prob.   |
| C       | 0.294751      | 0.023362  | 12.60878   | 0.0000  |
| CSR     | -0.130451     | 0.077958  | -1.673343  | 0.0960  |
| YOUNG_BOD | -0.005202  | 0.020483  | -0.253958  | 0.7998  |

Based on the table 8. above, the regression equation will be formulized as:

\[
TAG = 0.294751 - 0.130451 \text{CSR} - 0.005202 \text{YBOD} \quad [2]
\]

The Influence of CSR towards Tax Aggressiveness

The statistical result show that there is significant influence of corporate social responsibility. It is shown that the probability of 0.0960 which is lower than 0.1. The result shows that corporate social responsibility does has significant influences towards tax aggressiveness. So, the first hypothesis is supported. The result shows negative coefficient which indicate the higher the company disclose their corporate social responsibility the lower the effective rate is. In other words, the more company disclose their corporate social responsibility, the more the possibility of the company itself doing the tax aggressiveness since the lower effective tax rate show the higher tax
aggressiveness. This result is supported by prior research that conducted by Hidayati et al. (2017) who found that the higher corporate social responsibility disclosed indicates the higher tax aggressiveness conducted by the company.

**The Influence of Young BOD towards Tax Aggressiveness**

According to the examination, there is no significant impact of young board of director towards tax aggressiveness. It is shown by the probability of 0.7998 which is more than 0.1, means that the second hypothesis is rejected. It proves that the existence of young board of director in the company does not influence the actions of corporate tax aggressiveness. This could be caused by the number of young directors (50 years old and younger) is less than that of the old classified directors (directors above 50 years old) in the board of directors of each of the companies which is chosen as the sample in this research, that is why the behavior of young directors who are few in number cannot influence the outcome of decisions taken by the company especially in tax aggressiveness actions.

The result of this research is not in line with what is stated by Bozucuk (2016) that the performances of the companies are higher for the companies with younger directors. Therefore, by this research, the existence of the young directors in the board with their opinions and new way of contributions given to help run the company is still did not have a significant impact towards the company’s planning and decisions including planning and decisions in the tax sector as older directors were still outperform.

**CONCLUSIONS**

This research aims to determine the influence of corporate social responsibility and young of board directors towards tax aggressiveness in manufacturing companies during 2016-2018 period. The samples used in this study were 180. Based on the data that has been collected and tests that have been carried out using multiple regression models, the conclusion that can be pointed out are as the following. The first result shows that CSR significantly influences the tax aggressiveness. This research concludes that the more company disclose their corporate social responsibility, the more the possibility of the company itself doing the tax aggressiveness since the lower effective tax rate show the higher tax aggressiveness. In addition, the second result indicates that young board of directors does not significantly influence the tax aggressiveness. However, this might be happened because of less young director in the companies that were chosen as the sample of this research. This means that there might be a different result and conclusion towards this second hypothesis (H2) if the companies used as samples are having more younger directors than the old one.

After examination and analysis of the research findings, the researcher would like to suggest several recommendations for the future research. Researcher may expand the object of the research in a big scale (not in manufacturing companies only but using or adding another company sector as the object of research) in which could make the research appropriate to be generalized in some more company sectors and be better explained the actual data variability. Besides, future researcher could also decrease the number of observations by adding more criteria of the sample selection (to be more detail in the object of the research) and/or by eliminating the outlier from the observations. To enrich novelty of research, it can be added for some new variables, such as corporate governance (Desai & Dharmapala, 2007) and another board diversity category (Li & Wahid, 2017).
REFERENCES
Aziz, K. (2018). This is why boards of directors need younger members. World Economic Forum.