TAX AVOIDANCE IN THE MANUFACTURING INDUSTRY: THE EFFECTS OF CSR DISCLOSURE AND EARNINGS MANAGEMENT

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Abstract— Tax avoidance in Indonesia must be considered due to the trend of tax avoidance carried out by taxpayers, which causes the state to experience losses. Based on data from the Directorate General of Taxes of the Ministry of Finance, due to tax avoidance, it can cost Indonesia up to 4.86 billion U.S. dollars, equivalent to Rp 68.7 trillion if exchanged into Rupiah per year. This study aims to determine the effect of disclosure of Corporate Social Responsibility (CSR) and earnings management on tax avoidance, with financial performance as an intervening variable. This research includes quantitative research with secondary data. The population in this study are companies registered at Jakarta Islamic Index 70, and the samples used are manufacturing companies registered at Jakarta Islamic Index 2018–2022. The method used is Path Analysis by using the software eviews10. The results of this study show that Corporate Social Responsibility and earnings management have no significant positive effect on tax avoidance. Financial performance has a significant negative effect on tax avoidance. CSR has a significant positive effect on financial performance, and earnings management has a significant negative effect on financial performance. Meanwhile, financial performance cannot mediate CSR and earnings management for tax avoidance.

Keywords: : CSR; Earnings Management; Tax Avoidance; Financial Performance

1. INTRODUCTION

1.1 Background

Tax avoidance in Indonesia must be considered because of the trend of tax avoidance carried out by taxpayers and the state's losses. Based on data from the Directorate General of Taxes of the Ministry of Finance, due to tax avoidance, it can cost Indonesia up to 4.86 billion U.S. dollars, equivalent to Rp 68.7 trillion if exchanged into Rupiah per year. The practice of tax avoidance, based on the exposure of the Director General of Taxes (DGT), said that an increase in the number of corporate taxpayers who came from corporations claimed losses for years but could still operate and develop businesses in Indonesia. The Ministry of Finance noted that the total number of corporate taxpayers who reported losses reached 9,496 from 2015 to 2019, while in the 2012–2016 period, 5,199 taxpayers reported losses, an increase of 83%. Therefore, it indicates the practice of tax avoidance (Pangastuti, 2021).
Taxes are one of the largest sources of Indonesian state revenue. The government implements tax collection. Taxpayers only sometimes get a good response from them. From the taxpayer's side, try to keep the amount of tax paid as low as possible by reducing their financial ability.

Because of differences in interests, taxpayers tend to do various things to reduce tax deferrals, both legally allowed and illegal (Andrayani et al., 2017).
Tax avoidance is an effort to avoid taxes carried out without violating tax regulations, also called legal. Tax avoidance can be implicated in tax avoidance. This treatment benefits taxpayers because they are still allowed regulations, but the tax burden is reduced. On the other hand, the government will continue to maximize income from the tax sector in order to continue to carry out the nation's development. With this, there are essential differences between the government and the company in tax avoidance practices (Suripto, 2021).
Previous research (Purbowati & Yuliansari, 2019; Septiadi et al., 201: 7) stated that CSR has a significant favorable influence where CSR can cover tax avoidance actions. In addition to CSR research, Rifai & Atiningsih (2019) said that profit management has a significant positive effect because it can regulate the numbers on financial statements and affect the tax burden so that tax avoidance occurs more frequently. The research of Putri & Putri (2017) influences tax avoidance using financial performance as a mediating variable because financial performance can regulate the benchmark of assets obtained to affect the amount of tax paid.

1.2 Problem Statement

Based on the background, the formulation of the problem posed is:

1. How is the effect of CSR disclosure on financial performance?
2. How is the effect of earnings management on financial performance?
3. How is the effect of financial performance on tax avoidance?
4. How is the effect of CSR disclosure on tax avoidance?
5. How is the effect of earnings management on tax avoidance?
6. How the effect of CSR disclosure practices on tax avoidance through financial performance?
7. How is the effect of earnings management on tax avoidance through financial performance?

1.3 Literature Studies and Hypothesis Development

1.3.1 *Agency Theory*

Agency theory from Jensen and Meckling (1976) (Puspitaningrum & Indriani, 2021) in their book entitled "*Theory of the Firm: Agency Cost, Ownership Structure, and Management behavior* ."This agency theory describes the relationship between two parties, namely between principals and agents, where the principal contracts with the agent and compensates for a job completed by the agent. Where the principal contracts the agent and compensates for a job completed by the agent. Therefore, in a company, there are differences in interests, but these differences have the same goal: to achieve the skills desired by the company. Because of this, there is a desynchronization of information between company owners and their agents or managers.

1.3.2 Disclosure of Corporate Sosial Responsibility and Financial Performance

CSR that companies have expressed will tend to increase their profits, and financial performance will look better. Is related to companies that express CSR will be more attractive to investors because the company has expressed CSR well. Supports research from ((Herdiansyah & Ghozali, 2021) and (Suciwati et al., 2017), which explain that CSR disclosure positively affects financial performance.

H1: *Corporate Social Responsibility* disclosure significantly positively affects financial performance.

1.3.3 Earnings Management and Financial Performance

Earnings management deals with financial managers; Earnings management directly affects financial performance. In the company's financial performance, one factor that affects it is earnings management concerning performance in agency theory, where the principal contracts the agent and gives compensation or compensation to the agent for completing a job given by the company. Financial managers carry out the financial statements as the basis for measuring the performance of the company's finances, namely financial statements. In measuring the success of the company's operations for a period, namely, in the financial statements, one type is an income statement. However, conveying the figure of a profit generated in a certain period is influenced by the accounting method used by management to obtain and deliver profits following the wishes or motivations of the management; research conducted by (Ghazali & Irwanto, 2019) stated that earnings management has a positive effect on financial performance.

H2: Earnings management has a significant positive effect on financial performance

1.3.4 Financial Performance and Tax Avoidance

One of the financial performance indicators is using ROA, which means that the higher the profit generated, the higher the level of opportunity for management to do tax avoidance because the company can manage its assets well to benefit from tax-intensive and other tax breaks so that the company can do so n tax avoidance. Research conducted (Fiandri &; Muid, 2017) stated that financial performance significantly influences tax avoidance. In determining the amount of tax, agents as managers of financial statements with planning in financial performance.

H3: Financial performance has a significant positive effect on *tax avoidance.*

1.3.5 Disclosure of Corporate Sosial Responsibility and Tax Avoidance

From the research of Septiadi et al. (2017), Corporate Social Responsibility has a significant favorable influence on tax avoidance. However, CSR is often considered an obstacle, and engaging in tax avoidance strategies is essential to maximize shareholder wealth, and CSR negatively affects tax disclosure (Abdelfattah &; Aboud, 2020). CSR is not the only benchmark for good governance, but CSR can be a shield for a company to look good in the eyes of investors and attract investors. So the higher the level of CSR disclosure, the higher the tax aggressiveness. It supports research from Septiadi et al. (2017), Andrayani et al., 2017, Abdelfattah & Aboud (2020), and Purbowati et al. (2019), stating that CSR disclosure has a significant positive effect on tax avoidance.

H4: Disclosure of *corporate social responsibility* significantly positive*ly affects tax avoidance.*

1.3.6 Earnings Management and Tax avidance

Tax motivation makes management regulate profits so that earnings management aims to lower tax burdens and pay more minor expenses. The manager carries out earnings management because of the desire to reduce the deferred tax burden. So because of the company's management ethics, the more aggressive earnings management, the level of aggressiveness of corporate taxes is also high because the company's tax burden is getting smaller. It supports research ((Rifai & Atiningsih, 2019) and (Anggraeni &; Kurnia, 2021) explaining that earnings management positively affects tax avoidance.

H5: Earnings management has a significant positive effect **on *tax avoidance***

1.3.7 Disclosure of Corporate Sosial Responsibility,Tax Avoidance and Financial Performance

CSR disclosure can increase company profits and financial performance that looks better. It can create confidence in investors to invest their capital into the company. It is supported by research from (Herdiansyah &; Ghozali, 2021) and (Suciwati et al. 2017)(Herdiansyah & Ghozali, 2021; Suciwati et al., 2017)(Herdiansyah & Ghozali, 2021; Suciwati et al., 2017)(Herdiansyah & Ghozali, 2021; Suciwati et al., 2017), explaining that CSR disclosure significantly influences financial performance. The higher the CSR disclosure, the higher the tax aggressiveness for the principal's interests (Purbowati et al., 2019). It can relate to agencies where the agent has access and authority in financial performance to be used for the principal's benefit. Similarly, the higher the ROA, agents can implement tax planning to reduce the tax burden (Fiandri &; Muid, 2017).

H6: *Corporate social responsibility* disclosure significantly affects *tax avoidance* through financial performance.

1.3.8 Earnings management, Tax Avoidance and Financial Performance

Putri & Putri (2017) explained that tax planning efforts aim to make taxes companies pay more efficiently. In the theory of management agencies wanting to reduce taxes employing earnings management, earnings management is one factor that affects the company's financial performance because it is related to financial statements. With the financial performance, managers can manage profits to reduce the tax burden so that the deferred tax to the company is smaller. The follows what researchers (Ghazali &; Irwanto, 2019) and (Holly, 2021) stated that earnings management has a positive effect on financial performance, and research (Fiandri &; Muid, 2017) explained that financial performance has a positive influence on *tax avoidance.*

H7: Earnings management significantly positively affects *tax avoidance* through financial performance.

1.3.9 Research Framework

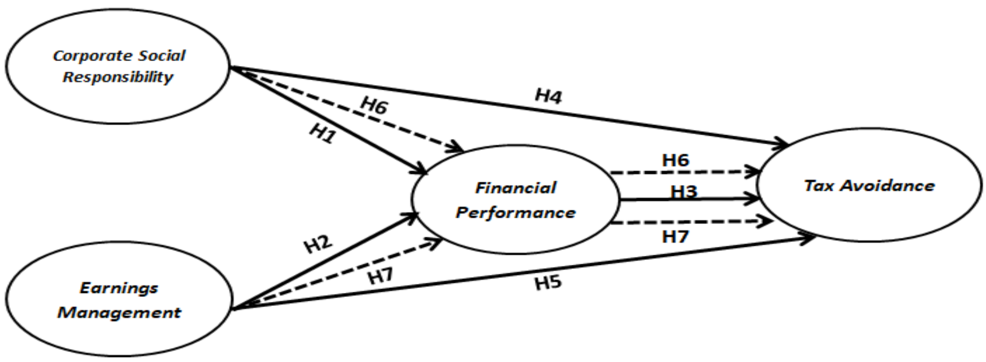


Figure 1. Research Framework Image

2. METHODOLOGY AND DATA ANALYSIS

2.1 Population and Sample

According to Bawono (2018), the population is the entire generalization area consisting of subjects or objects that have specific criteria that have been set by researchers to be studied, the population in this study is a company listed in JII 70 for 2018-2022, then conclusions are drawn and samples according to Pratama &; Cahyono (2021) for sampling are used if the population is substantial. In this study, samples were taken from data from various existing sources by taking samples for five periods in manufacturing companies listed on the JII 70 stock index for five years, namely data for 2018-2022. This research uses panel data, a time series, and cross-section data. In this study, it can be concluded that the number of research observations is 105.

2.2 Research Methods

2.2.1 Dependent Variable

Tax Avoidance

Measurement of tax avoidance with cash effective tax rate (CETR) is by calculating from cash tax payments to company profits before income tax (Ani et al., 2019). It can be done with the formula:

$$\textbf{CETR} = \frac{amount\ of\ tax\ payment}{profit\ before\ tax}$$

2.2.2 Independent Variable

1. **Corporate Social Responsibility**

   CSR is an activity carried out by the company to build a good image for the company and influence the social and economic environment in the community. CSR measurement based on GRI (Global et al.) considering 91 indicators. An item with a value of 0 if the item is not disclosed by the company (Safitri &; Muid, 2020). This CSR measurement is carried out as follows:

$$\textbf{CSR} = \frac{number\ of\ indicator\ disclosed}{indicator\ CSR\ item}$$

2. **Earnings Management**

   According to Rahmadani *et al*. (2020), MABA management is an effort by management to prepare financial statements with consideration so that income based on predetermined financial statement figures is affected by the consideration actions of the management. According to Sukaesih and Nurma Risa (2014), earnings management is measured using the following ratios:

$$\textbf{DAit} = \frac{TAit}{Ait-1} - \textbf{NDA it}$$

DAit = *Discretionary Accruals*period year t
NDAit = *Nondiscretionary Accruals* in year t
TAit = Total accruals in year t
Ait−1 = Total assets in year t-1

2.2.3 Intervening Variable

Financial Performance

According to Fiandri &; Muid (2017), Financial performance uses probability to measure financial performance, so the proxy used is ROA. The measurement is as follows:

$$\textbf{ROA} = \frac{prifit\ before\ tax}{re\ total\ tax\ asset} \times \textbf{100\%}$$

2.3 Research Model

Path Analysis which is a direct development of multiple regression forms, with the following equation model:

$Z = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + e$ (1)

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta 4 Z + e$ (2)

Information

Y = Tax avoidance

X_1= Corporate Social Responsibility

X_2 = earnings Management

Z = Financial performance

3. RESULTS OF RESEARCH AND DISCUSSION

3.1 Overview of the Research Object

The focus of this research object is Manufacturing companies registered in JII 70, which have published the results of the annual report for 2018-2022.

3.2 Descriptive Statistics

Tabel 1. Statistical Tests

	X1	X2	Y	Z
Mean	0.497854	-0.002578	114406.1	0.110202
Median	0.439560	-0.002399	0.261320	0.080600
Maximum	0.747253	0.036587	5725657.	0.624176
Minimum	0.241758	-0.031705	0.003071	0.002088
Std. Dev.	0.134312	0.010403	615454.1	0.111006
Skewness	0.239654	0.647037	7.636635	2.148132
Kurtosis	2.151445	5.211845	67.69818	8.278010
Jarque-Bera	4.155292	28.73013	19333.68	202.6294
Probability	0.125225	0.000001	0.000000	0.000000
Sum	52.27472	-0.270647	12012643	11.57125
Sum Sq. Dev.	1.876140	0.011255	3.94E+13	1.281523
Observations	105	105	105	105

Source: Data Processed 2023

The descriptive statistical test shows:

1. Corporate Social Responsibility (X1)
   The results of the minutes show that variable x1 or CSR has a minimum value of 0.497854, a maximum value of 0.747253, an average value of 0.497854, and a standard deviation of 0.134312.
2. Earnings Management (X2)
   The results of the menu analysis show that the variable x2 or earnings management has a minimum value of -0.031705, a maximum value of 0.036587, an average value of -0.002578, and a standard deviation of 0.010403.
3. Tax Avoidance (Y)
   The test results show that the variable Yor tax avoidance has a minimum value of 0.003071, a maximum value of 5.725657, with an average value of 114406.1 and a standard deviation of 615454.1.
4. Financial Performance (Z)

The test results show that the variable Z or financial performance has a minimum value of 0.002088, a maximum value of 0.624176, an average value of 0.110202, and a standard deviation of 0.111006.

3.3 Data Analysis Results

3.3.1 Regression Analysis

Test the regression model *of the Tax Avoidance* equation

1. ChowTest
   The Common Effect, the Model CEM model, was chosen with the probability cross-section chi-square value of 0.0690 > 0.05.
2. Housman Test
   Judging from the probability cross-section chi-square value of 0.9059 > 0.05, the selected model is the Random Effect Model (REM)
3. Lagrange Multiplier Test
   Judging from the probability cross-section value of Breusch-Pagan 0.4223 > 0.05, the Common Effect Model (CEM) model was chosen

Regression model test Financial Performance Equation

1. Chow Test
   Judging from the probability value of the Chi-square cross-section is 0.0000 < 0.05, the choice of model is the Fixed Effect Model (FEM).
2. Housman Test
   Judging from the probability value of the Chi-square cross-section of 0.9243 > 0. 05, the Random Effect Model (REM) model is chosen.

3.3.2 Classical Assumption

From the Y regression normality test results, the Jarque-fallow value is 3.363579 with a probability of 0.186041 >0.05. It can be said to be normal. While the normality test on Z regression Jarque-fallow value of 1.307099 with probability 0.520196 > 0.05 can be said to be normal. From the results of the multicollinearity test of the Y and Z regression models, the sig value < 0.8. There is no correlation or in other words, free from multicollinearity.

Table 2. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	800575.2	707852.6	1.130991	0.2670
X1	-587324.1	1279158.	-0.459149	0.6494
X2	15473.18	97674.38	0.158416	0.8752
Z	-1157518.	1490345.	-0.776678	0.4434

Source: Data Processed 2023

From the table, *the probability* value for all variables > 0.05 or it can be said to be free from the problem of heteroskedasticity.

3.4 Coefficient of Determination (R^2)

3.4.1 Coefficient of Determination (R^2) regression Y

Table 3. Regression Test Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.484628	1.832209	-2.993450	0.0035
X1	2.463845	2.747168	0.896867	0.3719
X2	11.04257	36.25807	0.304555	0.7613
Z	-1.305903	0.344482	-3.790915	0.0003
R-squared	0.138810	Mean dependent var		-0.766664
Adjusted R-squared	0.113230	S.D. dependent var		3.926868
S.E. of regression	3.697871	Akaike info criterion		5.490742
Sum squared resid	1381.099	Schwarz criterion		5.591845
Log-likelihood	-284.2640	Hannan-Quinn criteria.		5.531711
F-statistic	5.426541	Durbin-Watson stat		1.781062
Prob(F-statistic)	0.001679			

Source: Data Processed 2023

Following the table above that there is an R Squared value of 0.138810. The *R Squared* value concludes that it can explain the dependent variable by 13% while other variables can explain the rest.

3.4.2. Coefficient of Determination (R^2) Regression Z

Table 4. Regression Test Z

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-0.045179	0.062082	-0.727725	0.4684
X1	0.306971	0.115777	2.651391	0.0093
X2	-0.990981	0.425380	-2.329637	0.0218
	Effects Specification			
			S.D.	Rho
Cross-section random			0.103835	0.8711
Idiosyncratic random			0.039941	0.1289
	Weighted Statistics			
R-squared	0.109094	Mean dependent var		0.018683
Adjusted R-squared	0.091625	S.D. dependent var		0.041527
S.E. of regression	0.039579	Sum squared resid		0.159780
F-statistic	6.245106	Durbin-Watson stat		0.946664
Prob(F-statistic)	0.002763			
	Unweighted Statistics			
R-squared	0.113848	Mean dependent var		0.110202
Sum squared resid	1.135624	Durbin-Watson stat		0.133193

Source: Data Processed 2023

The table above shows that the RSquared value is 0.109094, so the conclusion of the RSquared value can explain the dependent variable to the independent variable, which is 10%. In contrast, other variables can explain the rest.

3.5 Simultaneous Test (F Test)
3.5.1 Simultaneous Test (F Test) Y Regression
From the regression test results in the table above, the Probability f test number of 0.00167 < 0.05, the variables CSR, Earnings Management, and Financial performance have a positive or significant correlation with Tax Avoidance.

3.5.2 Simultaneous Test (F Test) Z Regression
From the regression test results in the table above, the Probability f test number is 0.002763< 0.05. The variables CSR, Earnings Management, and Financial Performance positively or significantly correlated with financial performance.

3.6 T Test (Partial Test)
3.6.1 T Test (Partial Test) for Y
a). Corporate Social Responsibility

From the tests carried out, there is a probability number of 0.3719 > 0.05 with a coefficient value of positive value. This positive but insignificant effect of H4 is rejected.

b). Earnings management

The test results conducted a probability value of 0.7613 >0.05 with a positive en coefficient. It can be concluded that individual earnings management variables have a positive but not significant influence on H5 is rejected.

c) Financial Performance

Results of the test conducted, there is a probability value of 0.0003 <0.05 with a negative en coefficient. It can be concluded that in the management earnings management variable has a negative but significant influence, H3 is rejected.

3.6.1 T Test (Partial Test) fpr Z
a). Corporate Social Responsibility

From the tests carried out, there is a probability number of 0.0093 <0.05, and the coefficient value is positive. It can be concluded that individually this positive and significant influence of H1 is accepted.

b). Earnings Management

The test results contained a probability value of 0.0218 < 0.05 with a negative coefficient, it can be concluded that the individual earnings management variable has a negative and significant influence, but H2 is rejected.

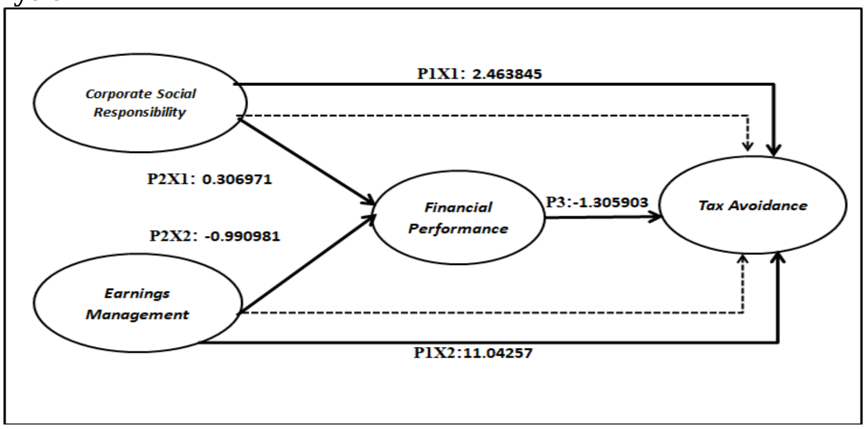
3.7 Path Analysis


Figure 2. Path Analysis

Table 5. Path Analysis

Variable	P1 (X to Z)	P2 (Z to Y)	Sp1 std Error (X to Y)	Sp2 std Error (X to Z)	P1 x P2
X1	2.651391	-3.790915	2.747168	0.115777	-1.005119
X2	-2.329637	-3.790915	36.25807	0.425380	8.831455

Source: Data Processed 2023

According to the calculation results of the value of t statistical correlation mediator financial performance variables:

a. $T1 = \frac{p1p2}{sp1sp2} = \frac{-1.005119}{0.3719} = -2.70265$

b. $T2 = \frac{p1p2}{sp1sp2} = \frac{8.831455}{0.7613} = 11.6030836$

Based on the calculation of the df value, 103, and the significance level of 5%, the table t value is 1.659352. Conclusions from the measurements made, then the result:
1. The magnitude of t count = -2.70265 < 1.659352 with a sig level of > 0.05 means that financial performance variables cannot mediate the relationship between CSR and *tax avoidance.*
2. The magnitude of t calculated 11.6030836 > 1.659352 with a sig level of > 0.05 means that financial performance variables can mediate the relationship between earnings management and *tax avoidance* but are insignificant.

3.8 Discussion

Based on the study results, CSR variables positively and significantly affect financial performance, so H1 is accepted. This result is supported by previous researchers (Suciwati et al., 2017; Herdiansyah & Ghozali, 2021). Their research stated that the CSR variable significantly affects financial performance. Companies with CSR disclosures attract investors to invest their capital so that it can affect the company's profitability.
Based on the study results, it is showing that earnings management had a significant negative effect, H2 was rejected. This result is supported by previous researchers, namely Astari et al. (2021) and Faisal & Syafruddin (2020), who stated that earnings management has a negative effect and rejected research from Ghazali & Irwanto (2019). The existence of earnings management activities can affect financial performance. In the long run, earnings management can reduce profits because it affects the increase in costs (Faisal & Syafruddin, 2020).
In the financial performance variable showing a significant negative for Tax Avoidance, H3 was rejected. It was supported by previous researchers, namely Kusufiyah & Anggraini (2019) and rejected by research from Putri & Putri (2017, 2018) and Fiandri & Muid (2017, 2018). The higher the ROA the company generates, the better its financial performance. For large assets, the taxes charged also contribute to the large burden that must be paid.
If the CSR variable shows positive insignificance for tax avoidance, then H4 is rejected. It rejects research from Sepiadi et al. (2017) and Andrayani et al. (2017) and is supported by previous researchers, namely (Liu & Lee, 2019; Nsafe *et al*., 2021; Andrayani et al., 2017); Hendi & Hadianto (Liu & Lee, 2019) (Liu & Lee, 2019) (Liu & Lee, 2019), 2021) (Hendi & Hadianto, 2021), (Hendi & Hadianto, 2021)that CSR variables are not significant for tax avoidance. High CSR will affect the trust of stakeholders. Therefore, high CSR disclosure makes companies increasingly avoid tax avoidance.

In the profit variable, management showed a positive insignificant contribution to tax avoidance, and H5 was rejected. It rejects research from (Rifai & Atiningsih, 2019) and (Rifai & Atiningsih, 2019), namely (Hendi & Hadianto, 2021, and Purbowati & Yuliansari, 2019), stating that earnings management does not affect tax avoidance. Earnings management activities for shareholders do not want to do this because it can affect financial statements and mislead stakeholders.

The performance variable cannot mediate between the CSR and tax avoidance variables, so H6 is rejected. The analysis of financial performance data has a negative value for tax avoidance. In comparison, it has a positive value for Tax avoidance but is not significant. CSR tends to aim to improve the company's image so that its financial performance gets better. At the same time, tax avoidance, in the long run, will reduce the company's image and reduce profits.

Financial performance cannot mediate between earnings management variables, and tax avoidance, thus H7 is rejected. Based on this result, the relationship between earnings management and tax avoidance has a positive value. However, it is insignificant, while the relationship between financial performance, earnings management, and tax avoidance has a significant negative value. Agency theory states that management wants to lower the value of taxes through earnings management, while shareholders will resist earnings management because it can change financial statements.

4. CONCLUSIONS AND SUGGESTIONS

4.1 Conclusion:

1. Corporate Social Responsibility (CSR) positively and significantly affects financial performance..
2. Earnings management has a negative and significant effect on financial performance..
3. Financial performance has a significant negative effect on tax avoidance.
4. Corporate Social Responsibility (CSR) has a positive and insignificant effect on tax avoidance.
5. Earnings management has a positive and insignificant effect on tax avoidance.
6. Financial performance cannot mediate the influence of Corporate Social Responsibility (CSR) on tax avoidance.
7. Financial performance cannot be a mediator in the effect of earnings management on tax avoidance

4.2 Limitations

The object of the manufacturing company in JII 70 is still not much to prove the amount of influence on the variables studied. JII 70 is the latest Islamic stock index, so it is still limited in time.

4.3 Suggestion

Based on the limitations of this study, here are suggestions from researchers for future researchers. Researchers can then add variables that are more varied so that they can affect tax avoidance and can increase the number of samples.

4.4 Implication

Based on the results of this study, the principal disagrees with the agent's actions to carry out tax avoidance. The principal will try to maintain the good name of the company.

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