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The Effect of Corporate Social Responsibility, Political Connection, and Good Corporate Governance on Tax Avoidance in Mining Companies Listed on The Indonesia Stock Exchange in 2018-2023

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Abstract: This study aims to empirically prove the impact of corporate social responsibility, good corporate governance, and political connection on tax avoidance. The population used in this study consists of mining sector companies listed on the Indonesia Stock Exchange for the period 2018-2023. The sample selection was carried out using purposive sampling, resulting in 78 samples of mining companies listed on the Indonesia Stock Exchange based on the sampling criteria. The data used in this study is secondary data, and the data collection method used is documentation. The data analysis method applied is multiple linear regression analysis using SPSS 25 software. The results of the study conclude that: (1) corporate social responsibility has an impact on tax avoidance, (2) good corporate governance has an impact on tax avoidance, (3) political connection has an impact on tax avoidance, and (4) the combined effect of corporate social responsibility, good corporate governance, and political connection significantly influences tax avoidance.

Keyword: Corporate Social Responsibility, Good Corporate Governance, Political Connection, Tax Avoidance.

INTRODUCTION

Decreased taxpayer compliance and obstacles in tax collection are the main factors that cause the realization of tax revenue not to reach the target. One of the main obstacles in tax collection is Tax Avoidance, which is a legal action taken by taxpayers or company management to reduce the tax burden by taking advantage of loopholes in laws and regulations. According to The State Of Tax Justice 2020 report, international corporate tax abuse and tax evasion by private taxpayers cause a loss of the value of tax revenues which is estimated to reach Rp 6,520 trillion every year. High-income countries tend to be the main victims of tax revenue losses due to Tax Avoidance. However, the impact is also felt by lowincome countries. Therefore, efforts to reduce Tax Avoidance are very important because they can cause significant losses to countries, regardless of their income level.

According to Dewi et al. (2016), tax evasion carried out by companies is one of the factors that cause the Indonesian government to fail to achieve the tax revenue target. Table 1.1 shows a comparison between the budget and the realization of tax revenues in Indonesia's State Revenue and Expenditure Budget (APBN) over the past 10 years.

Table 1. Comparison of Budget and Realization of Indonesian State Budget Tax Revenue for 2012-2021 (in billion rupiah)

Year	Budget	Realization	Percentage
2013	878.685	873.874	99 %
2014	1.016.237	980.518	96 %
2015	1.148.365	1.077.307	94 %
2016	1.246.107	1.146.866	92 %
2017	1.489.255	1.240.419	83 %
2018	1.539.166	1.284.970	83 %
2019	1.472.710	1.343.530	91 %
2020	1.618.095	1.518.790	94 %
2021	1.786.379	1.546.141	87 %
2022	1.404.508	1.258.136	92 %

Source : Ministry of Finance (2023)

Based on the data in table 1.1, it can be seen that the realization of tax revenue in the last 10 years has never reached the target, even experiencing a downward trend in the percentage of tax revenue.

According to a report from the Ministry of Finance, the realization of national tax revenue during the January-September 2023 period reached IDR 1,387.7 trillion, or around 80.78% of the 2023 target of IDR 1,718 trillion. Meanwhile, the tax revenue outlook for 2023 has been set at IDR 1,818.2 trillion. Tax revenue performance during January-September 2023 showed growth of 5.9% on an annual basis. On a monthly basis, tax revenue growth reached 1.6%.

The practice of tax avoidance is an important issue in the field of accounting and taxation because it has a direct impact on state revenue. One of the determinants considered in the study is Corporate Social Responsibility (CSR), which in certain contexts is seen as a company's commitment to social contribution, including through tax payment compliance (Hoi, Wu, & Zhang, 2013 in Jondro, Elisa, & Widuri, 2016). Several studies, such as Lanis and Richardson (2012) and Dharma and Noviari (2017), have found that the higher the CSR level, the lower the tax avoidance practice. However, Hidayat (2020) shows that CSR can also be used as a legitimacy tool to avoid taxes, indicating that the relationship between CSR and tax avoidance is not always linear.

In addition to CSR, the political connection factor is a concern because it can create power asymmetry and political protection that encourages aggressiveness in tax avoidance (Faccio, 2007; Kim & Zhang, 2016). In a country with a high level of corruption such as Indonesia, political connections have the potential to make it easier for companies to access favorable fiscal policies, while reducing the risk of detection of tax authorities (Muttakin et al., 2018). This shows that political connections can facilitate tax avoidance practices in the context of institutional weaknesses.

Another factor that also affects tax avoidance is Good Corporate Governance (GCG). GCG is believed to be able to increase transparency, accountability, and the effectiveness of internal supervision which can limit management in conducting aggressive tax planning (Desai & Dharmapala, 2006; Seidman & Stomberg, 2011). Research by Bayar and Sardarli

(2017) even showed that increasing the implementation of GCG was able to significantly reduce the tax avoidance rate.

However, there are still inconsistencies in the results of the research, both in terms of proxy measurement variables and empirical findings between geographical contexts, especially in Indonesia. Therefore, this study aims to fill the literature gap by examining the influence of CSR, political connection, and Good Corporate Governance on tax avoidance in mining companies listed on the Indonesia Stock Exchange for the 2018–2023 period, using the Effective Tax Rate (ETR) as a proxy to measure the level of tax avoidance

METHOD

Research Design

The type of data used is quantitative. The source of data in this study is secondary data related to the research variables.

Research Target/Subject

The samples in this study were carried out by Purposive Sampling.

Tabel 2. Sampel

No	Criterion	Sum
1.	Number of Mining Sector Companies Listed on the IDX during the 2018-2023 period	63
2.	Number of Mining Sector Companies Delisted from the IDX during the 2018 – 2023 Period	0
3.	Number of Mining Sector Companies That Recorded Losses Period 2018 Period 2019 Period 2020 Period 2021 Period 2022 Period 2023	 (7) (2) (4) (5) (1) (3)
5.	Companies that do not report their full annual report	(16)
6.	Mining Sector Companies that are newly listed on the IDX Year 2018 Year 2019 Year 2020 Year 2021 Year 2022 Year 2023	 (1) (2) (2) (2) (2) (2) (4)
7.	Number of company samples	13
8.	Total observations during the study period (13 x 6)	78
1.	Number of Mining Sector Companies Listed on the IDX during the 2018-2023 period	63

Research Procedure

A saturated sampling techniqueis employed, ensuring that all population members are included as research samples. Adopting a quantitative approach, the study relies on secondary data for analysis. Various statistical tests are conducted, including classical assumption tests as prerequisites for multiple linear regression analysis. Hypothesis testing is then carried out to determine the extent to which the independent variables influencethe dependent variable.

Instruments, and Data Collection Techniques

The source of data in this study is secondary data related to the research variables. Is Mining Sector Companies Listed on the IDX during the 2018-2023 period.

Data analysis technique

The variables in this study are measured based on the following indicators:

Tax Avoidance

$$ETR = \frac{\textit{Beban Pajak Penghasilan}}{\textit{Laba Sebelum Pajak}}$$

$$CSR = \frac{\sum Xij}{n} \; x\ 100\ \%$$

Political Connection

1. If there is a director or commissioner who is also a member of the House of Representatives, a member of the executive cabinet, an official in one of the government institutions including the military, or a member of a political party,
2. if there is one of the directors or commissioners who is also a former member of the House of Representatives, a former member of the executive cabinet, a former official in one of the government institutions including the military,
3. If there is one of the families of the commissioners/owners/majority shareholders involved in politics.

Good Corporate Governance

Score = x maximum of fainable score $\frac{\textit{no item score}}{\textit{total of question}}$

(ASEAN Capital Market Forum and Asian Development Bank, 2014).

In this study, multiple regression analysis was used with the following research model

TA = α + CSR + PC + GCG+ e

Information:

TA = Tax avoidance
α = Constant
CSR = Corporate Social Responsibility
PC = Political Connection
GCG = Good Corporate Governance

RESULT AND DISCUSSION

Result

TAX = 1.776 - 0.353 CSR - 1.395 PC - 0.044 GCG

From the regression equation, the value of the constant generated is 1.776. This shows that if the independent variables consisting of Corporate Social Responsibility, Political Connection and Good Corporate Governance = 0, then Tax Avoidance has increased by 1.776

The regression coefficient of the Corporate Social Responsibility (X1) variable is 0.353, meaning that if the Corporate Social Responsibility (X1) variable increases by one unit, Tax Avoidance decreases by 0.353. The regression coefficient of the Political Connection variable (X2) is -1.395, meaning that if the Political Connection (X2) variable increases by one unit, Tax Avoidance decreases by -1.395. The regression coefficient of the Good Corporate Governance (X3) variable is 0.044, meaning that if the Good Corporate Governance (X3) variable increases by one unit, Tax Avoidance decreases by 0.044.

Discussion

The Influence of Corporate Social Responsibility, Political Connection and Good Corporate Governance on Tax Avoidance

Based on the value of F, the calculation is 339,125 while the F table (with a confidence level α of 0.05 degrees free of regression of 3 and a residual degree of 78) is 2.75, because F is calculated as greater than F of the table, H0 is rejected and H1 is accepted, with a significant level of 0.00 less than 0.05. So it can be concluded that the variables of Corporate Social Responsibility, Political Connection and Good Corporate Governance have a positive and significant effect on the bound variable, namely Tax Avoidance (Y).

The R Square value is 0.048, this explains that the R 2 determination coefficient test shows that the independent variables, namely Corporate Social Responsibility, Political Connection, and Good Corporate Governance, provide 4.8% of the information needed to predict the bound variable, namely Tax Avoidance and had a less strong relationship, while 95.2% were influenced by other variables outside of this study variable. The results of this study are in line with the results of research conducted by Ernawati et al., (2019), Viola (2018), Kimsen et al., (2018), Handayani (2018) stated that CSR, Corporate Social Responsibility, Political Connection and Good Corporate Governance together have a significant effect on tax avoidance.

The Influence of Corporate Social Responsibility on Tax Avoidance

Based on the t-test in table 4.8, the t-value of the calculation = 5.304 > t table = 1.997, with the significance level of t of 0.00 < 0.05 (5%). Therefore, it can be concluded that the test shows that the Corporate Social Responsibility (X1) variable has a significant effect on the Tax Avoidance (Y) variable. This shows that the higher the level of CSR disclosure of a company, the higher the tax evasion carried out. The picture given from this shows that companies that disclose CSR in their annual reports continue to carry out tax avoidance activities. CSR can sometimes create fraudulent opportunities for companies to continue to enlarge some of the posts on CSR costs that include deductible exspense with the aim of reducing the taxes owed to the company.

In line with the research conducted by Rusydi and Veronica (2014), it shows that CSR that should be an obligation and used as part of community development is actually considered a burden for companies. Based on this, companies carry out tax avoidance by utilizing CSR where the tax burden that should be paid to the government is actually allocated in the form of CSR activities that can attract sympathy and legitimacy from the public. Taxes and CSR, which have similarities in terms of making social contributions to society, give the view that companies with high CSR activities actually reduce their tax burden through Tax Avoidance activities.

The Effect of Political Connection on Tax Avoidance

Leverage variables affect the Company's value. Leverage is a ratio that Based on the t-test, in table 4.8, the value of t calculated = 16.736 < t table = 1.997, and a significant niai of 0.00 > 0.05 (5%). Therefore, it can be concluded that the test shows that the Political Connection variable has a significant effect on the Tax Avoidance (Y) variable. The results of this study show that in general, political connections have an effect on tax avoidance in the mining industry. These findings are supported by previous research conducted by Pramita & Susianti (2023) in a study entitled "The Influence of Transfer Pricing, Political Connections, Thin Capitalization, and Corporate Social Responsibility Disclosure on Tax Avoidance with Corporate Governance as a Moderation Variable". The study showed that in general, companies with political connections tended to pay lower taxes compared to companies with no political connections. Corporations view taxes as a hindrance to their agenda, so they seek to reduce taxes by leveraging political connections to lower tax payments. Imanuella & Damayanti (2022) also argue that political connections are closely related to communication and relationships that have interests. Companies with political connections are often more likely to engage in tax evasion, with the aim of reducing the risk of detection. This is because politicians connected to the company will also protect them. In addition, political connections also help companies to get information about future tax regulation changes and gain access to the central government.

However, these findings differ from those of Manihuruk & Novita (2023) in a study titled "Tax Avoidance: The Influence of Political Connections and Institutional Ownership". The research shows that institutional roles are greater in monitoring company behavior. This leads to a higher structure of political connections, which leads to pressure from institutions on company management not to carry out aggressive tax policies. The company has a responsibility to the shareholders, and the institutional owner who is also accountable to the public ensures that the company's management makes decisions that are not detrimental to the company's long-term survival.

The Influence of Good Corporate Governance on Tax Avoidance

Based on the t-test for Table 4.8, the t-value is calculated = 4.556 > t table = = 1.997, and the significant niai is 0.00 < 0.05 (5%). Therefore, it can be concluded that the test shows that the Good Corporate Governance (X3) variable has a significant effect on the Tax Avoidance (Y) variable. The implementation of good corporate governance is certainly needed, and it can even be said that the implementation of good corporate governance is the main support for fulfilling the interests of shareholders and is believed to be able to create conducive conditions and a solid foundation to run good, efficient, and profitable company operations.

The findings of the study show that Good Corporate Governance has an effect on reducing corporate tax avoidance actions, according to the results of the research by Bayar and Sardarli (2017), namely that companies that increase the implementation of Good Corporate Governance get benefits, one of which is that it can reduce the negative impact of tax management, this shows that tax avoidance actionsIt can be prevented by strengthening regulations on the implementation of good corporate governance in companies accompanied by control from the government over its application to companies. So that it will prevent the practice of tax avoidance and support efforts to maximize tax revenue for the state. Research by Desai and Dharmapala (2006) and Seidman and Stomberg (2011) proves that the implementation of Good Corporate Governance in companies can reduce the occurrence of tax avoidance actions.

CONCLUSION

Corporate Social Responsibility, Political Connection and Good Corporate Governance Influential towards Tax Avoidance. This study was limited to using a few variables to predict Tax Avoidance that is Corporate Social Responsibility, Political Connection and Good Corporate Governance Influential towards Tax Avoidance. This research is only limited to use. It is hoped that further research will add other variables that can predict Tax Avoidance. This study was only limited to a small sample of 78 samples. It is hoped that the next research will increase the number of samples so that the results of the research are more representative

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