The Effect of Institutional Ownership and CSR as Mediating Variables on Tax Avoidance on Conventional Banks in Indonesia

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Abstract Tax avoidance is a violation by companies with the aim of easing the payment of the tax burden through tax policies made by the State, even though tax avoidance has no legal basis, this will have a negative impact so that the state's income from tax revenues will be reduced, especially in Indonesia. The purpose of this study was to analyze the effect of institutional ownership and CSR as a mediating variable on tax avoidance in conventional banks in Indonesia. The implication of the research that has been done is to provide information for managers, especially financial managers in making decisions and tax avoidance policies that are carried out so that businesses do not harm both internal and external parties. The independent variables of this study are institutional ownership, CSR, and control variables consist of firm size, leverage, and return on assets. While the dependent variable is tax avoidance. The study was conducted by collecting data from 28 conventional banks in Indonesia listed on the Indonesia Stock Exchange in the 2018-2021 period. And using the panel data regression model in the test. The results of this research show that institutional ownership has no effect on tax avoidance. Institutional ownership has negative and significant effect on CSR. CSR has no effect on tax avoidance. Firm size has positive effect on tax avoidance. Leverage has no effect on tax avoidance. Return on assets has positive effect on tax avoidance. The implications of the research conducted can provide information to conventional bank financial managers regarding tax avoidance not to harm many parties. For investors, the information provided can determine whether the bank is paying taxes properly or not.

Keywords—CSR, firm size, institutional ownership, leverage, return on assets, tax avoidance.

I. INTRODUCTION

Tax avoidance is a violation by companies with the aim of alleviating the payment of the tax burden through tax policies made by the State, even though tax avoidance has no legal basis, this will have a negative impact resulting in reduced state revenue from tax revenues, especially in Indonesia. The Indonesian government's policy during the Covid-19 pandemic, namely reducing the original income tax rate from 25% to 22% and followed by 2022 to 20%, has opened opportunities for companies to minimize income while waiting for the implementation of this policy (www.bisnis.com). With increasing taxes, it will also increase state revenues which help the budget function. At this time many companies are more interested in allocating profits by making corporate social activities.

Tax evasion is considered irresponsible, and the public views that companies do not fulfill their tax obligations, so these companies have avoided their obligations to the government in financing public goods (Sopiyana, 2022). Therefore, tax avoidance is a problem that needs to be studied further because on the one hand it benefits the organization but also harms the state. Institutional ownership is a factor that can influence company policy, according to Kovermann & Velte (2019)institutional ownership has an important role in the company's goal of tax avoidance. So that different owners may have different motivations and time periods for company decisions (Raimo et al., 2020). The existence of investors also influences the allocation of company...
financial resources, including stock policies, payment policies, shareholder activities and company supervision (Malik et al., 2021).

Apart from institutional ownership, the presence of CSR also plays a role in tax avoidance practices, many companies avoid taxes, but they allocate their profits by carrying out activities in the form of corporate social responsibility. In fact, CSR causes companies to act in the interest of the tax community by carrying out lower levels of tax avoidance (Goerke, 2019; Kovermann & Velte, 2019). Along with the increasing times and awareness of companies regarding CSR, especially banking. The banking sector is currently competing in increasing public interest through its CSR. Based on the explanation above, the purpose of this study is to analyze the effect of institutional ownership and CSR as a mediating variable on tax avoidance in conventional banks in Indonesia.

II. LITERATURE REVIEW

Tax avoidance
Tax avoidance is mostly done by companies with the aim of reducing tax costs as measured by the tax burden paid divided by pre-tax profit. Tax avoidance is a violation by a company with the aim of alleviating the payment of the tax burden through tax policies made by the State. Ekasanti & Kurniawan (2016)said that tax avoidance in terms of saving on tax payments is not legally prohibited, but gives a bad opinion and is considered not fulfilling responsibility. In this case, tax avoidance is a legitimate and safe effort without violating tax regulations through weaknesses in tax regulations (Napitupulu et al., 2019). Companies allocate their income as expenses, especially social responsibility costs so that the taxes paid are not too large so that the company benefits. Even though there is no tax avoidance’s legal, it is a detrimental action for country because of unoptimal tax revenue. (Aurelia & Margareth, 2022)

Institutional Ownership
Institutional ownership plays an important role in the company as a policy maker as measured by institutional ownership shares divided by total outstanding shares. Institutional ownership can influence companies to take action. Based on the result of Dakhli (2022)it shows that institutional ownership has a positive and significant effect on tax avoidance. The higher the institutional ownership will suppress the habit of tax avoidance. These result are consistent with the research of Sunarto et al. (2021) for banking companies listed on the Indonesia Stock Exchange, it shows that institutional ownership has a positive effect on tax avoidance. Where institutional investors have an important role in supervising company managers, and better knowledge regarding company performance, this arises from the assumption that investors have incentives and can supervise management efficiently, even many institutions do not fully supervise companies so that management can make flexible decisions. However, the research of Jiang et al. (2021) stated that institutional ownership has a negative and significant effect on tax avoidance. With increasing institutional ownership shareholdings, it is possible to increase tax avoidance. Where the increasing percentage of institutional ownership will encourage tax avoidance habits. The research results of Agustina & Mappadang (2022) state that institutional ownership has no effect on tax avoidance. Where institutional ownership can lead to changes in corporate procedure habits in terms of taxes. Putra et al. (2019) also shows that institutional ownership has no effect on tax avoidance. Owners do not always control the company and are not involved in paying debts, making profits and paying taxes.

CSR is also influenced by institutional ownership policies, where the creation of CSR policies will affect tax avoidance. Based on the result of Dakhli (2022) research shows that institutional ownership has a positive and significant effect on CSR. The higher the institutional ownership will increase social responsibility investment. This result are in line with the research of Nurleni et al. (2018) and Soetedjo & Amu (2019). The higher the institutional ownership will increase the supervision of company management so that it can direct the company to disclose CSR. Based on the research result of Anissa & Machdar (2019) it shows a negative and significant effect between institutional ownership on CSR. The higher institutional share ownership, especially share ownership by the government, will reduce CSR. This indicates that many companies focus on making profits by reducing costs including social responsibility costs and continuing to report CSR due to obligations from the government.

CSR
CSR is a form of social responsibility to the community which is measured using CSR costs by the company, based on research of Dakhli (2022) shows that CSR has a positive and significant effect on tax avoidance.
higher CSR indicates the company still pays taxes. This result is in line with the research of Susanto & Veronica (2022) states that CSR has a positive effect on tax avoidance. Where the increase in CSR will increase the taxes paid by companies so that companies do not carry out tax avoidance aggressively. Research's result of López-González et al. (2019) shows that CSR spending has a negative effect on tax avoidance, especially companies with high profits. The high cost of corporate CSR, makes companies do tax avoidance. Dewi & Putri (2021) state that CSR has no effect on tax avoidance. CSR costs reported by the company do not fully describe the condition of the company so that it cannot be used as a guarantee for the company to avoid taxes.

**Firm Size, Leverage and Return on Assets**

There are control variables other than institutional ownership and CSR that influence tax avoidance. The control variable used in research’s Dakhli (2022) shows firm size has a positive and insignificant effect. With a high firm size, the company still pays taxes so it is less likely to do tax avoidance compared to small companies. These results are different from that of Irianto et al. (2017) where firm size has a positive and significant effect. With increasing debt, they will become more aggressive in tax avoidance.

Based on result of research’s Dakhli (2022) it shows that leverage has a positive and insignificant effect on tax avoidance. The higher the company's debt, the higher the interest that must be paid so that some companies do not do tax avoidance. Research by Agus Winarno et al. (2021) states that leverage has a negative and significant effect, this indicates that if leverage increases, the company has costs to bear loan interest instalments, so that it is sufficient to reduce the profit on taxes paid so that there is no need to carry out tax avoidance.

The higher the company's return on assets, the better the company's performance. The return on assets is related to company profits, where the company indirectly pays taxes. Based on the result of research Dakhli (2022) shows that return on assets has a positive and significant effect on tax avoidance. The higher return on assets, the better the company's performance. With increasing debt, they will become more aggressive in tax avoidance.

**Hypothesis Development**

The results of the research by Dakhli (2022) and Sunarto et al., (2021) institutional ownership has a positive and significant effect on tax avoidance. The higher the institutional ownership will oversee the management thereby suppressing tax avoidance habits. The research results of Jiang et al. (2021) and Agustina & Mappadang (2022) show that institutional ownership has a negative and significant effect on tax avoidance. Increasing the percentage of institutional ownership will encourage tax avoidance habits. Based on the results of previous research, the first hypothesis is formulated as follows:

**H₁**: Institutional ownership has an effect on tax avoidance

Based on the result of Dakhli (2022) research shows that institutional ownership has a positive and significant effect on CSR. This results are in line with the results of Nurleni et al. (2018) dan Soetedjo & Amu (2019). The higher the institutional ownership, the better management oversight will lead the company to disclose CSR. The results of research’s Anissa & Machdar (2019) shows a negative and significant direction of influence between institutional ownership on CSR. The higher the government’s share ownership, the lower the CSR. Based on the results of previous research, the second hypothesis of this study is as follows:

**H₂**: Institutional ownership has an effect on CSR

Based on the result of research Dakhli (2022) shows that CSR has a positive and significant effect on tax avoidance. The higher CSR indicates the company still pays taxes. The result of research by Susanto & Veronica (2022) state that CSR has a positive effect on tax avoidance. Increasing CSR will increase the taxes paid by companies so that companies do not carry out tax avoidance aggressively. The result of research conducted by López-González et al. (2019) shows that CSR spending has a negative effect on tax avoidance, especially companies with high profits. The high CSR makes companies do tax avoidance. Based on the results of previous studies, the third hypothesis of this study is as follows:
**H3: CSR has an effect on tax avoidance**

Based on the research result of Irianto & S.Ak, (2017) it shows that firm size has a positive and significant influence on tax avoidance. With increasing debt, they will become more aggressive in tax avoidance. Agus Winarno et al. (2021) stated that leverage has a negative and significant effect, this indicates that if leverage increases, the company has costs to bear loan interest instalments, so that it is sufficient to reduce the profit on taxes paid so that there is no need to carry out tax avoidance.

Based on the results of research Dakhli (2022) shows that return on assets has a positive and significant effect on tax avoidance. The higher the profitability of the company in earning profits will reduce tax avoidance. Kartikaningdyah (2019) states that return on assets have a negative and significant effect. Companies with high profits increase owner confidence, causing the tendency of companies to pay attention to taxes so that the taxes paid are not too high. Based on previous research, the fourth hypothesis of this study is as follows:

**H4: Control variables (firm size, leverage and return on assets) have an effect on tax avoidance**

![Figure 1: Conceptual Framework](image)

**III. RESEARCH METHODS**

This study uses a panel data regression test using eviews software with 28 conventional banks in Indonesia in 2018-2021 as units of analysis. Variables and measurements used in this study intend to determine the relationship between independent variables and control of the dependent, using the following measurements:

<table>
<thead>
<tr>
<th>TABLE I</th>
<th>Identification and Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent</strong></td>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td>Tax avoidance</td>
<td>ETR</td>
</tr>
<tr>
<td><strong>Independent</strong></td>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>INST</td>
</tr>
<tr>
<td><strong>Mediating</strong></td>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td>CSR</td>
<td>CSRSOC</td>
</tr>
</tbody>
</table>
IV. RESULTS AND DISCUSSIONS

TABLE II
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>ETR Mean</th>
<th>ETR Median</th>
<th>SIZE Mean</th>
<th>SIZE Median</th>
<th>LEV Mean</th>
<th>LEV Median</th>
<th>ROA Mean</th>
<th>ROA Median</th>
<th>CSR Mean</th>
<th>CSR Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>0.620000</td>
<td>0.990000</td>
<td>24.13000</td>
<td>0.926000</td>
<td>0.042000</td>
<td>12.508000</td>
<td>0.008000</td>
<td>0.835000</td>
<td>0.026326</td>
<td>2.699867</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.405000</td>
<td>0.396000</td>
<td>14.00000</td>
<td>0.526000</td>
<td>-0.196000</td>
<td>2.681000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.169279</td>
<td>0.184731</td>
<td>2.175816</td>
<td>0.071000</td>
<td>0.026326</td>
<td>2.609867</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td></td>
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</tr>
</tbody>
</table>

Tax avoidance (ETR) has an average of 0.217420, median of 0.245, and a standard deviation of 0.16927. The maximum value of 0.62 is owned by PT. Bank Bukopin Tbk and a minimum value of -0.405 owned by PT. Indonesian Dinar Tbk.

Institutional ownership (INST) has an average of 0.777750, a median of 0.864, and a standard deviation of 0.184731. The maximum value of 0.99 is owned by PT. Bank Ina Perdana Tbk and a minimum value of 0.396 is owned by PT. Bank Capital Indonesia Tbk.

Firm size (SIZE) has an average of Rp. 17.90342, the median is Rp. 17,896, and a standard deviation of Rp. 2.175816. The maximum value is Rp. 24.13 owned by PT. Bank Victoria InternasionalTbk and a minimum value of Rp. 14.00 owned by PT. Bank Mandiri (Persero) Tbk.

Leverage (LEV) has an average of 0.815348, a median of 0.835, and a standard deviation of 0.071. The maximum value of 0.926 is owned by PT. Bank J’Trust Indonesia Tbk and a minimum value of 0.526 is owned by PT. Bank of India Indonesia Tbk.

Return on assets (ROA) has an average of 0.007232, a median of 0.008, and a standard deviation of 0.026326. The maximum value of 0.042 is owned by PT. Bank Mestika Dharma Tbk and a minimum value of -0.196 is owned by PT. Bank Rakyat Indonesia AgroniagaTbk.

Social expenditure (CSR) has an average of Rp. 7.806054, the median is Rp. 7,815, and a standard deviation of Rp. 2.609867. The maximum value is Rp. 12,508 owned by PT. Bank Rakyat Indonesia (Persero) Tbk and a minimum value of Rp. 2,681 owned by PT. Indonesian Dinar Tbk.

TABLE III
T-test Output

| Variables | Model I | | Model II | | Model III | |
|-----------|---------| |---------| |---------| |
| Dependent | ETR C   | | ETR CSR | | ETR C   | |
| Coef.     | 0.029478| | 0.427920| | 0.029160| |
| Prob.     | 0.9082  | | 0.8976  | | 0.9099  | |
| INST      | 0.050796| | -2.045756| | 0.050261| |
| CSR       | 0.01863 | | 0.8324  | | 0.6337  | |
| SIZE      | -0.003326| | 0.530190| | 0.0016**| |
| Prob.     | 0.7419  | | 0.0016**| | 0.6998  | |
H_1: Institutional ownership has an effect on tax avoidance

Institutional ownership of tax avoidance has a probability value of 0.6337 > 0.05 indicating that institutional ownership has no effect on tax avoidance. Paying taxes is an obligation and shareholders only focus on strategic policies aimed at maximizing company performance without focusing on reducing the taxes paid. This indicates that the level of institutional ownership indicates that the company still pays taxes. These results contradict Dakhli (2022) shows that institutional ownership has a positive and significant effect on tax avoidance. The results of this study are in line with the research by Putra et al. (2019) stated that institutional ownership has no effect on tax avoidance. Where institutional ownership does not always function to supervise companies, especially in dividing profits, paying debts and taxes.

H_2: Institutional ownership has an effect on CSR

Institutional ownership of CSR has a probability value of 0.0354 < 0.05 and a coefficient of -2.045756 which indicates a negative and significant effect. Increasing institutional ownership by 1% will reduce CSR by 2.045756%. With high institutional ownership as strategic policy holders that will focus on cost efficiency and maximize revenue, this efficiency policy will indirectly affect CSR costs, so that CSR costs paid will be reduced. These results are in contrast to Dakhli (2022) shows a positive and significant direction. The results of this study are in line with Anissa & Machdar (2019) show a negative and significant effect of institutional ownership on CSR. Companies focus on making profits and minimizing costs, especially CSR costs so that CSR disclosures are still carried out due to government policies.

H_3: CSR has an effect on tax avoidance

CSR on tax avoidance has a probability value of 0.8324 > 0.05 indicating that CSR has no effect on tax avoidance. CSR costs incurred by the company do not describe the company avoiding taxes where CSR is a shareholder policy and focuses on the size of the CSR costs to adjust the company's conditions in order to get maximum profit so that it can improve company performance without thinking about the tax to be paid. The results of this study are in contrast to Dakhli (2022) shows CSR has a positive and significant effect on tax avoidance. The results of this study are in line with Dewi & Putri (2021) show that CSR has no effect on tax avoidance. The CSR expense report does not fully describe the condition of the company so that it cannot be used as a guarantee for the company to carry out tax avoidance.

H_4: Control Variables (firm size, leverage dan return on assets) have an effect on tax avoidance

Firm size on tax avoidance (ETR) has a probability value of 0.6998 > 0.05 shows that firm size has no effect. This result are consistent with Dakhli (2022) shows firm size has no effect on tax avoidance (ETR). With higher firm size, the company still pays taxes so it is less likely to do tax avoidance compared to small companies.

Leverage on tax avoidance (ETR) has a probability value of 0.4151 > 0.05 shows that leverage has no effect on tax avoidance. The result of this study are in line with Dakhli (2022) shows that leverage has insignificant effect on tax avoidance. The higher the company’s debt, the higher the interest that must be paid so that some companies don’t do tax avoidance.

Return on assets to tax avoidance (ETR) has a probability value of 0.0001 < 0.01 and a coefficient of 2.578149 which indicates that return on assets has a positive and significant effect. If the return on assets
increases, effective tax rate will also increase. This indicates that if the profitability of conventional banks increases, the bank does not carry out tax avoidance and continues to pay taxes. The results of this study are consistent with Dakhli (2022) which shows return on assets has a positive and significant effect on tax avoidance. The higher the profitability of the company in earning profits will reduce tax avoidance.

V. CONCLUSIONS

A. Conclusions
Based on the results of the tests performed, the following conclusions were obtained:

1. Institutional ownership has no effect on the tax avoidance of conventional banks in Indonesia.
2. Institutional ownership has a negative and significant effect on the CSR of conventional banks in Indonesia.
3. CSR has no effect on the tax avoidance of conventional banks in Indonesia.
4. Firm size as a control variable has no effect on the tax avoidance of conventional banks in Indonesia.
5. Leverage as a control variable has no effect on the tax avoidance of conventional banks in Indonesia.
6. Return on assets as control variable has a positive and significant effect on the tax avoidance of conventional banks in Indonesia.

B. Implications
Based on the results of the research that has been done, there are benefits to be gained as implications for financial managers and investors which are taken into consideration in making decisions. Some of the implications obtained are as follows:

1. Management
This research is expected to be able to provide information to conventional bank financial managers in paying attention to the percentage of tax avoidance through high returns on assets depicting companies paying taxes optimally, then considering the influence of high institutional ownership and the interests of each institution related to policies on reducing CSR costs so they can decide right policy.

2. Investor
This research is expected to provide information regarding conventional banks to investors regarding the effect of return on assets on tax avoidance. Choose companies, especially conventional banks with high return on assets, high percentage of institutional ownership so that CSR costs incurred are minimal so that they have an impact on shareholder welfare.

C. Limitations and Recommendations
Based on the results of the research that has been done, there are several limitations that can be taken into consideration by related parties, including the existence of other variables not included in this study that can affect CSR and tax avoidance. Therefore, this research is used as a consideration tool for decision making. It is hoped that future researchers will add other variables in order to show factors that influence tax avoidance such as net fixed asset ratio, net intangible asset ratio (Jiang et al., 2021), managerial ownership (Mais & Patminingih, 2017), market share (Agus Winarno et al., 2021).

REFERENCES


