Corporate Reporting, Corporate Governance Mechanisms and Tax Aggressiveness: Evidence from Indonesia

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ABSTRACT

This study aimed to empirically analyze the relationship between corporate reporting, both mandatory (financial reporting) and voluntary (Corporate Social Responsibility (CSR) disclosure) reporting, three corporate governance mechanisms (board size, independent board, and CEO duality), and tax aggressiveness in Indonesia. The study used a collected dataset of 121 public companies listed on the Indonesian stock exchange from 2016 to 2020. The data was collected from annual and sustainability reports published on the IDX and the company websites. The data was categorized based on classifications of non-financial industries because different characteristics and business cycles may influence tax aggressiveness decisions. Using the panel OLS approach, the research found that, in most industries, aggressive financial reporting positively relates, while CSR disclosures were negatively related to tax aggressiveness. The results also found that corporate governance mechanisms significantly related to tax aggressiveness in most industries. The findings suggest that board members, particularly independent boards with tax expertise and experience, can influence aggressive tax decisions. This study is the first to extract testing by industry classification, using mandatory financial reporting and voluntary CSR disclosures in Indonesia as indicators of corporate tax aggressiveness. The findings provide knowledge on company governance strategies to reduce aggressive tax actions.

Keywords: aggressive financial reporting, corporate social responsibility, corporate governance mechanisms, tax aggressiveness

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INTRODUCTION

Corporate income tax is the most significant and essential source of revenue for any country. However, corporations do not want to pay taxes and lower their tax liability by deliberate action. Therefore, the company will take aggressive tax actions, which can be legal (tax avoidance) or illegal (tax evasion). Corporate tax avoidance and evasion remain significant worry sources for companies, stakeholders, and academics. The fact that taxes are the state's primary source of revenue and fulfill society's requirements does not always guarantee that companies will disengage from tax-aggressive activities, as these actions are thought to improve the company's profits. In the literature, the term "corporate tax aggressiveness" often refers to a company's efforts to reduce its explicit tax burden (Arora & Gill, 2022; Huang et al., 2018; Jbir et al., 2021).

Tax aggressiveness continues to be a problem in Indonesia today, owing to numerous loopholes in tax regulations that taxpayers can exploit to lower tax payments. According to the Indonesian Directorate General of Taxation, from 2016 to 2020, only 20% - 50% of all registered companies complied to pay the corporate tax, generating only 18% - 19% of total tax revenue, indicating that many companies attempted to avoid paying taxes, resulting in state losses. Due to varied interests, several parties, including investors, creditors, tax authorities, and companies themselves, believe it is essential to determine whether a corporation is engaging in tax aggressiveness. Therefore, they will look for information to obtain indicators of tax aggressiveness; typically, this information is presented in the published corporate reporting.

The Indonesian setting seems appropriate for examining the relationship between corporate reporting, corporate governance mechanisms, and tax aggressiveness. This study aimed to add to the existing knowledge about the determinants of corporate tax aggressiveness. This study attempts to determine whether the information contained in published corporate reporting, namely aggressive financial reporting and CSR Disclosures, can be used to indicate whether a company is engaging in aggressive tax practices. Furthermore, this study analyzed the relationship between corporate governance mechanisms (board size, independent board, and CEO duality) and tax aggressiveness.

These two forms of published corporate reporting, which include aggressive financial reporting and CSR disclosure, are expected to expose aggressive tax activities. There is a possibility that both of these reports contain information about aggressive tax strategies; thus, they were analyzed. In addition, the company has published these reports, making it possible for shareholders and other stakeholders to download and read both reports. The companies will try to report more excellent financial performance on the financial statement in various ways, including earnings management, also known as aggressive financial reporting (Hamilton et al., 2019; Sánchez-Ballesta & Yagüe, 2021). On the other hand, companies are also attempting to lower their taxable income to enhance their profits. This aggressive financial and tax reporting activity creates information asymmetry, which can lead to decision-making failures. In decision-making, financial reporting is not the only factor to examine; people also analyze corporate social responsibility (CSR) disclosures to identify aggressive tax practices. Paying taxes is perceived as a way of giving to society and is consistent with CSR values (Montenegro, 2021). In contrast, tax aggressiveness is activities that break an invisible contract between the company and the community since it can threaten the public interest (Raithatha & Shaw, 2022).

Another interesting issue in corporate tax activities is the role of corporate governance mechanisms in monitoring and evaluating managerial policy decisions. The literature suggests that the corporate governance mechanism is the best way to reduce conflicts of interest between management and stakeholders by minimizing aggressive tax policies (Amri et al., 2022). This study analyzes three corporate governance mechanisms related to the board of directors (board size, independent board, and CEO duality). These three mechanisms play a role in defining policies concerning corporate reporting transparency and credibility. The board is a legal authority overseeing the director's choices and is critical in addressing conflicts of interest (Lanis & Richardson, 2018). The board of directors' responsibilities for allocating resources, maximizing performance, and enhancing shareholder wealth is crucial in deciding the tax management plan. The board of directors in a company is a unique economic entity for resolving agency problems and matching the manager's and shareholders' interests (Menchaoui & Hssouna, 2022).

An appropriate board size can support reducing tax aggressiveness; however, it is still unclear whether a larger or smaller board size will enhance board performance (Lazzi et al., 2022; Menchaoui & Hssouna, 2022). Moreover, the presence of an independent board should be one of the requirements for board members to increase efficiency (Kovermann & Velte, 2019). In addition, the previous research noted that merging the roles of CEO and board chairman in a person, as we called CEO duality, could enhance the company's tax aggressiveness (Ezejiofor & Ezenwafor, 2021; Lazzi et al., 2022). However, CEO duality can also serve as a control mechanism to restrict managers' opportunistic behaviour, secure stakeholder interests, and eliminate tax aggressiveness.

To our knowledge, this is the first study to have examined two forms of published corporate reporting (financial reporting and CSR disclosures) and corporate governance mechanisms (Board Size, Independent Board, and CEO Duality) simultaneously. In addition, this is also the first study that analyzed the data based on industry classification in the Indonesian context. This study contributes to the body of knowledge by investigating the relationship between corporate reporting, corporate governance mechanisms, and tax aggressiveness. This study is also relevant in providing stakeholders with information about the tax aggressiveness level so that they can make better decisions and provide input for the policy maker on the corporate governance mechanisms and best practices for mitigating the risks of tax aggressiveness.

The remaining structure of the paper is as follows: The next section provides the theoretical context and research hypotheses. The research methodology is described in Section 3, while the empirical findings are provided in Section 4. The paper concluded with Section 5.

LITERATURE REVIEW

Theoretical Considerations

This study employed three theories, namely the Agency Theory (Jensen & Meckling, 1976), Stewardship Theory (Davis et al., 1997), and Legitimacy Theory (Dowling & Pfeffer, 1975; Gray et al., 1995), to meet the research objectives. The Agency Theory states that management and stakeholders have opposing interests in financial reporting, CSR disclosure, and taxation. Furthermore, information asymmetry between managers and shareholders may lead to the manager acting under his interests, including engaging in aggressive tax practices. Since management typically has better knowledge of critical information than the principal, the principal cannot guarantee that the agent will deliver as promised. On the other hand, the Stewardship Theory assumes that management will perform in the company's general interests and not in their private interests, so it will not be too difficult to accommodate each other's preferences. Furthermore, according to the Legitimacy Theory, the corporation would maintain a positive reputation and validity in the community by engaging and publicizing socially responsible operations. Companies that fail to pay their taxes will be viewed as untrustworthy, as taxes are essential in meeting community needs.

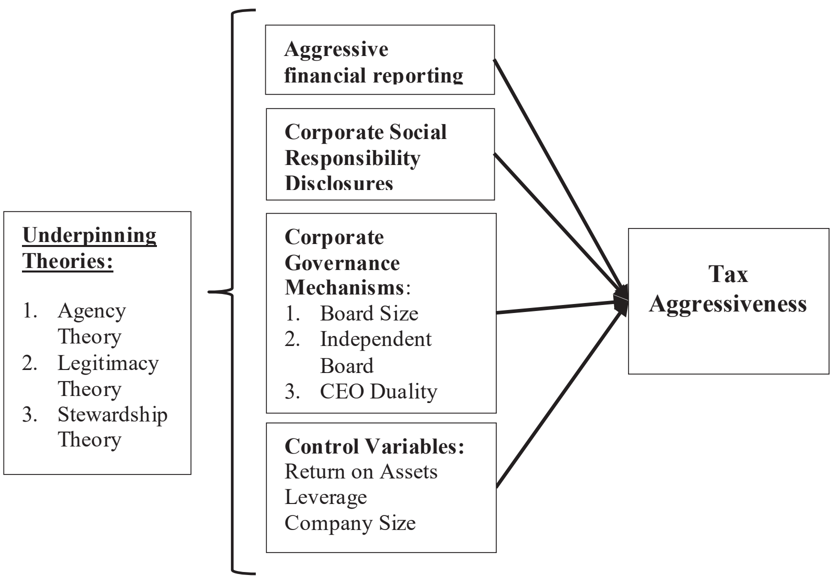

Figure 1: Conceptual Framework

According to Balakrishnan et al. (2019) and Frank et al. (2009), tax aggressiveness is a specialized activity and transaction that primarily aims to minimize income tax, encompassing legitimate tax planning methods and fraudulent tax avoidance activities. Corporate tax aggressiveness can increase the wealth of their shareholders since it can result in the transfer of tax savings (Arora & Gill, 2022; Campbell et al., 2020). However, if a corporation engages in tax-aggressive activities, it stands the danger of being fined by the taxing authority if it is submitted to an audit (Campbell et al., 2020). Since tax aggressiveness can increase a company's cash flows it also involves the risk of incurring penalties, it presents a risky investment opportunity (Hamza & Zaatir, 2020).

People tend to explore for information to define whether the company is engaging in tax aggressiveness, mainly information acquired from published corporate reporting. Detection of companies' tax-aggressive activities is deemed necessary for various reasons. First, taxes are the state's primary source of revenue and aid in meeting societal needs (Topić-Pavković, 2015). Second, aggressive tax actions direct the company to various risks, including the threat of government penalties or fines for the company's poor reputation (Neifar & Utz, 2019).

In addition, companies must consider preventive actions due to the potential risk of tax aggressiveness. According to the literature, corporate governance mechanisms are crucial for aligning management and principal interests. The assumptions of the Agency Theory and the Stewardship Theory can be employed to analyze the relationship between corporate governance mechanisms and tax aggressiveness because these two theories are related to the activities of management in carrying out its responsibilities to the company's principals. Previous empirical findings have revealed inconclusive results regarding the relationship between corporate governance mechanisms and tax aggressiveness (Amri et al., 2022; Lanis & Richardson, 2018; Lazzi et al., 2022; Robin & Simorangkir, 2021). However, good corporate governance mechanisms will encourage policymakers to evaluate the risks of tax aggressiveness while offering some corporate governance mechanisms to decrease aggressive tax policies and support investment evaluation, increasing the company's value (Boussaidi & Hamed-Sidhom, 2020).

Hypothesis Development

Aggressive Financial Reporting

A company can avoid paying taxes by employing aggressive financial reporting strategies and reducing taxable income. Several previous studies have investigated the connection between aggressive financial reporting and aggressive tax activities, but no clear conclusions existed. For example, Sánchez-Ballesta and Yagüe (2021) concluded that financial reporting and tax evasion have two mutual trade-offs. If a company's income rises, the tax rises, and if the income falls, the tax falls. However, other research found no trade-off between aggressive tax and financial reporting (Firmansyah, 2019; Frank et al., 2009; Nugroho et al., 2020; Rachmawati et al., 2020).

According to a study by Frank et al. (2009), aggressive financial reporting attempts to manipulate reported results to control earnings. They discovered that aggressive financial and tax reporting by enterprises was possible. Nevertheless, managers occasionally resist profit-enhancing accounting techniques out of worry about a rise in corporate income tax. Managers must therefore find a balance between aggressive financial reporting and tax reporting.

Additionally, it was confirmed by Nugroho et al. (2020) and Rachmawati et al. (2020) that aggressive tax activities and aggressive financial reporting efforts have begun to collaborate. This ruling is the source of numerous corporate tax loopholes resulting from inconsistencies (non-conformity) between accrual accounting and taxation standards. Therefore, companies might increase their aggressive financial reporting efforts while also growing their aggressive tax actions due to the necessity to maximize company value and the opportunity created by the numerous loopholes in accounting standards and tax legislation. As a result, the following was the first hypothesis:

H1: Aggressive financial reporting has a positive relationship with tax aggressiveness.

Corporate Social Responsibility Disclosure

The relationship between CSR and tax aggressiveness is still debated. Some studies have found that companies more transparent about their

CSR activities are less likely to be aggressive in tax (Chouaibi et al., 2022; Mgbame et al., 2017; Raithatha & Shaw, 2022; Zeng, 2016). Other research suggests that companies engage in aggressive tax avoidance activities when they view CSR as a risk management strategy (Abid & Dammak, 2021; Godfrey et al., 2009; Hoi et al., 2013; Mao, 2019; Rohyati & Suripto, 2021). Also, Mohanadas et al. (2020), Montenegro (2021), and Pranata et al. (2021) find no relationship between CSR and corporate tax aggressiveness.

Gray et al. (1995) defined CSR disclosure as demonstrating social responsibility. It also includes activities beyond legal duties and company objectives (McWilliams & Siegel, 2001). According to Deegan (2002), management uses CSR disclosure to engage and influence public perception. According to Chouaibi et al. (2022), Issah and Rodrigues (2021), and Mgbame et al. (2017), corporate taxes have a significant effect on society since taxes pay for public services such as education, national security, law enforcement, also health care. From a societal standpoint, companies that make profits must pay taxes to the government, as tax revenues are the primary source of state funding and are used to support a variety of public demands. Therefore, the company should not engage in tax aggressiveness, as its tax payment enables the government to allocate more funds to social welfare. Firms disclose CSR to gain community legitimacy, according to the legitimacy theory. Companies will provide more CSR information in annual reports to preserve solid community relations. One of the company's primary objectives is to avoid or prevent aggressive tax strategies that could harm its reputation (Chouaibi et al., 2022). Therefore, the study concluded that companies that engage in more CSR activities are less likely to engage in tax aggressiveness, and the second hypothesis was as follows:

H2: Corporate social responsibility disclosure has a negative relationship with tax aggressiveness

Corporate Governance Mechanisms

Directors and CEOs are solely accountable for managing resources and performance to maximize shareholder wealth (Lambe et al., 2021). Managers have few options for allocating resources and improving performance. The board must provide guidance. They frequently devote all of the company's resources to advertising or physical expansion (capital) to improve sales and earnings. Additional crucial elements, such as tax planning and profit maximization, must be considered to optimize the company's worth (Minnick & Noga, 2010). The Board of Commissioners is essential to good and effective corporate governance. Among their tasks are maintaining the accuracy and openness of financial reporting and making administrative and internal control decisions.

Vafeas (2005) stated that excessively large or small board sizes are inefficient since a large board has too few responsibilities, whereas a small board has too many. Furthermore, Eragbhe and Igbinoba (2021), Khan et al. (2022), Lazzi et al. (2022), and Pertiwi et al. (2020) found a positive correlation between board size and tax aggressiveness. They argue that organizations with smaller boards of directors perform better in coordination, communication, and decision-making because a bigger board size generates uncertainty in allocating responsibilities. Meanwhile, different results exist; Menchaoui and Hssouna (2022) and Minnick and Noga (2010) show that boards of directors with fewer members are more aggressive in tax planning. Onyali and Okafor (2018) found no correlation between board size and aggressive tax. The board of directors can undertake internal controls and advise management on firm policies to reduce losses, especially agency losses. The larger the board, the more difficult it is to share the responsibility in internal control, which increases tax aggressiveness. Suitable and proper board composition will result in effective monitoring. Thus, the third hypothesis was as follows:

H3: Board size has a positive relationship with tax aggressiveness

Armstrong et al. (2015) find conflicting results regarding independent board and tax aggressiveness. They concluded that good corporate governance encourages low tax aggressiveness while decreasing high tax aggressiveness. Independent directors can advance a tax-aggressive strategy by bringing their unique experience and essential knowledge (Flamini et al., 2021; McClure et al., 2018). Meanwhile, Kashanipour et al. (2019), Niu et al. (2021), and Onyali and Okafor (2018) asserted that companies with a larger percentage of independent directors are less likely to engage in tax aggressiveness. Because the public considers independent boards as specialists capable of mediating conflicts amongst internal managers about decision-making, having a larger number of them enables the control role to be more successful, and the fourth hypothesis is as follows:

H4: Independent board has a negative relationship with tax aggressiveness

Cao et al. (2021) and Ezejiofor and Ezenwafor (2021) showed a significant and positive association between CEO duality and tax aggressiveness since CEO duality increases board-management interaction. As a result, an aggressive tax policy can be promptly accepted and implemented. Chytis et al. (2020) observed that enterprises with dual CEOs have larger ETRs and, consequently, less tax planning. Meanwhile, Minnick and Noga (2010) claimed that a CEO who serves as chairman of the board of directors has no motivation to engage in tax avoidance. Ezejiofor and Ezenwafor (2021) noted that merging the CEO and the Chairman of the Board may result in increased opportunities for managers to do tax planning due to their dominant position. Therefore, it is much easier to immediately approve policies and initiatives when the role of the CEO and Chairman of the Board is combined into one person, including aggressive tax activities. Thus, the fifth hypothesis was as follows:

H5: CEO duality has a positive relationship with tax aggressiveness

METHODOLOGY

Sample

This study analysed the relationship between corporate reporting, corporate governance mechanisms, and tax aggressiveness in non-financial companies from four industries listed on the Indonesia Stock Exchange from 2016 to 2020 as Indonesia's tax enforcement years, namely the Mining Industry, Property, Real Estate, & Building Construction, Basic Industry & Chemicals, and Infrastructure, Utility, & Transportation. Since this study is related to social responsibility, the four industries were chosen as sample companies because they directly impact the environment and society.

Moreover,

Table *1* demonstrates that these four industries disclose more CSR activities than the remaining four non-financial industries. Companies use CSR disclosures as the element of their tax aggressiveness because some components of CSR expenditures are deductible expenses, including the cost of acquiring, collecting, and maintaining deductible income on taxable income. The taxpayer deducts the expense to determine the net income amount to calculate the tax.

Table 1: Mean Value of CSR Disclosures in Each Industry

No.	Industries	CSR (Mean Value)
1	**Mining**	**0.59879**
2	**Property, Real Estate, & Building Construction**	**0.45336**
3	**Basic Industry & Chemicals**	**0.44956**
4	**Infrastructure, Utility, & Transportation**	**0.42967**
5	Consumer Goods	0.42892
6	Trade, Service, & Investment	0.42884
7	Agriculture	0.42385
8	Miscellaneous	0.38636

Note: The sources are from the checklist measurement based on GRI G4 disclosure items from 2016 to 2020

Analysis Approach

The data were collected with a content analysis method from the company's annual and sustainability reports. In this study, sample selection was conducted in several steps. First, this study collected all data from all non-financial companies listed on the Indonesia Stock Exchange from 2016 to 2020. Then the study removes companies that are not fully listed from 2016-2020, companies that do not disclose CSR, and companies that lose because they do not pay taxes. Moreover, this study excludes companies with insufficient data regarding the study's variables. Furthermore, this study conducted a content analysis regarding CSR disclosures, calculated the average number of CSR disclosures in each industry, and identified the four industries with the highest CSR disclosure. The final data identified is from 121 non-financial companies from four industries (Mining Industry; Property, Real Estate, and Building Construction industries; Basic Industry and Chemicals; Infrastructure, Utility, and Transportation industries) over five years.

Variables

Dependent variable

The dependent variable in this study was tax aggressiveness which we measured through permanent discretionary differences based on Frank et al. (2009), which were estimated by an equation as follows:

$$PERMDIFF_{it} = \alpha_0 + \alpha_1 \mathrm{INTANG}_{\mathrm{it}} + \alpha_2 \Delta NOL_{it} + \alpha_3 LAGPERM_{\mathrm{it}} + \varepsilon_{\mathrm{it}} \quad (1)$$

where i was the companies 1-121; t was the period 2016-2020; PERMDIFF was total book-tax differences less temporary book-tax differences; INTANG was goodwill and other intangible assets; ΔNOL was the changes in net operating loss carryforwards; LAGPERM is one-year lagged PERMDIFF; $\mathcal{E}$ was permanent discretionary differences as the proxy of tax aggressiveness.

Independent variables

1. *Aggressive Financial Reporting*

   This study employed performance-matched discretionary accruals from Kothari et al. (2005) as an indicator or proxy of aggressive financial reporting. When the hypothesis being tested does not state that earnings management or aggressive financial reporting will change based on performance, this proxy is regarded to make conclusions more reliable. The calculation was derived from the Jones model (Dechow et al., 1995) as follows:

$$\mathrm{TACC}_{it} = \alpha_0 + \alpha_1 (\Delta REV_{it} - \Delta AR_{it}) + \alpha_2 \mathrm{PPE}_{it} + \eta\_\mathrm{it} \quad (2)$$

   where *TACC* was total accruals (Pre-tax Book Income – (Cash flow from operations + Income taxes paid); *ΔREV* was the changes of company earnings; *ΔAR* was the changes in accounts receivables; *PPE* was fixed assets; η was performance-matched discretionary accruals as the proxy of aggressive financial reporting.

2. *CSR Disclosures*
   This study accomplished the checklist measurement by comparing items on the list to those disclosed by the company based on Global Reporting Initiative (GRI) G.4 index. We assigned 1 point for each CSR disclosure reported following its index and 0 points elsewhere.

3. *Corporate Governance Mechanisms*
   This study's three proxies to assess corporate governance mechanisms were board size, independent board, and CEO duality. First, a company's board size was determined by its board's number of directors and commissioners (Menchaoui & Hssouna, 2022). Next, the number of independent board members divided by the board size was used to calculate the independent board (Lazzi et al., 2022). Finally, the dichotomous variable was used to estimate the CEO duality, with 0 indicating that the CEO and Chairman of the Board were separate and one indicating that these roles were combined or merged (Abdul Wahab et al., 2017).

Control variables

The control variables in a regression model derived from several previous studies were used in this study to assess the impact of other variables on tax aggressiveness, specifically the Return on Assets (ROA), Leverage (LEV), and company size (SIZE). ROA was calculated by dividing operating income by lag total assets and was used to control the company's profitability (Frank et al., 2009; Gupta & Newberry, 1997). LEV wascalculated by dividing long-term debt by lagging total assets and was a proxy for the tax planning effect of debt on business incentives (Lanis & Richardson, 2018). Finally, SIZE controls the company size effect, calculated using the natural logarithm of the enterprise's total annual assets (Dang et al., 2018).

Regression Model

Because the data used in this study combined time series and cross-section data, panel data analysis was used. The multiple regression equation was as follows:

$$TAG_{it} = \alpha + \beta_1 AFR_{it} + \beta_2 CSR_{it} + \beta_3 B\_SIZE_{it} + \beta_4 B\_IND_{it} + \beta_5 DUALITY_{it} + \beta_5 ROA_{it} + \beta 7LEV_{it} + \beta_8 SIZE_{it} + \varepsilon_{it} \quad (3)$$

where TAG was tax aggressiveness; AFR was aggressive financial reporting; CSR was Corporate Social Responsibility disclosures; B_SIZE was Board Size; B_IND was the Independent Board; DUALITY was CEO duality; ROA wass Return on Assets; LEV was Leverage Ratio, and SIZE was Company Size.

RESULTS AND DISCUSSION

In this section, we will discuss the results of the descriptive and regression analyses, respectively. Before starting the regression analysis, it was necessary to do a preliminary analysis consisting of descriptive statistics. Because this model was based on panel data analysis, we employed the panel unit root test to guarantee that the data was stationary and reliable. We applied three-panel unit root tests: the Harris-Tzavalis test, the Breitung test, and the Hadri LM test; the findings confirmed that there was no unit root in all variables, and the data was stationary at level.

Results of the Descriptive Analysis

The results as in Table 2 show the positive average of TAG and AFR, indicating that most companies in the sample engaged in aggressive tax and financial reporting. The Table reports that CSR disclosures varied between 19.48% to 100% of all disclosure items based on GRI G4. The board size ranged between 4 to 24 members, with a mean of 9 members. Meanwhile, the independent board also varied between 14.28% to 80%, with a mean of 32.81%, indicating that there were still companies that did not comply with the minimum number of independent board requirements, which was 30%.

Table 2: Descriptive Statistics Results

Variables	Mean	Minimum	Maximum	Standard Deviation	Sample Variance
TAG	0.0753	-1.2505	1.0227	0.3700	0.1369
AFR	0.0149	-4.9244	0.9961	0.3495	0.1221
CSR	0.4651	0.1948	1.0000	0.1181	0.0139
B_SIZE	9.0380	4.0000	24.0000	3.1894	10.1724
B_IND	0.3281	0.1428	0.8000	0.1112	0.0124
DUALITY	N/A	0.0000	1.0000	N/A	N/A
ROA	0.0561	0.0000	0.8515	0.0950	0.0090
LEV	0.3184	-0.1147	1.5217	0.2508	0.0629
SIZE	24.6981	7.9018	32.4545	7.5419	56.8800

Note: This table presents descriptive statistics results for dependent, independent, and control variables of 121 sample companies from four industries. TAG: tax aggressiveness; AFR: aggressive financial reporting; CSR: CSR disclosures; B_SIZE: board size; B_IND: independent board; DUALITY: CEO duality; ROA: return on asset; LEV: leverage ratio; SIZE: company size.

Results of the Regression Model

Table 3 summarizes the findings of a static panel data analysis of the relationship between corporate reporting (aggressive financial reporting and CSR disclosures), corporate governance (board size, independent board, and CEO duality), and tax aggressiveness in the following four industries: Mining (MING), Basic Industry & Chemicals (BCHE), Property, Real Estate, & Building Construction (PROP), Infrastructure, Utility, & Transportation (IUTR). This study segregated the data analysis based on industry classification because varied characteristics and business cycles may influence tax aggressiveness decisions. The table shows the results of static estimating models for corrected models for heteroscedasticity and serial correlation issues in each industry.

The p-values of the Breusch Pagan Lagrange Multiplier (BP-LM) test findings for all eight industries were less than 0.05, whereas the Hausman Test results were greater than 0.05, as indicated in Table 1. As a result, a random-effects model was considered to be appropriate. Furthermore, all VIF values were less than 5, indicating that the model was free of multicollinearity issues. On the other hand, a significant result of less than 0.05 for the M. Wald Test indicated that the models had heteroscedasticity problems within all industries. Wooldridge Test results with a significance level of less than 0.05 in the mining and consumer goods industries also suggested a serial correlation problem. In order to address these issues, the study conductedregression analysis using the random effect model estimate technique with robust standard errors.

Discussion

The table demonstrates a significant positive relationship between aggressive financial reporting and tax aggressiveness in most industries at a 5% significance level in Mining, Basic Industry & Chemicals, and Property, Real Estate, & Building Construction industries. Meanwhile, the Infrastructure, Utility, & Transportation industry has significantly negative results. This significant positive result supports Frank et al.'s (2009) statement that companies can present more aggressive financial reporting to raise their income and attract investors. However, they also tend to lower taxable income by aggressively managing their corporate income tax to maximize their cash flow. The result is also consistent with Nugroho et al. (2020) and Rachmawati et al. (2020), claiming that companies could perform aggressive financial and tax reporting simultaneously.

Table 3: Static Panel Data Analysis Results

	-MING- Corrected Hetero and Serial Correlation	-BCHE- Corrected Hetero	-PROP- Corrected Hetero	-IUTR- Corrected Hetero
Constant	-5.462**	-0.137	-0.858**	-0.761**
	(2.637)	(1.413)	(1.917)	(1.736)
$lnAF_{Ri}t$	0.221**	0.165**	0.001**	-0.123*
	(0.368)	(0.127)	(0.053)	(0.158)
$lnCSR_{it}$	-0.216**	-0.318*	-0.500**	0.326**
	(0.262)	(0.574)	(0.576)	(0.517)
$lnBOARD\_SIZE_{it}$	0.334**	0.197**	0.236**	0.312**
	(0.560)	(0.248)	(0.014)	(0.152)
$lnBOARD\_IND_{it}$	-0.560*	-0.183*	-0.182**	0.007
	(0.245)	(0.220)	(0.154)	(0.044)
$DUALITY_{it}$	-0.204*	-0.167*	0.158*	-0.115**
	(0.452)	(0.165)	(0.155)	(0.187)
$lnROA_{it}$	-0.077	-0.020	0.091***	0.000**
	(0.051)	(0.036)	(0.054)	(0.062)
$lnLEV_{it}$	0.259*	0.037**	0.122	0.139*
	(0.504)	(0.272)	(0.186)	(0.107)
$lnSIZE_{it}$	1.463**	-0.172	0.196**	-0.079
	(1.224)	(0.401)	(0.575)	(0.533)
R^2	0.2005	0.2356	0.2614	0.2420

BP-LM test	5.04	73.18	113.97	99.56
	[0.0124]	[0.0000]	[0.0000]	[0.0000]
Hausman Test	31.66	7.66	5.34	1.91
	[0.3222]	[0.2645]	0.5005	[0.9280]
Multicollinearity (VIF test)	1.32	1.04	1.92	1.07
Heteroscedasticity (M. Wald test)	6040.84	14123.99	51136.76	780.81
	[0.0000]	[0.0000]	[0.0000]	[0.0000]
Serial Correlation (Wooldridge test)	18.952	2.443	1.085	0.305
	[0.0008]	[0.1254]	[0.3035]	[0.5874]
Observation	70	220	220	95

Note: Values in parentheses are standard errors, whereas values in brackets are p-values, then ***, **, and * indicate significance at 1%, 5%, and 10% significance levels, respectively.

Meanwhile, a significant negative relationship between CSR disclosures and tax aggressiveness is also shown in most industries; three industries have the result: Mining, Basic Industry & Chemicals, and Property, Real Estate, & Building Construction. These findings agreed with previous research (Chouaibi et al., 2022; Lanis & Richardson, 2013; Mgbame et al., 2017; Raithatha & Shaw, 2022). Companies include more CSR information in their annual reports and will minimize tax aggressiveness to maintain good community social bonds. However, the Infrastructure, Utility, & Transportation industries have significant positive results. The result supports Abid and Dammak (2021), Hoi et al. (2013), and Mao (2019). They argued that companies might employ CSR disclosure strategies to conceal their tax aggressiveness and promote their reputation. In other words, the more CSR activities disclosed, the more aggressive tax activities are.

Furthermore, the Table also presents the test result of the relationship between the three corporate governance mechanisms (board size, independent board, and CEO duality) and tax aggressiveness. In all four industries, it was found that there is a significant positive relationship between board size and tax aggressiveness at a 5% significance level. The findings agreed with Eragbhe and Igbinoba (2021), Khan et al. (2022), Lazzi et al. (2022), and Moore (2012), who confirmed that the larger the board, the more aggressive the tax activities. Moreover, the independent board has a significant negative relationship with tax aggressiveness in three industries: Mining, Basic Industry & Chemicals, Property, Real Estate, & Building Construction, while there is no significant relationship in the Infrastructure, Utility, & Transportation industries. Significantly negative results in most of these industries followed research from Kashanipour et al. (2019), Niu et al. (2021), and Onyali and Okafor (2018), which argued that more independent board members would reduce the possibility of fraud occurring within the company, including aggressive tax activities.

The test results showed a significant negative relationship between CEO duality and tax aggressiveness in all industries. These findings did not support Cao et al. (2021) and Ezejiofor and Ezenwafor (2021). However, these findings agreed with Chytis et al. (2020) and Kolias and Koumanakos (2022), which argued that it would be easier to determine company policy if the CEO also served as the board chairman. Aggressive tax practices can harm a company’s reputation, particularly among stakeholders. Thus, the board chairman will try to advise avoiding tax aggressiveness, and this judgment will be easier to implement if the CEO and board chairman are merged.

CONCLUSION AND RECOMMENDATION

This study investigated the relationship between aggressive financial reporting, CSR disclosures, the board size, independent board, CEO duality, and tax aggressiveness in 121 Indonesian public companies that are considered to have an impact directly on society and the environment from 2016 to 2020. The findings of this study contribute to filling the gaps in the previous literature by focusing on two published forms of corporate reporting in Indonesia: mandatory (financial reporting) and voluntary (CSR disclosures) reporting as indicators to detect corporate tax aggressiveness. The following contribution expands the literature on corporate governance mechanisms anticipated to mitigate the risk of aggressive tax activities. In addition, this is the first study to extract tests based on industry classifications, as different characteristics and business cycles can influence tax aggressiveness-related decisions.

The research showed that most industries obtained significant results, precisely three out of four tested industries. It presented that aggressive financial reporting, and board size, have a significant positive relationship with tax aggressiveness. Meanwhile, CSR disclosure, the presence of the independent board, and CEO duality have been found to have a significant negative relationship with tax aggressiveness. The findings imply that each industrial group has a unique character, allowing for differences in tax aggressiveness decision-making.

The significant positive relationship between aggressive financial reporting and tax aggressiveness supports the argument of the Agency Theory that stakeholders and management have conflicting interests. Stakeholders are always interested in the high value and profitability of the company. Managers are sometimes uncomfortable choosing a profit-enhancing accounting policy because it will increase the company's income tax. Therefore, managers must balance aggressive financial and tax reporting and execute aggressive financial and tax reporting simultaneously. Moreover, the significant negative result of CSR disclosures in this study demonstrates that CSR disclosures contribute as an indicator of aggressive tax activities and support the legitimacy theory that the company will continually attempt to ensure that its activities pay attention to social expectations and boundaries. Companies will disclose numerous CSR activities and then attempt to avoid aggressive tax practices because, according to the community, such practices are undesirable. However, few industries have significant positive results from the relationship between CSR disclosures and tax aggressiveness, indicating that these industries are instead using CSR disclosure strategies to cover up their aggressive tax practices.

Moreover, our findings showed that board size positively correlates with tax aggressiveness. More board members explicitly allow the company to engage in aggressive tax practices. It could be the result of board members having unclear roles and responsibilities. Therefore, a company should have a small but adequate number of board members so that its internal control monitoring and evaluation function operates more effectively. Meanwhile, this study provides evidence that independent boards have a significant negative relationship with tax aggressiveness. Therefore, we recommend that companies appoint and have more independent boards, which will improve the company's reputation in the community by assisting management in mitigating risks associated with aggressive tax policies. In addition, evidence suggests that CEO duality is negatively associated with tax aggressiveness. This evidence suggests that it will be relatively simple to make the judgment to avoid engaging in aggressive tax activities if the company has a CEO who is also the chairman of the board.

This study does have some limitations. To obtain a better analysis due to differences in tax regulations and accounting principles, future studies can expand the population by testing empirical models on some stock exchanges in other countries, and the results are generalizable to cross-country studies (Kovermann & Velte, 2019). Future researchers can also expand the analysis by analyzing other corporate governance mechanisms, such as audit committee and board member characteristics, for example, their educational background, age, and gender. Additionally, qualitative research can be conducted to obtain more in-depth knowledge about the internal and external factors influencing the decision to engage in aggressive tax activities.

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