
Tax Avoidance, Hidden Behind Corporate Social Responsibility: Moderating Role of Economic Freedom

Tax Avoidance, Hidden Behind Corporate Social Responsibility

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ABSTRACT

The purpose of this study is to examine whether Economic Freedom (EF) moderates the effect of Corporate Social Responsibility (CSR) on Tax Avoidance (TA). Using a panel of 285 listed firms from Indonesia, Australia, Singapore, the United States, and China over the period 2019–2023, we estimate multivariate regression models in which TA is proxied by the Effective Tax Rate (ETR) and the Cash Effective Tax Rate (CETR), CSR is proxied by the ESG Score, and EF is measured by the Heritage Economic Freedom Index. The empirical results show that higher CSR is associated with lower TA when TA is measured by ETR, while the interaction between CSR and EF is statistically insignificant across both TA measures. These findings suggest that CSR is generally consistent with lower tax avoidance, but that the moderating role of EF is weaker than expected in the post-COVID-19 period. The study contributes to the CSR–tax literature by incorporating a multi-country post-pandemic setting and by clarifying that EF does not systematically strengthen the CSR–TA relationship, thereby nuancing prior evidence on institutional moderators. Our results also offer policy and managerial implications for aligning CSR practices with transparent and responsible tax behaviour in different institutional environments.

Keywords: Corporate Social Responsibility, Economic Freedom, Tax Avoidance.

Introduction

The COVID-19 pandemic has created a global economic crisis that has increased the fiscal needs of governments for health funding and GDP recovery, but has also created opportunities for tax avoidance (TA) through temporary tax breaks from high-income countries. Companies experiencing financial difficulties due to the pandemic have actually shown higher levels of TA (Ariff et al., 2021), which has triggered negative public perception as it is considered to be hindering government efforts to overcome the health-economic crisis. To reduce social stigma, these companies often use CSR as window dressing to cover up aggressive TA practices (Acosta Garcia et al., 2024).

In Indonesia, CSR is regulated in Law No. 40 of 2007 Article 74 (mandatory for natural resource companies) and Government Regulation No. 47 of 2012 Article 2 (mandatory for all legal entities), so that CSR practices extend to the telecommunications, finance, technology, and health sectors, which ethically maintain positive relationships with local communities. However, tax challenges remain with the 2025 draft state budget (RAPBN) tax revenue target of IDR 2,189.3 trillion (up 10.07% from the 2024 state budget (APBN) of IDR 1,988.8 trillion) (Arifin M, 2024), while the tax ratio remains stagnant at a low 10.21% (2023) from 10.39% (2022) and reached historic lows of 9.77% (2019), 8.33% (2020), and 9.12% (2021).

Corporate policies that reflect a focus on environmental and social responsibility may contribute to uncertainty for shareholders and other groups. Firms with lesser extent of transparency on CSR engagement, though and firms that are involved in tax avoidance are more likely to undertake a larger amount of CSR activities as a reaction to the negative press associating them with lower performance of bad tax planning. Or in other words, tax strategy of a firm can be perceived as a proxy for its CSR conduct. hence companies with reputable and strong CSR planned to be less inclined to adopt aggressive tax avoidance strategy (Rashid et al., 2024).



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It has been argued in prior research that the organisational and cultural context matters a great deal for explicating the relationship between CSR and TA. Lin et al. (2017) identified formal principles for constraining the link between CSR and TA with a specific emphasis on China. Taking inspiration from this perspective, Zeng (2019) conducts an analysis of 36 countries to analyze the role of CSR strategies and national governance systems in influencing TA activity. Secondly, Montenegro (2021) included the OECD 25 member countries and explored the implications of Good Corporate Governance (GCG) for CSR on TA relationship. However, the research of Montenegro focuses on 2004-2010 and does not account for subsequent tax policy reforms that took place after 2013. Recently, Acosta Garcia et al. (2024) argue that economic freedom is a social institutional moderator of the CSR-TA relationship and this moderating effect is asymmetric such as increasingly possibility to reduce transactional cost in less economically free country, but it may reduce its level by 2010-2018.

Association between CSR and TA An inverse relationship was established by earlier scholars about the Corporate Social Responsibility (CSR) and Tax Avoidance (TA), such that companies which indulge in good CSR practices are generally associated with low level of transaction of taxation avoidance (Lunis & Richardson, 2012).

Hardeck and Kirn (2016) suggest CSR can legitimize and reduce the negative effects of TA, creating a positive CSR-TA relationship. Marques et al. (2023) found CSR doesn't always reduce TA, reflecting a negative effect. A recent study by Acosta Garcia, Verleyen, and Roggeman (2024) reveals that economic freedom moderates the relationship between Corporate Social Responsibility (CSR) and Tax Avoidance (TA) in contrasting ways, strengthening the relationship in countries with low economic freedom, while weakening it in those with high economic freedom. Nevertheless, the scope of their analysis is limited to corporate data spanning from 2010 to 2018.

Despite a rapidly growing body of work on CSR and TA, the evidence remains fragmented and context-dependent, with mixed findings on whether CSR restrains or, in some cases, masks aggressive tax planning. Prior studies have largely focused on pre-COVID-19 periods and on advanced economies, and only a few have explicitly examined how institutional conditions such as EF shape the CSR-TA nexus. Moreover, existing multi-country analyses often stop in 2018 and do not account for the profound fiscal and tax-policy changes triggered by the COVID-19 crisis. This study addresses these gaps by analysing whether and how EF moderates the CSR-TA relationship in five countries with contrasting institutional environments (Indonesia, Australia, Singapore, the United States, and China) over the post-pandemic period 2019-2023. Specifically, we ask: (1) Does CSR reduce firms' tax avoidance? and (2) Does EF strengthen the impact of CSR on tax avoidance?

Economic Freedom is related to the market driven economic activities, limited role of government, sound money policy, free trade, protection of property rights and regulation as per frameworks in place (Gwartney et al., 2020). This "idea" – which the Heritage Foundation has included in its annual reports every year since 1995, is as old as Clinton's presidency. Economic freedom is linked to social goals including health, environmental quality and economic growth (Mahamat Addi & Abubakar, 2022). The COVID-19 pandemic has intensified the tension between governments' urgent need for tax revenues to finance health care and economic recovery, and firms' incentives to exploit temporary tax reliefs and recession-era tax provisions, which can create new opportunities for tax avoidance. This context strengthens the importance of understanding how corporate social responsibility (CSR) and economic freedom (EF) jointly shape tax avoidance (TA) behaviour, particularly in the post-pandemic period 2019-2023 that our study covers.

Literature Review

Stakeholder Theory

This study is grounded in stakeholder theory (Freeman, 1984) as the grand theoretical framework for explaining the CSR-tax avoidance (TA) relationship. From a stakeholder

perspective, firms engaging in CSR are expected to internalize broader social expectations—including paying a "fair share" of taxes as a civic duty—thereby reducing tax avoidance to maintain legitimacy with diverse stakeholders beyond shareholders (such as government, employees, and communities). However, reputational risk management complements this view by clarifying why some firms might use CSR as a "façade" to legitimize aggressive tax planning, potentially leading to a positive CSR-TA association when stakeholder pressures prioritize optics over substantive tax compliance. Economic freedom (EF) further moderates this dynamic as an institutional context, shaping how stakeholder pressures and reputational concerns translate into actual tax behavior across countries (Mitchell et al., 1997).

Corporate Social Responsibility towards Tax Avoidance

To align financial goals with social and environmental duties, firms must address the conflicting objectives of the organisation and stakeholder interests. From the theoretical side the CSR is extended as business performance amplifier in general (Brown & Forster, 2013). Businessboys' socially responsible behaviour in Britain during the 19th and early 20th century is exposed by Parker (2014) who contends that while CSR has a long history as part of business practice, the reasons why it motivates firms to pursue it have evolved.

For accounting, this is it (Huang et al., (2015) where they investigate the factors influencing corporate engagement in CSR initiatives. Although CSR is not a new notion, it has attracted increasing amounts of interest in the past few years from media, investors and other stakeholders, as well as academics and business leaders. Tax compliance duties are under the implementation of RSI (Dandy & Haniama, 2024). Such companies are normally perceived as social irresponsible because they undermine public and shareholder trust (Kanjapruhipong, 1997), which depends on tax revenues for the provision of long-term sustainable public goods; thus, over time it would harm them (Christensen, et al., 2004; Friese, et al., 2008; Williams, 2007). Tax avoidance is traditionally framed as socially inappropriate behaviour and as conflicting with the duties of both legality of firms and ethics when they pursue policies with a motive to reduce their current tax burden (Chen et al., 2010; Lanis et al., 2012a; Lanis et al., 2015). We investigate the nature and prevalence of CSR-tax avoidance relationship studied over the past 15 years is to continue theoretical arguments debate, but also has been a dominant target of empirical research (Whait et al., 2018).

Overall, the empirical literature documents three broad patterns in the CSR-TA relationship. A first stream reports a negative association, indicating that firms with stronger CSR profiles tend to engage in less tax avoidance, consistent with stakeholder theory and notions of tax as a social obligation. A second stream finds either no significant link or a positive association, suggesting that CSR can act as a reputational shield that facilitates or legitimises aggressive tax strategies. A third, more recent stream emphasises contextual factors such as national culture, governance quality, and institutional trust, arguing that these conditions partly explain why CSR coincides with either higher or lower tax avoidance across settings. Our study speaks to this third stream by focusing on EF as a key institutional dimension that may condition how CSR translates into tax behaviour. Therefore, we formulate the following hypothesis:

H₁: Corporate Social Responsibility (CSR) has a negative effect on Tax Avoidance (TA).

The Effect of Corporate Social Responsibility on Tax Avoidance with Economic Freedom as a Moderator

Economic Freedom (EF) is conceptualised in this study as an institutional moderator that conditions how CSR is translated into tax behaviour, rather than as a direct determinant of CSR or TA. By creating such institutional environments, Economic Freedom multiplies the yield of trade and foster result oriented behavior among citizens and

firms (De Haan & Sturm, 2000; North 1990). It has been found that EF influences CSR and TA (Li et al., 2014). Jackson and Apostolakou (2010) note that firms in market-driven economies are likely to obtain a higher rating on CSR performance. Supporting this, Molina-Morales et al. (2011) 18 Based on a study in Europe, EF was significantly correlated with corporate tax payments. Conversely, Fonseca-Díaz et al. (3) who demonstrated that there was a positive relationship between EF and a firm's ETR. Even more confusingly, Rika et al. (2023) have suggested that firms, those are more devoted to CSR expenditure and to CSR operations which are linked to the environmental aspects of their working (in terms of emission reduction), tend to contribute more towards tax shenanigan** as measured through lower cash affective tax rate.

Chaterine et al. 2023) who is of opinion on the impact of EF in regards to the unique CSR and TA relationship. Firstly, high EF enables firms to use resources effectively and reduce the gap between tax payments and achievement on CSR. This is also in line with that of Watson (2015), who finds a significant positive relationship between CSR and TA for firms where both current earnings and expected earnings are low. Moreover, a high EF acts as a cushion for the firm against environmental uncertainty and allows businesses to concentrate on long-term yielding rather than on short-term gains. This fresh focus places, on corporations the responsibility of considering the claims of their non-shareholder stakeholders alongside those of their shareholders. Secondly, increased EF leads to a better control of property rights and more effective regulation (both things akin to lower corruption levels: Graeff and Mehlkop 2003, to fewer burdensome regulations: see Kaufmann et al. 2018). We restrict our analysis to Indonesia, Australia, Singapore, the United States, and China for both theoretical and practical reasons. Theoretically, these countries span a wide spectrum of EF, legal traditions, and levels of economic development, thereby providing meaningful variation in institutional context for testing the moderating role of EF. Practically, these markets offer relatively reliable ESG and financial data over 2019–2023, which is essential for constructing consistent CSR, TA, and EF measures. Analysing this focused yet heterogeneous sample allows us to capture cross-country differences in the CSR–TA relationship without diluting the analysis in a very broad but data-constrained country set. We therefore expect EF to strengthen the negative effect of CSR on TA Based on the above discussion, we formulate the hypothesis as follows:

H₂: Economic Freedom (EF) strengthens the negative influence between the relationship between Corporate Social Responsibility (CSR) and Tax Avoidance (TA).

Methodology

We use a sample of 285 listed companies operating in Indonesia, America and China also Australia and Singapore for period between 2019-2023 to collect this data from mentioned sources. We fetch the financial information, Corporate Social Responsibility and ESG Score from the Refinitive database. We obtain the Economic Freedom Index from the Heritage Foundation's database. Example company data employed is listed in Table 1. The initial sample in the analysis is 2443 firms in the population countries that report ESG Score and are actively alive until 2023. We considered cutting the sample that did not report full statements of financial affairs (1928firms) and, separately, dropping those with revenue losses to trim further (230 firms). Our final sample consists of 285 Indonesian, US as well as Australian and Chinese firms reporting an ESG Score and full financial reports and positive earnings.

Dependent Variable: Tax Avoidance

This field of research is mostly based on tax avoidance, as a method with which to mitigate the need to pay taxes. But this method also has its drawback such as under the threat of punishment being imposed or reputation loss in public for an organization (Annisa, Taufik & Hanif 2017). Prior tax avoidance research has used a variety of proxies

for TA such as the ETR, book-tax differences, financial and tax schedule differences and TSAs (e.g., Hanlon and Heitzman 2010). ETR-centric approaches are an important option among these and are therefore widely used in academic works for a number of reasons (e.g., Laguir et al., 2015).

Table 1. Sample Selection

No.	Step	Firms
1.	Initial Sample	2.443
2.	Missing Financial Information	(1.928)
3.	Firms With Negative Income	(230)
4.	Final Sample	285

Initially, authorities generally view this proxy as a sign of proactive tax strategies. Furthermore, research indicates that the ETR reflects a wide range of actions aimed at reducing tax obligations. Finally, the ETR is readily available, as it can be computed directly from financial reports (Lanis and Richardson, 2012).

We employ two different proxies for tax avoidance (TA):

- The Cash Effective Tax Rate (CETR) is used as a proxy for tax avoidance in this study. A lower CETR indicates that a company engages in more aggressive tax planning, whereas a higher CETR suggests minimal tax avoidance practices (Agnes Cheng et al., 2012).

$$CETR_{i,t} = \frac{Cash\ Taxes\ Paid_{i,t}}{Pretax\ Book\ Income_{i,t}} \quad (1)$$

- This method of measurement for ETR (Effective Tax Rate) stems from the income statement, and looks at how well a company's tax-saving efforts are working to increase post-tax earnings. ETR is used specifically for its potential that the ratio is a reliable one to represent what varying difference in financial accounting income and taxable income.

$$ETR_{i,t} = \frac{Total\ Tax\ Expense_{i,t}}{Pretax\ Book\ Income_{i,t}} \quad (2)$$

Both ETR and CETR are widely used but imperfect proxies for tax avoidance. ETR can be affected by loss carry-forwards, deferred tax accounting, and non-recurring items, which may blur the distinction between structural tax avoidance and temporary tax effects. CETR more closely reflects actual cash paid, but it is sensitive to timing differences in tax payments and may understate avoidance when firms defer taxes rather than reduce them permanently. To mitigate these limitations, we interpret lower ETR and CETR as indicative of higher tax avoidance only in conjunction with other information and conduct robustness checks using both measures.

Independent Variable: Corporate Social Responsibility

There is a line of academic research on Corporate Social Responsibility (CSR) activities with diverse data sources and measurement methods. A key index is the ESG performance rating, both for Thomson Reuters (for Mörgran Stanley Capital International (MSCI) ESG STATS and the esg score of A posta Garcia et al: 2024). The ESG score, rates how well companies are judged to perform strengthening against environmental concern as well as social and governance concern – a key benchmark for investors when considering the potential of ethical investments. The ESG Score of the Refinitiv database has been also used in previous studies as a proxy for Corporate Social Responsibility (Ortas and Gallego-Álvarez, 2020; Zeng et al., 2019). The criteria for using the Refinitiv's data analysis service have become a stock tool of various organisations in several countries and has been referenced in more than 1,200 documents in scientific literature since its introduction compared by Berg et al. in 2021.

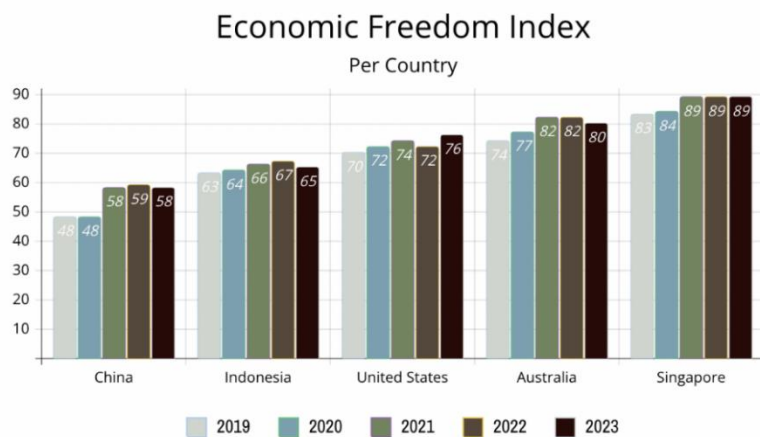
ESG Score is calculated using the information provided by companies and official documents that they publish under environmental, social and governance (i.e., ESG) disclosure. These categories are: – reporting activity, – corporate policy, – action and target reflecting the progress of Corporate Social Responsibility (CSR) activities. The ESG evaluation, or the ESG Score, is derived from 4,000 data points in 23 categories. A score of zero to 25 reflects a weak ESG performance, with anything between 25 and 50 compliant. index performance by 50–75(100 index points)36 portraying good performance, while a score of greater than 75–100 is denoting excellent performance (LSEG, 2014).

Moderation Variabel: Economic Freedom

Free The Economy is the degree to which government interferes with its citizens principles and personal liberties – let them decide what you want the economy run like. We assess the effect of EF using Heritage’s EF Index. This measure is also widely used in academic papers as an approximation for economic freedom and a good institutional-quality index (Gwartney et al., 2020).

The Economic Freedom Index is the average of four components representing the economic and entrepreneurial structure, three subcomponents of each are determined by and large of government influence. The index is composed of four principal sections: Rule of Law (property rights, judicial effectiveness, government integrity), Limited Government (tax burden, government spending, fiscal health), Regulatory Efficiency (business freedom, labor freedom and monetary freedom) and Open Markets (trade freedom, investment freedom and financial freedom). Each index component is measured from 0-100 and the total index score therefore ranges from 0 -100. The higher the value of this index, the higher will be economic freedom (Addi and Abubakar 2022).

Table 2. Economic Freedom Index per Country



Source: The Hritage Foundation (2023)

Regression Model

The regression model below is formulated to test the hypothesis:

$$TA_i = \beta_0 + \beta_1 CSR_i + \beta_2 EF_i + \beta_3 (CSR_i \times EF_i) + \beta_4 ROA_i + \beta_5 CAPINT_i + \beta_6 PBV_i + \beta_7 LEV_i + \epsilon_i \quad (1)$$

Description:

- TA : Tax Avoidance
- CSR : Corporate Social Responsibility
- EF : Economic Freedom
- ROA : Return on Assets
- CAPINT : Capital Intensity
- PBV : Price to Book Value per Share
- LEV : Leverage

The above regression model is simulated to examine the influence of CSR on TA in presence of moderating role of EF. In this specification, EF is treated as a contextual moderator: the coefficient on CSR×EF (β_3) captures how the CSR–TA relationship varies with the level of economic freedom and when it is controlled with number of control variables, which has affects on outcome. These control variables are Return on Assets (ROA), Capital Intensity (CAPINT), Price to Book Value per Share (PBV) and Leverage (LEV). In this regression, TA is a firm-level proxy for tax avoidance in year t measured by CETR and ETRC. Where A_i represents the coefficient on firm specific fixed effect for i, and ESG Score as a proxy for CSR performance at time t and EF country’s economic freedom score at c.t. The variation in y attributable to all other factors is denoted ϵ_i .

As robustness checks, the Model 1 also controlled for the following variables: Profit (ROA); firm growth opportunity (+PBV); financial leverage (-LEV), which is long-term debt over total assets; capital intensity (CAPINT) as fixed asset and property ratio on total assets. ROA evaluates the ability of a company to generate income via its assets, PBV represents how much market participants are willing to pay for each dollar from book value, LEV assesses the financial structures of firms and CAPINT quantifies how much a capital asset is structured/invested out of total resource.

Analysis and Discussion

The research data's descriptive test findings are shown in Table 3.

Table 3. Descriptive statistics results

Variable	N	Mean	SD	Median	Max	Min
ESG Score	1377	44,6094	17,4707	45,087	89,056	2,341
ETR	1377	0,2325	0,4386	0,191	9,700	0,001
CETR	1377	0,6092	1,6832	0,382	50,456	0,000
EFW	1377	59,1659	9,9569	58,400	89,700	48,000
ROA	1377	0,0650	0,0598	0,050	0,433	-0,067
CAPINT	1377	0,2336	0,2207	0,176	1,844	0,001
PBV	1377	2,8076	4,4215	1,593	60,672	0,254
LEV	1377	0,1357	0,1189	0,114	0,675	0,000

Descriptive statistics of the full sample of firms with EF values and CSR reporting in financial statements over 2019-2023 are given in Table 4. The mean values of the tax avoidance measures (ETR and CETR) are 0.2 (ETR) and 0.6 (CETR). These findings imply that the Tax Avoidance (TA) is low if we measure it for ETR and medium regarding CETR. The ESG Score data mean is 44, this figure suggest that companies do implement good CSP and they disclose CRs reporting data (Refinitiv, 2024).

We “use” the Heritage Foundation because they have been consistently more prompt than the Fraser Institute in releasing Economic Freedom data. In particular the Fraser institute largely relies on ‘hard’ data from [outside] providers (Murphy, 2016). Economic Freedom The IRS variable in this study come from the Indonesian, Singapore Australia, China and US country. Economic Freedom” results are in an index: Economic Freedom of the World and ranges between 48 to 89.7. Singaporean, Australia and the USA have a high Economic Freedom scores; Indonesia has in the middle score; while China has low one. High economic freedom countries tend to have high consumption per capita, good access to credit markets, low levels of domestic and foreign investment restrictions; limited business regulation; moderate size of government in the economy and limited interference by the government in the production process.

The correlation analysis of dependent, independent and control variables are shown in Table 4. The variable two Pairwise Correlation data set- Relationship between CSR and Total Assets Analysis of the relationship between CSR and TA using ETR and CETR as independent variables was performed (Acosta Garcia et al. 2024; Fernández-Rodríguez et al., 2021; Lopez-Gonzalez et al. 2019). Unlike in the previous works that employed relationship and coefficients between CSR and TA with ETRCDIF and CETRDIF, the present study shows negative relation of CSR than positive but insignificant relationship of CSR to CETRDIF. Furthermore, the study also observes a

negative association between ETR and ESG Score by a coefficient of -0.006. Conversely, CETR and ESG Score are positively correlated but not homogeneous [0.009].

Table 4. Pairwise Correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) ETR	1,0000							
(2) CETR	0,2083	1,0000						
(3) ESG Score	-0,0056	0,0087	1,0000					
(4) EFW	0,0059	-0,0055	-0,0459	1,0000				
(5) ROA	0,0161	-0,0055	-0,0003	0,0005	1,0000			
(6) CAPINT	-0,0677	0,0086	-0,0009	0,0022	0,0724	1,0000		
(7) PBV	0,0040	0,0165	-0,0084	0,0800	0,0057	0,0081	1,0000	
(8) LEV	0,1299	-0,4522	0,0005	0,0046	-0,1318	0,4198	0,0010	1,0000

Table 5. Results of regression analysis

Variables	ETR	p-value (ETR)	CETR	p-value (CETR)
CSR	-0,0055	>0,01	0,0087	0,1452
EF	0,0059	>0,01	-0,0055	0,1215
ROA	0,0161	0,3711	-0,0055	>0,01
CAPINT	-0,0677	0,7393	0,0086	0,135
PBV	0,004	>0,01	0,0165	>0,01
LEV	0,1299	0,826	-0,4522	>0,01

From a stakeholder-theory perspective, the negative association between CSR and TA based on ETR supports the view that firms with stronger CSR commitments are less willing to engage in aggressive tax planning that could jeopardise legitimacy and stakeholder trust. This evidence aligns with studies such as Lanis and Richardson (2012, 2015) and Abid and Dammak (2022), which document lower tax aggressiveness among high-CSR firms. At the same time, our findings contrast with research that reports a positive or insignificant CSR-TA link, particularly in contexts where CSR can be used as a reputational shield for opaque tax practices

Table 5 presents the correlation coefficients in control variables and all of them are acceptable, with only one variable yielding a non-significant result. The strong negative association of the control variable ROA and the independent variable Tax Avoidances (Capture by CETR) indicates that firms with high-level return on asset are less likely to be involved in tax avoidance proxied by high level of CETR. High profitability and ROA makes a company be more sensitive to its tax dates with the state. So companies that do make big profits will have an incentive to avoid the immoral Tax Avoidance. Conversely, when a firm is less profitable and ROA is low, it becomes more aggressive in managing taxes (avoidance) to counteract the lack of cash flows and operating profitability. These findings endorse the fact that firm's productivity of asset utilization is significantly related with its pattern of tax avoidance maneuvers.

CAPINT (Capital Intensity) has a positive relation with TA but not significant with TA these tells that companies having high CAPINT may be involved more into TA but it is not significant. As for PBV (Price to Book Value per Share), it has a strong and positive correlation with TA, implying that the companies with higher PBV tend to have a stronger motivation on being tax avoider by considering higher under/over valuation. It's these types of companies that also are more likely to engage in complex tax planning (and taking advantage of tax shelters). PBV is also positively correlated with TA.

It is interesting the negative association between LEV (Leverage) and TA (Tax avoidance), as captured by CETR (Cash Effective Tax Rate). High LEV companies are less tax aggressive in their avoidance by using debt interest instead of aggressive tax planning to reduce the cost of taxation. On the other hand, they also look for ways of actively evading taxes in order to minimize the tax costs and increase profits. The negative and significant relationship between LEV and TA indicates what is the effect of debt on tax avoidance strategy.

As shown in Table 6, the interaction term CSR×EF is statistically insignificant for both ETR and CETR, indicating that EF does not significantly moderate the CSR-TA

relationship in our sample period. Although the estimated coefficients have the expected signs, their lack of statistical significance implies that H2 is not supported. In other words, we do not find robust evidence that higher EF systematically strengthens (or weakens) the impact of CSR on firms' tax avoidance behaviour. The CSR – TA link is a 0 proxy to ETR. 0001, with CETR proxy being -0. 0001, though not statistically significant. It is clear that economic freedom moderates the relation between these two phenomena. Economic freedom has a significant positive effect on the moderation of CSR-TA relationship, which means the higher level of economic freedom, the negative relationship between CSR and TA will be increased. Therefore, H2 is proved. Trust & Company Form and Status Consistent with H3, in high-EF countries companies with good CSR are more likely to be able to prevent tax avoidance. More concretely, while the direct effect of CSR on tax avoidance has been identified to be negative (i.e., a negative relationship with CSR) (Lennox & Li, 2014), economic freedom will additionally diminish this association.

Table 6. Multivariate Regressions: Moderating Effect of Economic Freedom

Variables	ETR	p-value (ETR)	CETR	p-value (CETR)
CSR	-0,0055	>0,01	0,0087	0,1452
CSR*EF	0,000104	>0,01	-0,00012	0,1754

Regarding EF, our insignificant interaction term differs from Acosta Garcia et al. (2024), who report a significant and asymmetric moderating effect of EF on the CSR–TA relationship. One possible explanation is that our sample period (2019–2023) includes the COVID-19 shock and subsequent tax policy responses, which may have weakened the disciplinary role of EF by introducing temporary reliefs and emergency measures that blur the link between institutional quality and firms' tax behaviour. Our results also suggest that other institutional factors—such as societal trust or tax-specific governance—may be more salient moderators than broad EF scores in the post-pandemic context.

Why the connection More Transparency: This should not be surprising since economically freer nations tend to also have more transparent (trustworthy) government. But the companies when they are doing a CSR activity, here maybe can have or be prone to follow the tax rules there. Second, we find room for social norm and corporate image: it finds the political economy of less developed economies where stakeholders are not easy monitored about financial information of emerging economies with tax avoidance it can substitute firms with underreporting tax liabilities there (or) since they let an image move from a market to another. While such things may be a tax avoidance, corporations with good CSR values never actually practice these kind of stunts and for that matter cannot do so instead it's all about being socially responsible morally ethically. Policymakers and corporations need to be aware of how economic freedom moderates the relationship between CSR and tax avoidance. For the state, enhancing economic freedom might increase tax payer compliance for CSR-fit enterprises. In a more hybrid form of economic system, the enterprise to build is that which reinfolds competitive strategy as tax planning.

Conclusions and Recommendations

We investigate a sample of 285 listed companies from five countries over the period 2019–2023. The findings indicate that the negative association between CSR and tax avoidance is amplified in a business environment with higher levels of economic freedom. Collectively, the results of this study offer empirical support for the assertion that companies with high levels of CSR tend to avoid taxes less. By contrast, firms with poor CSR practices are; associated with an increased tax avoidance propensity. For businesses with a poor CSR image, the lower commitment to social concern, disclosure and accountability corresponds to greater tax avoidance. Firms are influenced by the

profit maximization behavior and tax avoidance is taken as a tool that can be used to avoid costs. Online Appendices) report that individuals who care more about their image and reputation engage in less tax avoidance. That's unlike those who are image-based and choose to comply with tax laws in their host country. They know that paying tax levies is vital not just for remaining with clean hands vis-a-vis officialdom and society at large but also as a hallmark of corporate citizenship. Here such companies think of tax compliance impacting their growth in the long run. Tax avoidance therefore makes sense only in the short run; companies that are concerned with their image and sustainability typically instead decide to pay what they owe as required under law. They think that exercising social obligations by correctly paying the right tax can improve public relations, create trust and strengthen market share. Moreover, CSR and tax avoidance is also augmented by the economic freedom level in a country. We do not find strong empirical support for the moderating role of EF in the CSR-TA relationship during 2019–2023 (i.e., economic freedom reduces the negative effect of CSR on tax avoidance). Our main empirical contribution is to show that, on average, higher CSR is associated with lower tax avoidance, while the expected moderating effect of EF does not materialise in a statistically significant way in our multi-country post-COVID-19 setting.

This is consistent with the greater transparency found in high economic freedom countries, and multiplier of clearer regulation, where regulation is also more transparent and adaptive. And one reason this is good for us because companies that really do practice CSR become increasingly better at complying with tax law. Furthermore, compliance has to do with the pressure from the norm of conduct or corporate profile. In a more deregulated economy the shareholders can easily gain access to the corporate's financial statements, pushing those tax-motivated corporations whose CSR expectations are low, to pay their taxes in order not be hurt by their public image. Countries with higher degrees of economic freedom are conceived as providing tax havens but companies with such relationship-oriented CSR orientation would not be involved in such activities as they have social and ethical duties and responsibilities to employees. So, it is also practically relevant for policymakers and firms in relation to how Economic Freedom enhances the effect of CSR on tax evasion. It is possible for governments to promote companies engaged in CSR by facilitating economic freedom. Companies walking a fine line of establishing competition policy and adhering to tax regulations in a more economically free setting, on the other hand, are very important.

Managerial Implication

Firms should treat CSR as a genuine commitment that includes transparent and compliant tax behavior, not as a façade to legitimize aggressive tax planning. Strong CSR policies need to be accompanied by clear, publicly communicated tax policies, consistent disclosure, and internal controls that limit overly aggressive tax strategies. Management must weigh the short-term financial gains from tax avoidance against potential long-term costs in the form of reputational damage, investor distrust, and regulatory scrutiny. In more economically free environments, where transparency and investor monitoring are higher, aligning CSR and responsible tax conduct becomes even more critical to maintaining legitimacy and competitive advantage

Limitation And Future Research

The present research has important implications for the interaction among CSR, TA and moderating effect of EF. But there are many restrictions which should be taken into consideration. First, on the other hand, though this study is a larger and updated version of past research by including more up-to-date data (2019-2023), it is constrained to a particular time period to some extent. This paper adopts the 3 years sample period (2012–2014) and is not long on observation window compared to that in future research, we can take relatively longer data time range.

Second, it is important to mention that the present study only examines five countries which are Indonesia, US China Australia and Singapore. However, such countries have different economic contexts and may not represent tax policies or CSR behavior in all legal/cultural/economic environments. Investigating other countries, or making the comparison between richer and less rich could be a next step in future research.

Third, CSR is proxy by ESG rating (environmental, social and governance), Tax Avoidance by proxies of ETR/CETR, Economic Freedom through Economic Freedom Index of Heritage Foundation. Even if they are accepted, these may not in fact cover all of corporate social responsibility and tax planning. Corporate Responsibilities – Tax Planning: The connection. It could be beneficial for future research to analyze additional dimensions of CSR (e.g. sustainability reporting quality, corporate philanthropy) and fresh tax avoidance proxies in aim to increase robustness.

In addition, industry effects on firm CSR and tax sensitivity are not controlled for in the present study. Some industries like tech or financial services, for instance, could have more tax planning opportunities than others. In future research it would be interesting to compare industry variety of the CSR-tax avoidance relationship.

Finally, this work does show (although it does not look into) why corporate tax incidents occur. Given the small sample, future studies could employ other quantitative methodologies (e.g., large-n survey or advanced statistical modeling) to add breadth and depth to our understanding of corporate decision-making in CSR and tax. While crossing these limitations, researchers may try to offer more critical perspective in the CSR – Tax Avoidance and Economic Freedom Relationships¹¹.

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