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THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY IN MEDIATING THE RELATIONSHIP BETWEEN LEVERAGE AND TAX AGGRESSIVENESS

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Abstract: This study investigates the role of Corporate Social Responsibility (CSR) in mediating the relationship between leverage and tax aggressiveness in primary consumer goods companies, specifically the food and beverage subsector, listed on the Indonesia Stock Exchange during the 2020–2024 period. Using a quantitative approach, this research analyzes 100 firm-year observations from 20 companies selected through purposive sampling. Data were examined using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with SmartPLS. The results indicate that leverage does not have a significant direct effect on tax aggressiveness, nor does it significantly influence CSR disclosure. Furthermore, CSR is found to have a positive but insignificant effect on tax aggressiveness. Mediation analysis reveals that CSR does not mediate the relationship between leverage and tax aggressiveness. These findings suggest that corporate tax aggressiveness in the primary consumer goods sector is not primarily driven by leverage or CSR practices, but may be influenced by other organizational and institutional factors. This study contributes to the literature by providing empirical evidence on the limited mediating role of CSR in corporate tax behavior within an emerging market context.

Keywords: Tax Aggressiveness; Leverage; Corporate Social Responsibility; Mediation; Primary Consumer Goods Sector

INTRODUCTION

Tax plays a fundamental role in sustaining national fiscal capacity, as it constitutes the primary source of financing for national development. Nevertheless, tax revenue performance in Indonesia continues to face various structural and behavioral constraints, one of which arises from corporate tax aggressiveness. Tax aggressiveness reflects a set of strategies employed by firms to reduce tax liabilities through tax planning practices that operate within legal boundaries or approach regulatory gray areas in taxation (Hanlon & Heitzman, 2010; Lanis & Richardson, 2012). Such practices not only diminish potential government revenue but also raise ethical concerns and pose risks to corporate reputation and social legitimacy.

From a corporate perspective, taxes are often perceived as a burden that directly reduces net income and firm value. This perception encourages management to seek alternative policies aimed at minimizing tax expenses, particularly when firms face financial performance pressure or economic uncertainty. Frank et al. (2009) emphasize that financially constrained conditions frequently trigger managerial tendencies to adopt more aggressive tax planning strategies. Consistent with this view, prior studies indicate that tax aggressiveness is influenced not only by external factors but also by internal firm characteristics, including capital structure, profitability, and corporate governance quality (Lanis & Richardson, 2012; Salhi et al., 2020).

One internal characteristic frequently associated with tax aggressiveness is leverage. Leverage represents the proportion of debt financing within a firm's capital structure, where interest expenses are fiscally deductible and can reduce taxable income (Suyanto & Supramono, 2012). In financial theory, leverage is commonly regarded as a tax shield mechanism that potentially lowers corporate tax obligations. However, empirical evidence regarding the relationship between leverage and tax aggressiveness remains mixed. Several studies report a significant effect, suggesting that highly leveraged firms are more likely to intensively exploit tax-related opportunities (Pranata et al., 2021; Tambunan & Samaria, 2025). Conversely, other studies find that leverage does not consistently serve as a primary determinant of tax aggressiveness and may exhibit insignificant effects (Lailiyah et al., 2024).

These divergent findings indicate that the relationship between leverage and tax aggressiveness is neither simple nor linear. This inconsistency suggests the presence of additional mechanisms that indirectly shape corporate tax behavior. In this context, Corporate Social Responsibility (CSR) emerges as a relevant variable for understanding how firms balance economic pressures with social expectations. CSR reflects a firm's commitment to conducting business ethically, responsibly, and in consideration of stakeholder interests (Lanis & Richardson, 2013).

Grounded in legitimacy theory, firms strive to obtain and maintain social legitimacy by aligning their policies and activities with prevailing societal values, norms, and expectations (Suchman, 1995). Within this framework, tax compliance is viewed as part of a firm's social contribution to the state. Consequently, firms with higher levels of CSR disclosure are normatively expected to avoid aggressive tax practices, as such behavior may undermine corporate reputation and social legitimacy. Empirical studies support this argument by demonstrating a negative association between CSR and tax aggressiveness (Lanis & Richardson, 2012; Vito et al., 2022).

However, empirical findings regarding the role of CSR in taxation are also inconsistent. Some studies report that CSR has no significant effect on tax aggressiveness and fails to function as an effective mechanism to constrain managerial opportunism (Lianty, 2023). In certain cases, CSR is even perceived as a symbolic legitimacy tool used to obscure aggressive tax practices conducted behind the scenes (Laguir et al., 2015). These findings highlight that CSR does not always represent a substantive ethical commitment but may instead be driven by strategic corporate interests. Furthermore, Sari and Prihandini (2019) demonstrate that CSR is not a homogeneous construct; while its economic dimension may positively influence tax aggressiveness, social and environmental dimensions tend to exert a negative effect. This evidence suggests that treating CSR as a single aggregate variable may oversimplify complex empirical realities, thereby necessitating a more nuanced analytical approach.

As the literature evolves, research attention has increasingly shifted from direct relationships toward indirect mechanisms by positioning CSR as a mediating variable. Salhi et al. (2020) show that CSR mediates the relationship between corporate governance and tax avoidance across different legal systems. Similarly, Ramadhani and Az'mi (2024) find that CSR mediates the relationship between ownership structure and tax avoidance in Indonesian manufacturing firms. These findings imply that CSR may function as a balancing mechanism between internal economic pressures and external legitimacy demands.

Despite this progress, empirical studies that specifically examine CSR as a mediating variable in the relationship between leverage and tax aggressiveness remain limited, particularly in the Indonesian context. This gap is notable given that leverage constitutes a significant source of financial pressure for management and may encourage aggressive tax behavior. Simultaneously, firms may increase CSR activities and disclosures as a strategy to maintain social legitimacy and manage reputational risk.

The urgency of this study is further reinforced by recent developments in the primary consumer goods sector. Although this sector is often perceived as defensive and relatively resilient to economic shocks, capital market data reveal notable fluctuations in its performance. Over the past few years, the primary consumer goods index on the Indonesia Stock Exchange has experienced considerable volatility. While the sector recorded moderate growth, reflected in an index increase of approximately 14.8 percent over the past year, it also suffered a significant decline of around 19.17 percent in the first quarter of 2020. These fluctuations indicate that the sector is not entirely countercyclical and may expose firms to substantial financial pressure in maintaining earnings stability and cash flows.

From a fundamental perspective, the sector continues to demonstrate relatively strong demand, as evidenced by an increase in earnings per share (EPS) of approximately 47 percent during the 2019–2020 period, making it one of the fastest-growing sectors in terms of EPS on the Indonesia Stock Exchange. This divergence between market performance and fundamentals underscores the non-linear economic reality of the sector, where corporate strategic decisions are shaped by multiple, simultaneous pressures.

These pressures are further intensified by external factors, particularly rising prices of essential goods. In recent years, rice prices in Indonesia increased by nearly 24 percent between 2023 and 2025. Such increases directly affect household consumption patterns and corporate cost structures, potentially narrowing profit margins due to higher input costs and limited pricing flexibility.

The combination of market volatility, rising costs, and the need to sustain fundamental performance creates substantial financial pressure for firms in the primary consumer goods sector. Under these conditions, management faces increasingly complex strategic decisions regarding capital structure and tax planning. Heightened financial pressure may encourage more aggressive tax behavior, while firms simultaneously remain under intense public scrutiny concerning their social responsibility and contribution to the state. Therefore, the empirical dynamics of this sector further strengthen the relevance of examining corporate behavior more comprehensively, particularly in relation to leverage, Corporate Social Responsibility, and tax aggressiveness. Moreover, ongoing changes in national and global tax policies, including the implementation of global minimum corporate tax regimes, further enhance the relevance of research on tax aggressiveness. Such regulatory developments compel firms to reassess their tax strategies and financing structures, especially during transitional periods prior to full policy implementation.

Based on the foregoing discussion, a clear research gap can be identified, namely the inconsistent relationship between leverage and tax aggressiveness that has yet to be explained through mediating mechanisms, ongoing debates regarding CSR's ethical versus symbolic role, and the limited empirical studies integrating leverage, CSR, and tax aggressiveness within a single analytical framework, particularly in Indonesia's primary consumer goods sector. Accordingly, this study aims to examine the mediating role of Corporate Social Responsibility in the relationship between leverage and tax aggressiveness among primary consumer goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

LITERATURE REVIEW

Tax Aggressiveness

Tax aggressiveness refers to a set of corporate strategies aimed at reducing tax burdens through tax planning practices that operate within legal boundaries or approach regulatory gray areas. Hanlon and Heitzman (2010) define tax aggressiveness as a spectrum of corporate tax behaviors, ranging from legitimate tax planning to practices that involve higher legal and regulatory risks. Lanis and Richardson (2012) emphasize that tax aggressiveness not only reduces government tax revenues but may also generate reputational and legitimacy risks for firms. Consequently, tax aggressiveness has become a central issue in accounting, finance, and corporate governance research.

In practice, tax aggressiveness is often associated with conflicts of interest between management and other stakeholders. Managers tend to perceive taxes as a cost that reduces after-tax profits, whereas governments and society view taxes as a firm's social contribution. This divergence of interests creates incentives for managers to engage in aggressive tax planning, particularly when firms face financial performance pressures (Frank et al., 2009).

Leverage and Tax Aggressiveness

Leverage reflects the extent to which firms rely on debt financing in their capital structure. From a financial theory perspective, debt provides a tax shield benefit because interest expenses are deductible for tax purposes, thereby reducing taxable income (Suyanto & Supramono, 2012). As a result, leverage is frequently associated with firms' incentives to minimize tax liabilities.

However, empirical evidence regarding the relationship between leverage and tax aggressiveness remains mixed. Pranata et al. (2021) and Tambunan and Samaria (2025) find that leverage has a significant effect on tax aggressiveness, suggesting that highly leveraged firms tend to adopt more aggressive tax strategies. In contrast, Lailiyah et al. (2024) report that leverage does not consistently serve as a key determinant of tax aggressiveness. These inconsistent findings indicate that leverage may not exert a direct influence on tax aggressiveness but instead operates through contextual and behavioral mechanisms.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) represents a firm's commitment to conducting business responsibly by considering its social, environmental, and economic impacts. Within the stakeholder theory framework, firms are accountable not only to shareholders but also to a broader range of stakeholders affected by corporate activities (Lanis & Richardson, 2013). Meanwhile, legitimacy theory emphasizes that firms seek to obtain and maintain social legitimacy by aligning their activities with prevailing societal norms and values (Suchman, 1995).

In the context of taxation, CSR is commonly viewed as an indicator of a firm's ethical commitment. Taxes constitute a form of corporate contribution to society; therefore, firms with higher CSR engagement are normatively expected to avoid aggressive tax practices. Several empirical studies support this view, demonstrating a negative relationship between CSR and tax aggressiveness (Lanis & Richardson, 2012; Vito et al., 2022).

CSR and Tax Aggressiveness

Despite normative expectations, empirical findings regarding the role of CSR in tax aggressiveness are not always consistent. Lianty (2023) finds that CSR does not significantly affect tax avoidance and fails to mediate the relationship between corporate governance and tax aggressiveness. This finding suggests that CSR does not always reflect a substantive ethical commitment but may instead function as a symbolic legitimacy tool used to obscure opportunistic corporate behavior (Laguir et al., 2015).

Furthermore, Sari and Prihandini (2019) reveal that the effect of CSR on tax aggressiveness depends on the specific CSR dimension employed. Economic CSR dimensions may increase tax aggressiveness, whereas social and environmental dimensions tend to reduce it. These results highlight the multidimensional nature of CSR and suggest that treating CSR as a single, homogeneous construct may oversimplify its complex role in corporate tax behavior.

CSR as a Mediating Variable

Recent literature has shifted attention from direct relationships toward indirect mechanisms by positioning CSR as a mediating variable. Salhi et al. (2020) demonstrate that CSR mediates the relationship between corporate governance and tax avoidance across different legal systems. Similarly, Ramadhani and Az'mi (2024) find that CSR mediates the relationship between ownership structure and tax avoidance in Indonesian manufacturing firms.

These findings indicate that CSR can function as a balancing mechanism between internal economic pressures and external legitimacy demands. In the context of leverage, financial pressure arising from high debt levels may encourage aggressive tax planning. At the same time, firms face social legitimacy pressures that may incentivize increased CSR engagement and disclosure.

METHODS

Research Design

This study employs a quantitative research approach with a causal research design to examine the relationships among leverage, Corporate Social Responsibility (CSR), and tax aggressiveness. A causal design is appropriate because the objective of this study is to test hypothesized cause-and-effect relationships based on established theories and prior empirical findings. Specifically, this research investigates both the direct effect of leverage on tax aggressiveness and the indirect effect mediated by CSR.

Population and Sample

The population of this study consists of all primary consumer goods companies, particularly those operating in the food and beverage (F&B) subsector, listed on the Indonesia Stock Exchange (IDX). The food and beverage subsector was selected due to its strategic role in the Indonesian economy and its close association with basic consumer needs, which places firms in this sector under relatively high public and regulatory scrutiny.

The sample was selected using a purposive sampling technique, whereby firms were chosen based on specific criteria relevant to the research objectives and data availability. The sampling criteria were as follows:

1. Companies classified under the primary consumer goods sector and listed on the IDX during the 2020–2024 period.
2. Companies that consistently published annual financial statements ending on December 31 throughout the observation period
3. Companies that presented their financial statements in Indonesian rupiah; and
4. Companies that disclosed Corporate Social Responsibility information either through sustainability reports or CSR sections in annual reports.

Based on these criteria, a total of 20 companies were selected as the research sample. With a five-year observation period, the final dataset comprises 100 firm-year observations.

Data Type and Sources

This study uses secondary data in quantitative form. Financial data related to leverage and tax aggressiveness were obtained from audited annual reports published by the sampled companies. CSR data were collected from sustainability reports and CSR disclosures contained in annual reports. All data were accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id), the SahamOK database, and the official websites of the respective companies.

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Variable Measurement

Tax Aggressiveness

Tax aggressiveness is the dependent variable in this study. It reflects the extent to which firms engage in strategies to minimize tax liabilities. Consistent with prior studies, tax aggressiveness is proxied using the effective tax rate-based measure, which captures deviations between accounting income and tax expense (Hanlon & Heitzman, 2010).

Leverage

Leverage is the independent variable and represents the firm's capital structure, measured as the ratio of total liabilities to total assets. This measure reflects the extent of debt financing and the potential tax shield benefits arising from interest deductibility (Suyanto & Supramono, 2012).

Corporate Social Responsibility (CSR)

CSR is treated as a mediating variable in this study. CSR is measured using a disclosure index based on the proportion of CSR items reported by the company relative to the total applicable disclosure items. This approach reflects the extent of corporate engagement in social, environmental, and economic responsibility disclosures.

Data Analysis Technique

Data analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. PLS-SEM was chosen because it is suitable for analyzing complex models involving mediating variables, does not require strict assumptions of data normality, and performs well with relatively small sample sizes (Hair et al., 2017; Hair et al., 2019).

The analysis followed a two-stage procedure. First, the measurement model (outer model) was evaluated to assess construct reliability and validity. Second, the structural model (inner model) was assessed to examine the hypothesized relationships among leverage, CSR, and tax aggressiveness.

Mediation Analysis

The mediating role of CSR was tested by examining the indirect effect of leverage on tax aggressiveness through CSR. The significance of the mediation effect was assessed using a bootstrapping procedure with resampling in SmartPLS. Mediation is considered present when the indirect effect is statistically significant, indicating that CSR transmits the effect of leverage to tax aggressiveness, either partially or fully.

RESULT AND DISCUSSION

Results

To examine the relationships among leverage, Corporate Social Responsibility (CSR), and tax aggressiveness, this study employed Partial Least Squares–Structural Equation Modeling (PLS-SEM) using SmartPLS. The results of the structural model estimation, including the path coefficients and coefficients of determination (R^2), are presented in Figure 1.

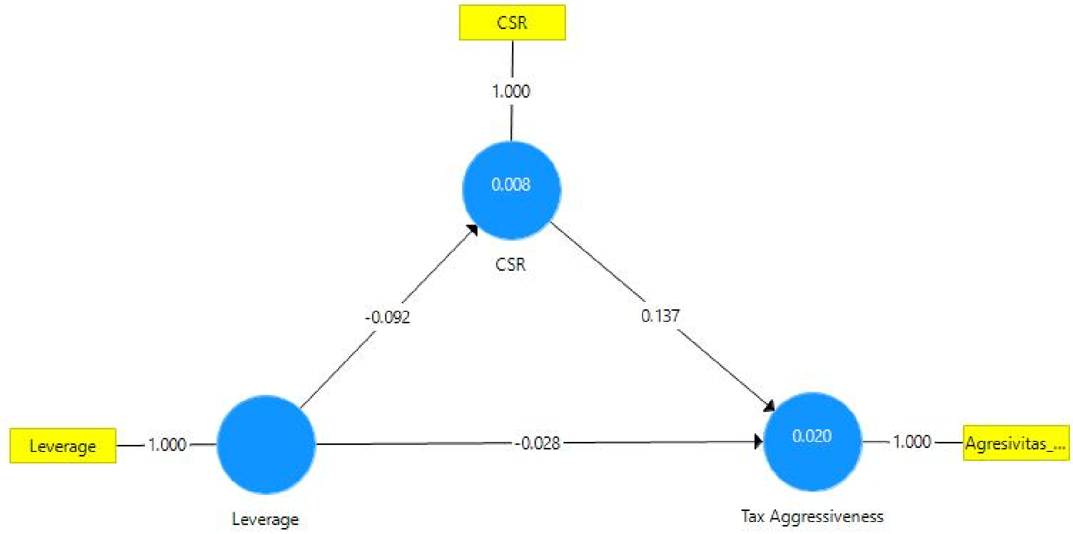

Figure 1. Alghoritm Calculate with SmartPls

Figure 1 presents the structural model estimation results obtained from the Partial Least Squares–Structural Equation Modeling (PLS-SEM) analysis using SmartPLS. The model examines the direct effect of leverage on tax aggressiveness as well as the indirect effect mediated by Corporate Social Responsibility (CSR).

Table 1. Outer Loadings

	CSR	Leverage	Tax Aggressiveness
Agresivitas_Pajak			1,000
CSR	1,000		
Leverage		1,000	

Table 1 presents the outer loading values of each construct included in the measurement model. The results indicate that all constructs—Leverage, Corporate Social Responsibility (CSR), and Tax Aggressiveness—are measured using a single indicator, each exhibiting an outer loading value of 1.000. An outer loading value of 1.000 reflects a perfect representation of the construct by its indicator, which is expected in single-item measurement models. This result indicates that each indicator fully captures the variance of its respective latent construct, thereby eliminating measurement error at the indicator level. Accordingly, the measurement model satisfies the criteria for indicator reliability and convergent validity. As all constructs meet the recommended threshold for outer loadings, the model is deemed suitable for further structural model analysis and hypothesis testing.

Table 2. Cross Loadings

	CSR	Leverage	Tax Aggressiveness
Agresivitas_Pajak	0,140	-0,041	1,000
CSR	1,000	-0,092	0,140
Leverage	-0,092	1,000	-0,041

Table 2 presents the cross loading values for each construct in the measurement model. Discriminant validity is assessed by comparing the loading of each indicator on its associated construct with its loadings on other constructs. A construct is considered to exhibit adequate discriminant validity when its indicator loads higher on the intended construct than on any other constructs.

The results show that the indicator for Tax Aggressiveness has the highest loading on its corresponding construct, with a value of 1.000, while its loadings on CSR and Leverage are substantially lower, at 0.140 and –0.041, respectively. Similarly, the indicator for CSR loads perfectly on the CSR construct with a value of 1.000, while exhibiting lower cross loadings on Leverage (–0.092) and Tax

Aggressiveness (0.140). The Leverage indicator also demonstrates the highest loading on its own construct (1.000), with considerably lower loadings on CSR (–0.092) and Tax Aggressiveness (–0.041).

These findings indicate that each indicator is more strongly associated with its respective latent construct than with other constructs in the model. Therefore, the measurement model satisfies the discriminant validity criterion based on the cross loading approach.

Table 3. Heterotrait-Monotrait Ratio (HTMT)

	CSR	Leverage	Tax Aggressiveness
CSR			
Leverage	0,092		
Tax Aggressiveness	0,140	0,041	

Table 3 presents the Heterotrait–Monotrait Ratio (HTMT) values used to assess discriminant validity among the constructs in the measurement model. The HTMT criterion evaluates the extent to which constructs are empirically distinct, with values below the recommended threshold of 0.85 (or more conservatively 0.90) indicating adequate discriminant validity. The results show that the HTMT value between CSR and Leverage is 0.092, between CSR and Tax Aggressiveness is 0.140, and between Leverage and Tax Aggressiveness is 0.041. All HTMT values are well below the recommended threshold, indicating a clear distinction among the constructs.

Table 4. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
CSR -> Tax Aggressiveness	0,137	0,135	0,108	1,271	**0,204**
Leverage -> CSR	-0,092	-0,077	0,105	0,870	**0,385**
Leverage -> Tax Aggressiveness	-0,028	-0,031	0,079	0,357	**0,721**

Table 4 presents the results of the structural model evaluation, including the path coefficients, t-statistics, and p-values obtained from the bootstrapping procedure in SmartPLS. These results are used to test the proposed hypotheses regarding the relationships among leverage, Corporate Social Responsibility (CSR), and tax aggressiveness.

The results show that CSR has a positive effect on tax aggressiveness, with a path coefficient of 0.137. However, the corresponding t-statistic is 1.271, with a p-value of 0.204, which exceeds the conventional significance level of 0.05. This finding indicates that CSR does not have a statistically significant effect on tax aggressiveness. Therefore, the hypothesis proposing a significant relationship between CSR and tax aggressiveness is not supported. Furthermore, the relationship between leverage and CSR yields a negative path coefficient of –0.092, suggesting that higher leverage is associated with lower CSR disclosure. Nevertheless, the t-statistic for this relationship is 0.870, with a p-value of 0.385, indicating that the effect is not statistically significant. Accordingly, the hypothesis stating that leverage significantly influences CSR is rejected.

The direct effect of leverage on tax aggressiveness is also negative, with a path coefficient of –0.028. This relationship produces a t-statistic of 0.357 and a p-value of 0.721, which is far above the threshold for statistical significance. This result suggests that leverage does not have a significant direct effect on tax aggressiveness. Thus, the corresponding hypothesis is not supported. Overall, the structural model results indicate that none of the proposed direct relationships among leverage, CSR, and tax aggressiveness are statistically significant. These findings imply that leverage does not directly drive tax aggressiveness, nor does it significantly affect CSR disclosure in the sampled firms. Similarly, CSR does not significantly constrain or intensify tax aggressiveness. This outcome highlights the possibility that corporate tax behavior is influenced by other organizational, institutional, or governance-related factors not captured in the current model.

Table 5. Specific Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Leverage -> CSR -> Tax Aggressiveness	-0,013	-0,008	0,019	0,665	0,506

Table 5 presents the results of the specific indirect effects analysis, which examines the mediating role of Corporate Social Responsibility (CSR) in the relationship between leverage and tax aggressiveness. The mediation effect was tested using a bootstrapping procedure in SmartPLS.

The results show that the indirect effect of leverage on tax aggressiveness through CSR has a path coefficient of –0.013. This coefficient indicates that leverage has a negative indirect relationship with tax aggressiveness when CSR is included as a mediating variable. However, the magnitude of this indirect effect is relatively small. Furthermore, the corresponding t-statistic for the indirect effect is 0.665, with a p-value of 0.506, which exceeds the conventional significance threshold of 0.05. These results indicate that the indirect effect is not statistically significant. Therefore, CSR does not significantly mediate the relationship between leverage and tax aggressiveness.

Based on these findings, it can be concluded that CSR does not function as a mediating variable in the relationship between leverage and tax aggressiveness in the sampled primary consumer goods companies. This result suggests that the influence of leverage on corporate tax behavior does not operate through CSR mechanisms, reinforcing the earlier finding that leverage does not have a significant direct or indirect effect on tax aggressiveness.

CONCLUSION

This study examines the role of Corporate Social Responsibility (CSR) in mediating the relationship between leverage and tax aggressiveness in primary consumer goods companies, particularly the food and beverage subsector, listed on the Indonesia Stock Exchange during the 2020–2024 period. Using Partial Least Squares–Structural Equation Modeling (PLS-SEM), the findings reveal that leverage does not have a significant direct effect on tax aggressiveness. This result indicates that the level of corporate debt alone is not a decisive factor in determining aggressive tax behavior within the observed firms. In addition, leverage is found to have a negative but insignificant effect on CSR disclosure, suggesting that higher financial pressure due to debt does not necessarily lead firms to reduce or increase their CSR activities in a statistically meaningful way. CSR itself shows a positive but insignificant relationship with tax aggressiveness, implying that CSR disclosure does not function as an effective ethical constraint on corporate tax behavior. Moreover, the mediation analysis confirms that CSR does not mediate the relationship between leverage and tax aggressiveness. Overall, these findings suggest that corporate tax aggressiveness in the primary consumer goods sector is influenced by factors beyond leverage and CSR, such as governance quality, regulatory enforcement, or managerial incentives. This study contributes to the literature by providing empirical evidence that challenges the assumption of CSR as an effective mediating mechanism in corporate tax behavior. Future research is encouraged to incorporate additional variables and alternative CSR measurements to better capture the complexity of corporate tax decision-making.

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