

The Influence of Tax Payment Disclosure in GRI-Based Sustainability Reports on Tax Avoidance:

A Cross-Country Analysis of Indonesia and Singapore

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Abstract

This study aims to analyze the impact of tax disclosure in GRI-based sustainability reporting on tax avoidance in companies listed on the stock exchanges of Indonesia and Singapore during the period 2014-2023. Utilizing panel data and a fixed effects model, this study explores the relationship between tax payment disclosure in sustainability reporting, company size, gross fixed assets, profitability, leverage, development level, CSR Mandatoriness, and the market-to-book ratio with the level of tax avoidance. The sample is categorized into three groups: the first group examines how tax disclosure in GRI-based sustainability reporting affected tax avoidance in different countries, the second group examines how nation's development level influences tax avoidance, while the third group investigates the impact of mandatory sustainability reporting on tax avoidance, offering a more limpid insight into the effects of sustainability reporting. The research uncovers distinct differences in tax avoidance strategies between developed and developing countries, emphasizing significant behavioral discrepancies linked to varying levels of development and CSR mandatoriness enforcement. The multiple regression analysis indicates that tax disclosure in GRI-based sustainability reporting negatively related to tax avoidance in developing countries. Furthermore, the test result also shows the positive relationship between CSR mandatoriness and development levels with tax avoidance in Indonesia and Singapore. This study offers practical insights for designing ethical and effective tax strategies, taking the contrasting tax practices between developed and developing nations and the influence of mandatory reporting into account.

Keywords: Tax Avoidance, Tax Disclosure, Sustainability Reporting, CSR Mandatoriness, Development Level.

1. Introduction

The global tax landscape faces significant challenges due to the rise of multinational corporations (MNCs). These corporations have developed increasingly sophisticated tax avoidance strategies that minimize their tax liabilities, often through legal but ethically questionable means (Davis et al., 2016). To avoid taxes, they may utilize transfer pricing manipulation and profit shifting to artificially reduce their taxable income in high-tax jurisdictions and increase it in low-tax havens (Ungoed-Thomas & Helm, 2024)). This not only reduces government revenue but also creates an uneven playing field for compliant businesses.

Compliant businesses are placed at a significant disadvantage compared to those who avoid taxes (Rudyanto & Pirzada, 2021). Small medium enterprises (SMEs) especially, with fewer resources to navigate complex tax codes, struggle to compete with MNCs that have teams dedicated to minimizing their tax exposure (Ungoed-Thomas & Helm, 2024). This creates an unfair advantage, stifling competition and innovation within the market. When MNCs exploit loopholes and avoid paying their fair share, countries could lose crucial revenue up to US\$200 billion a year in tax revenue, which exceeds the total of official development assistance (GEM Report, 2023). This ultimately stalls their economic development and exacerbates the cycle of poverty.

The State of Tax Justice 2023 report suggests that countries are on course to lose US\$4.8 trillion in tax revenue to tax haven countries over the next 10 years (Tax Justice Network, 2023). The impact of tax avoidance is particularly detrimental for developing countries. These nations often have a greater reliance on corporate tax revenue to fund essential public services like education and healthcare. Furthermore, developing country's economies may lack the resources and expertise to effectively enforce tax regulations, further exacerbating the issue (Yusuf & Resosudarmo, 2015). For developed countries, this scenario presents a complex set of implications. On one hand, the economies of developed nations might indirectly benefit from the existence of tax havens, as multinational corporations domiciled in these countries can minimize their tax liabilities, thereby maximizing profits.

On the other hand, the report's findings also pose a moral and ethical challenge for developed countries. The loss of tax revenue is particularly harmful to developing nations, which rely more heavily on corporate tax. The inability of these countries to collect adequate tax revenue not only hampers their economic development but also exacerbates global inequalities. Additionally, the lack of resources and expertise in developing countries to enforce tax regulations further compounds the problem (Zeng, 2019a).

In response to this, corporate transparency and accountability have become paramount. Sustainability reporting, with the Global Reporting Initiative (GRI) framework, has emerged as a potential tool to address this need. According to Tager, (2021), GRI states tax is a component of firms' responsibilities to governments in which disclosing tax payments in sustainability reports becomes imperative due to its impact on society. Tax compliance is influenced by tax morale. Legal realism theory suggests that soft laws can enhance firms' tax attitudes. By connecting tax avoidance to sustainability, soft laws can discourage such practices. In this case, GRI could serve as a soft law that is able to encourage companies to disclose their environmental, social, and governance (ESG) performance, including their tax contribution, fostering a more transparent and responsible business environment (Bird & Davis-Nozemack, 2018; KPMG, 2022). Increased transparency in corporate tax reporting grants a positive effect on the fiscal behaviors of companies, which can discourage the use of loopholes and unethical strategies to minimize tax liabilities. This is particularly relevant for countries like Indonesia, a developing nation with a burgeoning economy and a growing focus on sustainable practices, where ensuring fair tax contributions is essential for funding development and social programs. Conversely, Singapore, as

a developed nation with a well-established financial hub, already has a strong regulatory framework in place that supports ethical tax practices and compliance (Chang, 2019). Prior research showed that developed nations often have more robust regulatory frameworks and stronger institutions to enforce tax regulations compared to developing countries (Singhania et al., 2024).

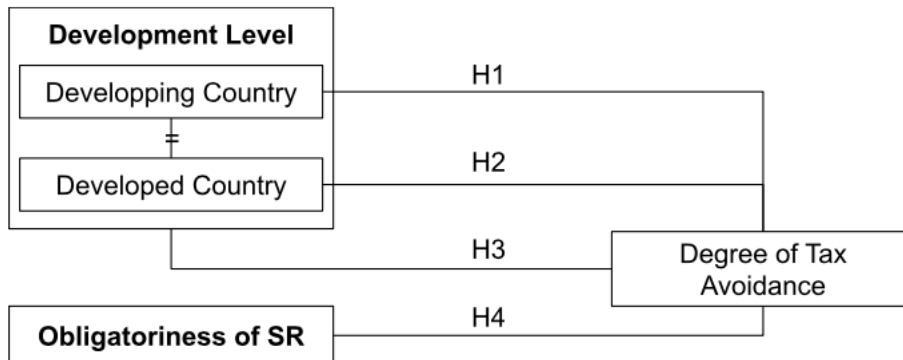
While there are existing researches that have explored the potential link between sustainability reporting and reduced tax avoidance (Jemiolo & Farnsel, 2023; Menicacci & Simoni, 2024), other studies suggest that companies engaged in CSR initiatives may also be more adept at tax minimization, thus posited a negative correlation between tax avoidance and CSR (Abid & Dammak, 2022; Alsaadi, 2020; Dakhli, 2022), implying that CSR efforts might be a smokescreen for tax avoidance practices (Zeng, 2019a).

These contradictory outcomes underscore the nuanced interplay between these two corporate behaviors, highlighting the influence of various factors, including development level whereas the studies in developed countries resulted in a positive relation (Oussii & Klibi, 2024; Rashid et al., 2024; Saragih & Ali, 2023), industry sector, corporate governance, political connection and the prevailing regulatory environment. Furthermore, the potential for strategic CSR practices, designed to enhance a company's reputation while simultaneously minimizing tax liabilities, adds another layer of complexity to this multifaceted relationship.

The study also considers the implications of mandatory and non-mandatory sustainability reporting. Mandatory reporting can enforce accountability and transparency, leading to more responsible tax practices, while non-mandatory reporting allows companies to showcase their unique sustainability initiatives. It is crucial to investigate whether the enforcement of standardized reporting requirements leads to significant improvements in corporate tax behavior or if companies find ways to comply with reporting standards without making substantive changes to their tax strategies.

This research has a two-fold rationale. Firstly, it contributes to the ongoing debate on the effectiveness of sustainability reporting in curbing tax avoidance. By examining the relationship between tax disclosure and tax practices in Indonesia and Singapore, this research sheds light on how this dynamic might differ across development stages. Understanding this link is crucial for informing policy and regulatory frameworks that incentivize both corporate social responsibility and tax compliance. Secondly, the comparative analysis provides valuable insights for policymakers in both developing and developed economies. For developing countries like Indonesia, the findings can inform the design of sustainability reporting regulations that effectively deter tax avoidance and strengthen tax collection efforts. Developed economies like Singapore, on the other hand, can benefit by understanding how their existing frameworks might be strengthened to further mitigate this challenge, considering the need for both mandatory and non-mandatory sustainability reporting to achieve a balanced and effective approach.

Research Framework



2. Literature Review

Global Reporting Initiatives (GRI) and Tax Avoidance

2.1 Legal Realism Theory

Legal Realism Theory suggests that law is composed of hard law and soft law. Hard law, backed by concrete sanctions and regulations, provides a clear framework for behavior (Shaffer & Pollack, 2009), while on the other hand, soft law, rooted in societal norms and values, encourages cooperation and compliance (Christians, 2007). In rapidly changing business environments, flexible tax regulations are essential, but rigid hard law can be slow to adapt, leading to tax avoidance. Soft law can complement hard law by offering more adaptable guidelines, helping to prevent tax avoidance in bureaucratic countries like Indonesia (Karmel & Kelly, 2009; Shelton, 2008).

While soft law supports hard law in curbing tax avoidance, it cannot replace it due to its lack of legal force. Its primary role is to facilitate hard law implementation. Soft law complements hard law by motivating firms to comply and contributing to the development of new, more effective legal rules. The GRI-based sustainability report, a soft law mechanism, encourages firms to report their tax payments, promoting hard law compliance. However, it does not directly contribute to the development of new hard law. This research aims to analyze whether GRI in sustainability reporting as a soft law mechanism can effectively incentivize hard law compliance.

2.2 Telltale Heart Effect and Business Ethics

Prior research suggests that disclosure can influence behavior, prompting actors to adjust their actions in response to making them public (Loewenstein et al., 2013). This phenomenon, known as the "telltale heart effect," is particularly relevant to ethical dilemmas, such as those surrounding tax practices (Estlund, 2009). Businesses grapple with the tension between contributing to societal well-being through tax payments and potentially free-riding on the contributions of others (Levi, 1988). Ultimately, tax decisions often reflect a company's moral stance and can significantly impact tax compliance (Awang & Amran, 2014).

Given the ethical dimension of tax compliance, soft law mechanisms that promote moral awareness among firms hold particular promise (Lederman, 2003). Cultivating tax-related moral awareness is crucial, as traditional legal enforcement may not be equally effective across all actors (Cummings et al., 2009). To maintain legitimacy, companies strive to align with societal values. Soft law, such as tax disclosure in sustainability reports, can play a role in helping firms recognize that tax avoidance contradicts these values, potentially enhancing their moral standing. Furthermore, previous research suggests that simplicity is key for maximizing the effectiveness of disclosure, which can avoid any excessive details that can obscure vital information (Michelon et al., 2015). Studies have shown that firms engaging in higher levels of tax avoidance tend to disclose less quantitative data and rely more on vague, qualitative statements suggesting that tax payment disclosures are more important than other tax disclosures (Inger et al., 2018; Kao & Liao, 2021; H. Liu, 2022).

2.3 Tax Avoidance and Global Reporting Initiatives (GRI)

The Global Reporting Initiative (GRI) comes out as a leading framework for sustainability reporting, providing guidelines for organizations to disclose their environmental, social, and governance (ESG) performance. While GRI's primary focus is on sustainability, its principles and standards can also have implications for tax transparency and avoidance. This essay explores the theoretical relationship between GRI based sustainability reporting and tax avoidance, arguing that GRI-based sustainability reports can play a role in mitigating tax avoidance practices, particularly in developing countries.

One key mechanism through which GRI can influence tax avoidance is through increased transparency. GRI standards require organizations to disclose their tax payments and effective tax rates, providing stakeholders with valuable information about their tax practices. This transparency can deter tax avoidance by increasing the likelihood of detection and public scrutiny. As noted by the (European Union, 2016, "Enhanced transparency can act as a deterrent to aggressive tax avoidance by exposing companies to public scrutiny and potential reputational damage."

Furthermore, GRI's focus on accountability and stakeholder engagement can contribute to reducing tax avoidance. By promoting dialogue with stakeholders, organizations are more likely to be held accountable for their tax practices. This can incentivize companies to adopt more ethical and responsible tax strategies, avoiding tax avoidance schemes that may harm their reputation and relationships with stakeholders. As the Global Reporting Initiative (2016) argues, "Stakeholder engagement can create a social pressure on companies to adopt ethical tax practices and avoid aggressive tax avoidance."

However, the effectiveness of GRI in mitigating tax avoidance may vary across different levels of country development. In developed countries with strong regulatory frameworks and robust corporate governance, GRI may have a less significant impact on tax avoidance. These countries often have well-established tax rules and enforcement mechanisms, making it more difficult for companies to engage in aggressive tax planning. In contrast, developing countries may

benefit more from GRI's principles, as they can provide a framework for improving transparency and accountability in a context where regulatory oversight may be weaker.

In conclusion, GRI-based sustainability reports can play a valuable role in addressing tax avoidance by promoting transparency, accountability, and stakeholder engagement. While the effectiveness of GRI may vary across different levels of country development, it is clear that this framework offers a promising avenue for mitigating tax avoidance practices, particularly in developing countries. By requiring organizations to disclose their tax payments and effective tax rates, GRI can contribute to a more equitable and sustainable global tax system.

2.4 Hypothesis Development

Tax avoidance, the exploitation of legal loopholes to minimize tax liabilities, remains a pressing concern for governments worldwide. While hard law mechanisms like tax regulations are essential, soft law mechanisms, such as social pressure and reputational damage, can also play a significant role in influencing corporate behaviour (Green, 2005). This study investigates the potential of tax disclosure in GRI-based sustainability reports as a soft law mechanism to mitigate tax avoidance, particularly when comparing developed and developing countries.

Previous research has shown that societal trust can discourage tax avoidance due to the fear of social ostracism (Kanagaretnam et al., 2018; Y. Liu et al., 2014; Xia et al., 2017). GRI-based sustainability reports, which emphasize transparency and accountability in environmental, social, and governance practices, can serve as a powerful tool for fostering societal trust. By disclosing their tax payments, companies can demonstrate their commitment to ethical business practices and avoid the negative consequences of being perceived as tax evaders.

However, the effectiveness of tax disclosure in mitigating tax avoidance may vary across different development levels. In developed countries, where institutional mechanisms and societal trust are generally stronger, firms may be more inclined to engage in corporate social responsibility (CSR) activities as a means of enhancing their reputation. However, these CSR activities might be used as a cover-up for tax avoidance strategies. Thus, in developed countries, tax payment disclosure in GRI-based sustainability reports may not effectively deter tax avoidance, and could even have a positive relationship with such practices. Previous research studies held in several developed countries also find strong evidence that CSR is positively related to tax avoidance, which can be translated that there might be a higher chance of firms doing tax avoidance in developed countries (Alsaadi, 2020; Aras, 2014; Zeng, 2019b).

H1: Tax payment disclosure in GRI-based sustainability reporting in developed countries is positively related to tax avoidance.

Conversely, in developing countries, where societal trust and institutional mechanisms may be weaker, firms may be more likely to view tax payment disclosure as a means of demonstrating their commitment to corporate citizenship and social responsibility. This could lead to a negative relationship between tax payment disclosure and tax avoidance in developing countries.

The "telltale heart effect" suggests that disclosing tax information can influence firms to alter their moral attitudes, including tax related moral attitude, and ultimately reduce tax avoidance (Clarkson et al., 2008). By publicly disclosing their tax payments in GRI-based sustainability reports, companies may be more likely to internalize the ethical implications of their tax practices and adopt more responsible tax strategies. Prior research about the relationship between CSR disclosure and tax avoidance in developing countries has also shown result suggesting firms that disclose more CSR information engaged in less tax avoidance (Rudyanto, 2024)

H2: Tax payment disclosure in GRI-based sustainability reporting in developing countries is negatively related to tax avoidance.

GRI-based sustainability reporting in developing countries tends to show a negative relationship with tax avoidance. In these regions, transparency initiatives such as those encouraged by the Global Reporting Initiative (GRI) can act as a deterrent to risky tax strategies (Garrido-Miralles et al., 2016). Many developing countries face challenges with weaker regulatory frameworks and enforcement capabilities, which often leave room for corporations to exploit tax loopholes. However, by voluntarily disclosing tax-related information through sustainability reports, companies demonstrate a commitment to ethical behavior, enhancing their reputations and building trust with stakeholders. These disclosures can act as a form of self-regulation, encouraging businesses to avoid tax avoidance tactics that could damage their long-term standing and investor relations. Moreover, heightened scrutiny from international organizations and the growing importance of sustainability metrics in global business make transparency in tax practices a strategic move. As companies in developing countries increasingly align with international reporting standards, they may be less inclined to engage in practices that might be perceived as socially irresponsible, further reducing tax avoidance. These dynamics, the study hopes to shed light on how non-binding guidelines can complement formal regulatory efforts to promote fair and responsible tax practices globally.

H3: Development level is positively related on the level of tax avoidance.

The level of development within a region or country often dictates the complexity of its financial systems, the robustness of its regulatory frameworks, and the sophistication of its market participants. These elements, in turn, can create varying opportunities and incentives for tax (Pizzi et al., 2024). By examining the relationship between development level and tax avoidance, we aim to understand whether more developed economies exhibit different patterns of tax avoidance compared to less developed ones, potentially due to differences in enforcement, transparency, and ethical standards.

H4: The Mandatory Nature of sustainability reporting is related to the incidence of tax avoidance activities.

The obligation to create sustainability reports requires companies to disclose their environmental, social, and governance (ESG) practices including tax payment disclosure, which could, in turn, affect their public image and stakeholder trust. This transparency might deter companies from engaging in tax avoidance strategies, as such actions could contradict the ethical stance they portray in their sustainability reports. Conversely, the act of sustainability reporting could also be seen as a strategic move to enhance a company's image, potentially masking aggressive tax planning activities under the guise of social responsibility (DeZoort et al., 2018). Therefore, exploring the relationship between the obligation of sustainability reporting and tax avoidance levels could provide insights into whether mandated transparency in sustainability practices genuinely aligns with ethical tax behaviour or if it serves as a veneer for tax avoidance, thus contributing to the broader discourse on corporate ethics and accountability.

3. Research Methodology

This research focuses on companies listed on the Indonesia and Singapore stock exchanges from 2019 to 2023. Financial, oil and gas, property firms with positive earnings, negative tax expenses, and a tax avoidance level below 100% are excluded in this study. By concentrating on companies with positive earnings, the research targets profitable entities that are subject to tax obligations, which is a crucial aspect when investigating tax behavior. Additionally, the presence of negative tax expenses in companies could suggest the utilization of tax credits or the application of carryforward losses to reduce current tax liabilities. Moreover, by setting a threshold for tax avoidance below 100%, the study ensures that the companies under examination are practicing some degree of tax avoidance without fully evading taxes, thereby aiding in the identification and analysis of lawful tax minimization strategies. Financial companies were excluded due to their stricter oversight and unique tax structures. Property and oil and gas companies were also left out because their final tax status eliminates their tax burdens. After applying these criteria, the final sample consists of 500 companies with 1,000 firm-year observations.

The selection of the years 2014 - 2023 for this study is particularly relevant as it aligns with the latter part of President Jokowi's administration, which has been distinguished by substantial economic reforms and policy shifts. These changes have a direct bearing on sustainability reporting, as businesses may have responded to new government regulations and initiatives by altering their practices and disclosures related to environmental, social, and governance (ESG) issues (Dick, 2019; Guild, 2019). It indicates the potential for better public welfare through taxes paid by firms (Jordan, 2018; Supriatin, 2018). Meanwhile, in Singapore, sustainability reporting has been mandatory for listed companies since 2011, demonstrating an earlier adoption of sustainability practices compared to Indonesia.

Second, the number of sustainability reports has been increasing during 2006-2019, indicating that sustainability reporting reached maturity after 2019 (Gunawan et al., 2022). Additionally, in 2017, the OJK released Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services

Institutions, Issuers, and Public Companies, which made sustainability reporting a mandatory regulation in Indonesia.

The observation period concluded in 2023 due to several factors. Firstly, the year 2023 marked the end of a particular policy cycle or government administration, providing a natural endpoint for research that sought to evaluate the impact of specific policies or initiatives. Finally, the availability of comprehensive and up-to-date data are available until the year 2023. This allowed a thorough analysis of the trends and developments relevant to the research.

Furthermore, the year 2023 also represents a significant milestone in the evolution of sustainability reporting in both Indonesia and Singapore. While Indonesia has made significant strides in recent years, the country still faces challenges in terms of compliance rates and the quality of sustainability disclosures. Singapore, on the other hand, has established itself as a regional leader in sustainability reporting, with a strong regulatory framework and a culture of corporate social responsibility. As both countries continue to evolve, it will be important to monitor their progress and identify best practices that can be shared and implemented more broadly.

According to KPMG some industries are mandated to comply with GRI 207 thus showed a healthy number of sustainability reporting (KPMG, 2022). All financial data were gathered from Refinitiv. The following is the research model:

$$TAX_{i;t} = \beta_0 + \beta_1 Pr(SR)_{i;t} + \beta_2 LEV_{i;t} + \beta_3 ROA_{i;t} + \beta_4 ASSET_{i;t} + \beta_5 MTB_{i;t} + \beta_7 CASH_{i;t} + \beta_6 PPE_{i;t} + \beta_7 DLI_{i;t} + e_{i;t} (1)$$

$$TAX_{i;t} = \beta_0 + \beta_1 Pr(SR)_{i;t} + \beta_2 LEV_{i;t} + \beta_3 ROA_{i;t} + \beta_4 ASSET_{i;t} + \beta_5 MTB_{i;t} + \beta_7 CASH_{i;t} + \beta_6 PPE_{i;t} + \beta_7 MOI_{i;t} + e_{i;t} (2)$$

Tax avoidance (TAX) in this study is measured using the cash effective tax rate (CASH ETR), following the approach of Kanagaretnam et al. (2018) and Dyreng et al. (2019). CASH ETR is calculated as the ratio of cash taxes paid to income before taxes (Hope et al., 2017; Dyreng et al., 2019). This study uses CASH ETR for several reasons. First, firms that recognize tax as a sustainability issue may have higher tax morals and, consequently, pay more taxes. Second, CASH ETR captures a wide range of tax avoidance strategies, including both permanent and temporary methods (Simone and Stomberg, 2012). Third, CASH ETR avoids overstating current tax expense due to factors like employee stock options and deferred tax assets (Hoopes et al., 2012; Liu, 2022). To facilitate interpretation, CASH ETR is multiplied by -1, so higher values indicate greater tax avoidance.

This study employs several dummy variables to measure firm characteristics and business environment. Firstly, the variable Pr (SR) is used to identify whether a firm discloses tax payments in its GRI-based sustainability report. A value of 1 indicates disclosure, while 0 indicates no disclosure. Secondly, the variable DL (development level) is used to classify countries based on their economic development level, which influences the level of compliance with sustainability reporting. A value of 1 indicates Developed Country, while 0 indicates Developing Country.

Thirdly, the variable MR (mandatory reporting) is used to identify whether a country mandates sustainability reporting, thus providing an overview of the influence of regulations on corporate reporting behavior. A value of 1 indicates mandatory sustainability reporting, while 0 indicates voluntary sustainability reporting.

Several control variables are included in the analysis to account for factors that may affect the magnitude of tax avoidance, including leverage (LEV) which acquired from total debt divided by total asset, pretax return on investment (ROA) which comes from pretax earnings divided by total assets, firm size (SIZE) from Ln (Total Assets), market-to-book value (MTB) from market value of equity divided by total shareholder equity, and gross fixed assets (PPE) from total revenue divided by total fixed asset (Davis et al., 2016).

4. Result and Discussion

This study employs a panel data analysis to investigate the intricate relationship between tax avoidance and corporate social responsibility (CSR). By leveraging a panel data approach, we can control for unobserved heterogeneity across firms and capture the dynamic nature of these variables over time. This allows us to establish more causal relationships and isolate the specific impact of tax avoidance on CSR.

Building upon existing research that has highlighted the significant influence of industry type and peer emulation on CnSR (Rudyanto, 2019; Sweeney & Coughlan, 2008), we incorporate fixed industry and year effects into our fixed effect model. This approach enables us to account for industry-specific characteristics and time-invariant factors that may affect both tax avoidance and CSR. By controlling for these factors, we can more accurately assess the direct relationship between these two variables.

To explore the impact of tax disclosure in Corporate Social Responsibility (CSR) on tax avoidance, we have developed four interrelated hypotheses that not only connect with each other but also provide a comprehensive explanation of how these variables interact. These hypotheses will shed light on the dynamics of tax disclosure and tax avoidance in both developed and developing countries, offering insights into how these relationships vary across different economic landscapes. A comparative analysis between the two groups of nations will further highlight differences and similarities, enhancing our understanding of CSR-related tax transparency and its influence on corporate behavior. To test these relationships, a fixed-effects model will be employed, as it allows for controlling time-invariant characteristics within each country, thus offering a more accurate estimation of the impact of tax disclosure on tax avoidance. By isolating constant factors and focusing on those that change, the model improves the robustness of our findings. This approach seeks to unravel the complexities of tax practices and CSR in diverse economic environments, contributing to the global discourse on ethical corporate conduct.

Variable	Mean	Median	S.D.	Min	Max	
PPE	3,33	1,99	5,73	0,000	91,0	Table 1. Developed Country Descriptive Analysis
ROA	-0,0314	0,0134	0,454	-8,87	0,582	
SIZE	27,9	27,8	1,56	21,7	32,9	
LEV	0,253	0,231	0,270	0,000	4,74	
MTB	1,05	0,690	3,28	-40,7	32,8	
CASHETR	0,0468	-0,0819	2,59	-6,34	51,6	
SR	0,186	0,000	0,389	0,000	1,00	
DL	1,00	1,00	0,000	1,00	1,00	
MO	0,800	1,00	0,400	0,000	1,00	

Notes: *TAX* = tax avoidance from cash taxes paid (multiplied by minus 1); *SR* = the existence of tax disclosure in GRI-based sustainability report; *SIZE* = firm size; *PPE* = gross fixed asset; *ROA* = profitability; *LEV* = leverage; *MTB* = market to book ratios fixed assets; *ROA* = profitability; *LEV* = leverage; *MTB* = market to book ratio; *DL* = development level of the country where the firm operating at; *MO* = mandatoriness of the sustainable reporting

Source: Author'own work

Variable	Mean	Median	S.D.	Min	Max	
PPE	2,18	0,829	6,50	0,00196	72,2	Table 2. Developing Country Descriptive Analysis
ROA	0,0112	0,0242	0,116	-0,871	0,599	
SIZE	29,5	29,5	1,52	25,7	33,7	
LEV	0,315	0,288	0,240	0,000	2,00	
MTB	1,95	1,13	3,82	-5,90	69,2	
CASHETR	-0,442	-0,223	3,90	-76,8	6,16	
SR	0,350	0,000	0,477	0,000	1,00	
MO	0,600	1,00	0,490	0,000	1,00	

Notes: *TAX* = tax avoidance from cash taxes paid (multiplied by minus 1); *SR* = the existence of tax disclosure in GRI-based sustainability report; *SIZE* = firm size; *PPE* = gross fixed asset; *ROA* = profitability; *LEV* = leverage; *MTB* = market to book ratios fixed assets; *ROA* = profitability; *LEV* = leverage; *MTB* = market to book ratio; *DL* = development level of the country where the firm operating at; *MO* = mandatoriness of the sustainable reporting

Source: Author'own work

Table 1 presents the descriptive statistics of the research variables for the Developed Country. **Table 2** presents the descriptive statistics of the research variables for the Developing Country. The comparison of **Table 1** with **Table 2** provides more comprehensive explanation. Comparison between **Table 1** and **Table 2** illustrates that firms in the Developed Country are smaller, have more fixed assets and earn lower profits than Developing Country. It demonstrates that firms with greater profits tend to avoid less taxes, vice versa.

	<i>Obs.</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
PPE	500	8,39291e-05	0,00269378	0,03116	0,9752	Table 3. Test Result of the relationship between tax payment disclosure in GRI-based sustainable reporting and tax avoidance in developed country
ROA	500	-0,154852	0,0418816	-3,697	0,0002 ***	
SIZE	500	-0,00147240	0,000895268	-1,645	0,1007	
LEV	500	-0,217526	0,0664098	-3,276	0,0011 ***	
MTB	500	0,0117697	0,00566199	2,079	0,0382 **	
SR	500	-0,0313706	0,0276215	-1,136	0,2566	
Sum squared resid		307,5919	S.E. of regression		0,789085	
Uncentered R-squared		0,045114	Centered R-squared		0,074119	
F(6, 494)		3,889887	P-value(F)		0,000832	Statistics
Log-likelihood		-588,0108	Akaike criterion		1188,022	based on the weighted data
Schwarz criterion		1213,309	Hannan-Quinn		1197,944	
Mean dependent var		0,046813	S.D. dependent var		2,588677	Statistics
Sum squared resid		3346,118	S.E. of regression		2,602599	based on the original data

Notes: *** $P < 0.01$; ** $P < 0.05$; * $P < 0.1$

Source: Author's own work

Table 3 shows the results from our test, using a sample from Singapore, reveal that the relation between tax disclosure and tax avoidance is not statistically significant. This finding contradicts our initial hypothesis, which posited that increased tax disclosure through Corporate Social Responsibility (CSR) efforts would lead to a reduction in tax avoidance. While we expected greater transparency to act as a deterrent to aggressive tax strategies, the data from Singapore suggest that the level of tax disclosure may not have a substantial impact on corporate tax avoidance behaviors in this context. These results could imply that other factors, such as regulatory environment, enforcement mechanisms, or corporate governance practices, might play a more dominant role in influencing tax avoidance in Singapore. The lack of significance in the relationship also suggests that further investigation is needed to explore how cultural, economic, or institutional factors might mediate the connection between CSR-related tax transparency and tax avoidance in different settings.

This lack of statistical significance may be partly explained by the timing of the data collection, which coincided with the COVID-19 period. During this time, many companies faced exceptional financial pressures, potentially influencing their tax strategies and transparency efforts. During this time, many companies faced unprecedented financial pressures and uncertainties, which may have altered their tax strategies and transparency practices. Corporations could have prioritized short-term survival over long-term ethical considerations, leading to less focus on tax disclosure or adherence to CSR principles. Additionally, governments worldwide introduced various fiscal relief measures and tax incentives during the pandemic, potentially distorting the usual patterns of

tax behavior. These unique circumstances may have contributed to the lack of a significant relationship between tax disclosure and tax avoidance in the Singaporean context, suggesting that the results might differ under more stable economic conditions.

	<i>Obs.</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	Table 4. Test Result of the relationship between tax payment disclosure in GRI-based sustainable reporting and tax avoidance in developing country
PPE	500	0,00143328	0,00214238	0,6690	0,5038	
ROA	500	-0,268037	0,133875	-2,002	0,0458 **	
SIZE	500	-0,00738716	0,000752947	-9,811	<0,0001 ***	
LEV	500	0,112809	0,0520791	2,166	0,0308 **	
MTB	500	-0,00714102	0,00472410	-1,512	0,1313	
SR	500	-0,0567154	0,0311928	-1,818	0,0696 *	
Sum squared resid		247,5927	S.E. of regression		0,707955	Statistics based on the weighted data
Uncentered R-squared		0,050493	Centered R-squared		0,379565	
F(6, 494)		4,378307	P-value(F)		0,000253	
Log-likelihood		-533,7635	Akaike criterion		1079,527	
Schwarz criterion		1104,815	Hannan-Quinn		1089,450	
Mean dependent var		-0,441893	S.D. dependent var		3,897006	Statistics based on the original data
Sum squared resid		7592,403	S.E. of regression		3,920362	

Notes: *** $P < 0.01$; ** $P < 0.05$; * $P < 0.1$

Source: Author's own work

Table 4 shows results from our test, using a sample from Indonesia, indicate that tax disclosure has a negative and statistically significant relationship with tax avoidance (*). This finding aligns with our hypothesis, which suggested that increased tax disclosure, as part of Corporate Social Responsibility (CSR) practices, would lead to a reduction in tax avoidance. In the Indonesian context, this suggests that greater transparency around tax practices may indeed serve as a deterrent to aggressive tax planning, encouraging companies to adopt more responsible fiscal behaviors. The significance of this relationship highlights the potential effectiveness of CSR-driven tax transparency initiatives in promoting ethical corporate practices. These results may also reflect the growing regulatory emphasis on corporate accountability and the evolving tax governance landscape in Indonesia, where transparency is increasingly valued by both the government and the public. The findings reinforce the idea that in certain developing countries, CSR-related tax disclosure can be an important tool in reducing tax avoidance.

Variable	Mean	Median	S.D.	Min	Max
PPE	2,76	1,40	6,15	0,000	91,0
ROA	-0,0101	0,0184	0,332	-8,87	0,599

SIZE	28,7	28,7	1,73	21,7	33,7	Table 5. Combined Developed and Developing Country Descriptive Analysis
LEV	0,284	0,259	0,257	0,000	4,74	
MTB	1,50	0,859	3,58	-40,7	69,2	
CASHETR	-0,198	-0,168	3,32	-76,8	51,6	
SR	0,268	0,000	0,443	0,000	1,00	
DL	0,500	0,500	0,500	0,000	1,00	
MO	0,700	1,00	0,458	0,000	1,00	

Notes: *TAX* = tax avoidance from cash taxes paid (multiplied by minus 1); *SR* = the existence of tax disclosure in GRI-based sustainability report; *SIZE* = firm size; *PPE* = gross fixed asset; *ROA* = profitability; *LEV* = leverage; *MTB* = market to book ratios fixed assets; *ROA* = profitability; *LEV* = leverage; *MTB* = market to book ratio; *DL* = development level of the country where the firm operating at; *MO* = mandatoriness of the sustainable reporting

Source: Author's own work

	<i>Obs.</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	Table 6. Test Result of the relationship between tax payment disclosure in GRI-based sustainable reporting and tax avoidance in both developed and developing country
PPE	1000	0,000285455	0,00154799	0,1844	0,8537	
ROA	1000	-0,0135624	0,0174798	-0,7759	0,4380	
SIZE	1000	-0,00902754	0,000330774	-27,29	<0,0001 ***	
LEV	1000	0,0104474	0,0236042	0,4426	0,6581	
MTB	1000	0,000363163	0,00275126	0,1320	0,8950	
SR	1000	-0,0315138	0,0207173	-1,521	0,1285	
DL	1000	0,177379	0,0121157	14,64	<0,0001 ***	

Sum squared resid	604,5362	S.E. of regression	0,780255	
Uncentered R-squared	0,213090	Centered R-squared	0,763245	
F(6, 494)	38,41405	P-value(F)	7,55e-48	Statistics
Log-likelihood	-1167,292	Akaike criterion	2348,583	based on the
Schwarz criterion	2382,938	Hannan-Quinn	2361,640	weighted data

Mean dependent var	-0,197540	S.D. dependent var	3,315534	Statistics
Sum squared resid	10935,47	S.E. of regression	3,318518	based on the original data

Notes: *** $P < 0.01$; ** $P < 0.05$; * $P < 0.1$

Source: Author's own work

After incorporating the dummy variable for development level (DL), the results in **Table 6** show that the level of development is positively and significantly related to tax avoidance. This means that companies in more developed countries tend to engage in higher levels of tax avoidance compared to those in developing nations. This finding is consistent with our previous two

hypotheses, which results in the negative relationship between tax disclosure and tax avoidance in developing countries and no relationship between those two variables in developed countries, indicating that the negative relationship is more pronounced and significant in developing countries. In other words, increased tax disclosure seems to reduce tax avoidance more in a developing country than it is in developed countries. This suggests that tax transparency may be more effective in curbing tax avoidance in countries with less mature financial and regulatory systems, where the pressure for ethical corporate behavior might be higher, or where firms might be more sensitive to reputational risks tied to CSR practices. The positive relationship observed in more developed countries could be attributed to the more sophisticated tax planning mechanisms available, despite higher levels of disclosure.

	<i>Obs.</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
PPE	1000	0,000960913	0,00157801	0,6089	0,5427	Table 7. Test Result of the relationship between tax payment disclosure in GRI-based sustainability reporting and the mandatoriness of CSR in both developed and developing country
ROA	1000	-0,0879175	0,0282109	-3,116	0,0019 ***	
SIZE	1000	-0,00452975	0,000635472	-7,128	<0,0001 ***	
LEV	1000	-0,0469932	0,0411572	-1,142	0,2538	
MTB	1000	-0,00313102	0,00341218	-0,9176	0,3591	
SR	1000	-0,104662	0,0233124	-4,490	<0,0001 ***	
MO	1000	0,0295508	0,0145343	2,033	0,0423 **	
Sum squared resid		691,3673	S.E. of regression		0,834411	
Uncentered R-squared		0,049182	Centered R-squared		0,149262	
F(6, 494)		7,337729	P-value(F)		1,32e-08	Statistics
Log-likelihood		-1234,397	Akaike criterion		2482,793	based on the
Schwarz criterion		2517,147	Hannan-Quinn		2495,850	weighted data
Mean dependent var		-0,197540	S.D. dependent var		3,315534	Statistics
Sum squared resid		10958,48	S.E. of regression		3,322006	based on the original data

Notes: *** $P < 0.01$; ** $P < 0.05$; * $P < 0.1$

Source: Author's own work

After incorporating the dummy variable for development level (DL), the results in **Table 7** show that the level of development is positively and significantly related to tax avoidance. This means that companies in more developed countries tend to engage in higher levels of tax avoidance compared to those in developing nations (Pizzi et al., 2024) While increased tax disclosure seems to reduce tax avoidance across the board, its impact is stronger and more meaningful in developing economies (Afolabi et al., 2023) This suggests that tax transparency may be more effective in curbing tax avoidance in countries with less mature financial and regulatory systems, where the pressure for ethical corporate behavior might be higher, or where firms might be more sensitive to reputational risks tied to CSR practices. The positive relationship observed in more developed

countries could be attributed to the more sophisticated tax planning mechanisms available, despite higher level of disclosure.

Moreover, when the samples from both Singapore and Indonesia are combined, sustainability reporting demonstrates a highly significant relationship with tax avoidance. This reinforces the idea that, across different economic contexts, mandatory SR can be associated with higher tax avoidance levels. It raises questions about the effectiveness of mandatory sustainability disclosure in reducing unethical financial behaviors, suggesting that companies may comply with reporting obligations while still engaging in aggressive tax strategies.(Maas et al., 2016) Further research may be needed to understand how regulatory frameworks or enforcement mechanisms could shape this relationship and encourage genuine transparency.

5. Conclusion

The use of GRI-based sustainability reporting is likely to lead to organizational changes and improved sustainability ethics (Domingues et al., 2017; Lozano et al., 2016). This study examines how tax disclosure in GRI-based sustainability reports can influence corporate ethics and tax morals in countries with varying levels of development and CSR mandates. GRI-based reporting connects sustainability and tax issues, serving as a soft law to discourage tax avoidance (Bird & Davis-Nozemack, 2018)2018). This paper proposes that firms should disclose their tax payments in GRI-based sustainability reports to reduce tax avoidance, drawing inspiration from the telltale heart effect which suggests that public disclosure of tax payments makes companies more aware of their ethical responsibilities and potential stakeholder scrutiny

The findings reveal critical insights into how tax disclosure practices differ between developed and developing nations, particularly highlighting the negative relationship observed in developing countries, which supports the hypothesis that greater transparency in tax payments can deter tax avoidance behaviors (Desai & Dharmapala, 2006). In contrast, our investigation found no significant correlation in developed countries, contradicting to several previous research results which suggest that CSR behaviors positively related to tax avoidance (Oussii & Klibi, 2024; Rashid et al., 2024; Saragih & Ali, 2023). These results suggest that tax strategies in these environments may be influenced by other factors beyond disclosure practices (Hanlon & Heitzman, 2010)2010). This distinction underscores the necessity of contextualizing tax practices within a nation's development framework.

Furthermore, the study confirms that a nation's development level correlates positively with tax avoidance, indicating that as countries progress, the complexities of tax planning may also evolve (Buettner & Ruf, 2007). Additionally, the mandatory nature of sustainability reporting was found to be positively associated with tax avoidance activities, suggesting that while mandated disclosures can enhance transparency, they may inadvertently facilitate sophisticated avoidance strategies (Eccles et al., 2014).

Overall, this research contributes to the discourse on corporate tax behavior by emphasizing the need for tailored regulatory frameworks that account for the unique circumstances of developed and developing economies. It highlights the importance of enhancing tax payment transparency as a mechanism to promote ethical tax practices while also suggesting that regulators consider the implications of mandatory reporting. Policymakers can utilize these findings to develop tailored regulatory frameworks that consider the unique circumstances of developed and developing economies, ultimately fostering a culture of corporate accountability.

However, this study is not without its limitations. One notable obstacle was the variability in sustainability reporting standards across different jurisdictions, which may affect the comparability of results (Alsayegh et al., 2023). Additionally, the reliance on publicly available data may have introduced bias, as not all companies disclose tax information uniformly (Jamil et al., 2021). Future research should aim to address these gaps by incorporating qualitative approaches and exploring the effects of cultural factors on tax behavior and sustainability reporting practices. This will enrich our understanding of the complex interplay between corporate transparency, tax avoidance, and socio-economic development.

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