

The Moderating Effect of Political Connections on the Relationship Between Corporate Social Responsibility and Tax Avoidance in the Energy Industry Sector

Novalina Arifianti*, Heni Agustina, Ummu Imara Nusaibah, Elina Setyawati

Universitas Nahdlatul Ulama Surabaya, Indonesia

Email: novalina@unusa.ac.id*, heni@unusa.ac.id, nusaibahummuimara@gmail.com, elinasetyawati@gmail.com

ABSTRACT

This study aims to determine the influence of CSR on tax avoidance and the moderating effect of political connections on the relationship between CSR and tax avoidance. The research was conducted on energy sector companies listed on the Indonesia Stock Exchange. The sample used comprised energy sector companies for the 2023–2024 period, totaling 66 observations. Data were collected through documentation techniques from annual reports and sustainability reports published on the Indonesia Stock Exchange website and company websites. The method used was Moderated Regression Analysis (MRA) with classical assumption tests, including normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The results indicated that CSR has a significant positive effect on tax avoidance, suggesting that higher CSR disclosure is associated with lower tax avoidance practices. Political connections have a significant positive effect on tax avoidance, indicating that politically connected firms tend to engage in more aggressive tax strategies. Finally, political connections weaken the relationship between CSR and tax avoidance, demonstrating that political ties reduce the effectiveness of CSR in mitigating tax avoidance behavior. These findings contribute to the literature on corporate ethics, tax planning strategies, and the role of political economy in emerging markets.

Keyword: Corporate Social Responsibility (CSR); Tax Avoidance; Political Connections; Moderation; Energy Sector.

INTRODUCTION

A company's ethical assessment can be judged from CSR and tax avoidance practices (Pratiwi & Siregar, 2019). CSR activities are a contribution to the non-shareholder community in the form of resource sharing (Kovermann & Velte, 2021). Meanwhile, tax avoidance (TA) refers to efforts to minimize tax liabilities by exploiting gaps or ambiguities within tax regulations (Mardiasmo, 2023). Based on ethical theory, CSR can reduce TA actions that are considered unethical (Pratiwi & Siregar, 2019).

Globally, tax avoidance remains a critical issue in corporate governance and public finance. According to the Tax Justice Network (2023), multinational corporations shift approximately \$1.38 trillion in profits to tax havens annually, resulting in global tax revenue losses of over \$483 billion per year. In the context of Indonesia, the energy sector contributes significantly to national tax revenue. Data from the Directorate General of Taxes (2024) shows that the energy sector, particularly oil, gas, and mining companies, contributed approximately 18.7% of total corporate tax revenue in 2023, making it the third-largest contributor after the manufacturing and financial services sectors (Dwijayanto, 2024). However, concerns about tax avoidance practices in this sector have been raised by civil society organizations and tax authorities due to complex ownership structures, transfer pricing mechanisms, and offshore arrangements commonly employed by energy companies.

In terms of CSR disclosure, the Global Reporting Initiative (GRI, 2024) reported that CSR reporting among energy companies worldwide increased by 32% between 2020 and 2023,

driven by stakeholder pressure and regulatory requirements. In Indonesia, mandatory CSR disclosure for publicly listed companies under Law No. 40/2007 on Limited Liability Companies and Financial Services Authority (OJK) Regulation No. 51/2017 has enhanced transparency. Nevertheless, the relationship between CSR engagement and tax behavior remains ambiguous and warrants empirical investigation, particularly in sectors with high environmental and social impacts such as energy.

Research by Lanis & Richardson (2015) declared that companies that concern about CSR have a low TA rate. Stakeholders' views on ethical behavior of TA are considered in corporate TA decisions. Research by Karavitis et al. (2025), using a sample of Chinese companies, concluded that companies employ CSR as a strategic instrument to fulfill societal expectations and thereby mitigate the negative perceptions arising from their TA activities. Similarly, Hoi et al. (2013) found that firms engaged in socially irresponsible activities are more likely to be involved in tax avoidance, suggesting that CSR serves as a moral deterrent against aggressive tax planning.

This research develops research by Almutairi & Abdelazim (2025) which shows a positive influence between CSR and higher levels of TA. Businesses that engage in CSR also use TA tactics. This relationship is strengthened by political ties, which also increase the influence of CSR initiatives on TA. Political connections (PC) influence management behavior (Pratiwi & Siregar, 2019). Research by Kim & Zhang (2016) demonstrated that politically connected firms in the United States exhibit higher levels of tax aggressiveness due to their ability to influence tax policy and enforcement. In emerging markets like Indonesia, political connections provide firms with privileged access to government contracts, regulatory leniency, and informal networks that facilitate tax planning strategies (Aldhamari et al., 2020).

The difference between this study and the study by Pratiwi & Siregar (2019), Almutairi & Abdelazim (2025), and Rashid et al., (2024) is that this study uses a sample of energy sector companies for the following reasons: (1) Energy companies usually have large assets, complex capital structures, cross-border ownership, tax provisions, royalties, and special profit sharing. This condition provides opportunities related to tax avoidance practices through financial statement engineering, transfer pricing, and tax havens. (2) The energy sector is often in the spotlight of the media, NGOs, and the public regarding environmental issues, CSR, and tax practices. (3) Energy sector companies, especially oil and gas and mining, are large contributors to taxes and state revenue after the processing industry, trade sector, financial services, and insurance (Dwijayanto, 2024). Furthermore, the energy sector faces unique stakeholder pressures due to environmental degradation, resource depletion, and social conflicts, making CSR disclosure particularly salient in this industry (Hasan et al., 2024).

Despite the growing body of literature on CSR and tax avoidance, several research gaps remain. First, most prior studies have been conducted in developed economies (Lanis & Richardson, 2015; Abid & Dammak, 2022), with limited evidence from emerging markets where institutional environments differ significantly. Second, the moderating role of political connections in the CSR-tax avoidance relationship has received insufficient attention, particularly in resource-rich sectors like energy where political ties are prevalent. Third, existing studies have not adequately addressed the contextual factors specific to Indonesia,

such as mandatory CSR regulations, decentralized governance structures, and the unique characteristics of the energy industry.

The urgency of this research is underscored by several factors. First, Indonesia's recent tax reforms, including the implementation of the Medium-Term Revenue Strategy (MTRS) 2024-2029, emphasize increasing tax compliance and reducing the tax gap, particularly in extractive industries. Second, the energy transition and climate commitments require energy companies to balance profitability, social responsibility, and tax obligations, creating tensions that warrant empirical investigation. Third, the prevalence of political connections in Indonesia's business environment raises concerns about regulatory capture and unequal treatment, which may undermine tax fairness and public trust.

This study contributes to the existing literature in several ways. First, it provides novel empirical evidence on the relationship between CSR and tax avoidance in the Indonesian energy sector, extending the geographical scope of prior research. Second, it examines the moderating role of political connections, offering insights into how institutional factors shape corporate ethical behavior in emerging markets. Third, it employs a comprehensive measure of CSR disclosure based on GRI standards, enhancing the reliability and comparability of findings. Fourth, the study has practical implications for policymakers, regulators, and corporate managers in designing effective tax policies, governance mechanisms, and CSR strategies.

Therefore, the study's research questions are as follows: (1) Does CSR influence TA in the energy industry? (2) Does a political affiliation mitigate the detrimental impact of CSR on TA? Specifically, the objectives of this research are: (1) to analyze the effect of CSR disclosure on tax avoidance practices in Indonesian energy companies; (2) to examine the effect of political connections on tax avoidance; and (3) to investigate the moderating role of political connections in the relationship between CSR and tax avoidance.

The theoretical implications of this study include enriching stakeholder theory, legitimacy theory, and resource dependence theory by demonstrating how CSR and political connections interact to influence corporate tax behavior. Practically, this research is expected to inform tax authorities about risk factors associated with tax avoidance, guide investors in assessing corporate ethics and governance quality, and assist corporate managers in designing responsible tax strategies aligned with CSR commitments.

METHOD

This research employs a quantitative approach with a positivist paradigm, using secondary data collected from published financial statements and annual reports. A corporation in the energy sector that is listed on the Indonesia Stock Exchange serves as the sample. The research location is the Indonesia Stock Exchange (IDX), with data accessed through the official IDX website (www.idx.co.id) and individual company websites. Purposive sample criteria are used in sampling. The sample criteria that were employed are as follows:

1. Energy firms listed between 2023 and 2024 on the Indonesia Stock Exchange.
2. The financial statements and ongoing reports for 2023-2024 are complete. These financial statements and ongoing reports can be downloaded on the respective Company's websites.

3. No losses during the study period are seen from the positive value of profit before tax so as not to affect the interpretation of the ETR

Based on these criteria, the sample selection process is as follows:

Table 1. Sample Selection Process

Criteria	Number of Companies
Energy sector companies listed on IDX 2023-2024	78
Companies with incomplete financial reports	(8)
Companies with negative profit before tax	(4)
Final sample (companies)	66
Observation period (years)	2
Total observations	66

Source: Indonesia Stock Exchange data, processed (2025)

Data were collected using documentation techniques, which involved systematically gathering, recording, and analyzing secondary data from audited financial statements, annual reports, and sustainability reports. The data collection procedure included: (1) identifying energy sector companies listed on IDX during 2023-2024; (2) downloading annual reports and financial statements from the IDX website and company websites; (3) extracting relevant information on CSR disclosure, tax expense, profit before tax, and board composition; (4) verifying data accuracy through cross-checking with multiple sources; and (5) organizing data in a structured database for statistical analysis.

Variable Operational Definition

Corporate Social Responsibility

CSR variables were measured using a checklist based on the 2021 GRI guidelines. Each GRI disclosure item was assigned a score of 1 if it was reported and 0 if it was not disclosed. After that, the value of these items is summed and divided by the total of all GRI items.

Tax Avoidance

Tax avoidance measurement follows research Rashid et al., (2024) measured through Effective Tax Rate (ETR). Tax avoidance is considered high if ETR is low. The lower the ETR indicates that the company is paying less tax than it should. ETR is calculated by the formula:

$$ETR = \frac{Tax\ Load}{Profit\ Before\ Tax}$$

Political Connections

PC are measured using a board connection variable derived from the biographical information of the board of commissioners and directors disclosed in the annual report, which is then matched with data on political positions. Following the studies of Faccio (2006), Fan et al. (2007), and Habib et al. (2017), a firm is classified as politically connected if members of its board of commissioners (BOC) or directors currently hold or have previously held positions as political party officials positions as reported in the annual report. Consistent with Pratiwi &

Siregar (2019), PC are quantified as the proportion of politically connected members of the BOC and directors relative to the total number of board members.

RESULTS AND DISCUSSION

Results

Descriptive Analysis

Table 2. Descriptive Statistical Results

Descriptive Statistics					
	N	Minimum	Maximum	Red	Standard of deviation (SD)
CSR	66	.13	1.00	.6789	.25625
Political Connections	66	.00	50.00	11.2424	14.39451
Tax Avoidance	66	-.23	.94	.2442	.23722
Valid N (listwise)	66				

Source : Data Processed (2025)

The descriptive statistics indicate that the CSR variable has a mean value of 0.6789 and a SD of 0.25625, with values ranging from 0.13 to 1.00. The PC variable shows an average of 11.2424 with a SD of 14.39451, spanning from 0 to 50. Meanwhile, the TA variable records a mean of 0.2442 and a SD of 0.23722, with values ranging from -0.23 to 0.94.

Classical Assumption Test

1. Normality Test

Table 3. Kolmogorov Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		66
Normal Parameters ^{a,b}	Mean	.0000000
	Hours of deviation	.13638119
Most Extreme Differences	Absolute	.083
	Positive	.074
	Negative	-.083
Test Statistic		.083
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source : Data Processed (2025)

Referring to Table 3, the results show an Asymp. Sig. (2-tailed) value of 0.200. As this value exceeds the 0.05 significance level, it shows that the model's residuals have a normal distribution.

2. Multicollinearity Test

An ideal regression model assumes that the independent variables are not highly correlated with one another. Multicollinearity is assessed using tolerance values and the Variance Inflation Factor (VIF). The results of the test are presented in the following table.

Table 4. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
CSR	.680	1.471
Political Connections	.115	8.732
CSR*Political Connections	.107	9.309

a. Dependent Variable: Tax Avoidance

Source : Data Processed (2025)

Table 4 shows that CSR, Political Connection, and CSR*Political Connections variables have tolerance values > 0.1 and VIF values < 10 . This value confirms that the model is free from multicollinearity issues.

3. Autocorrelation Test

Table 5. Autocorrelation Test Results

Model	Durbin-Watson (DW)
1	1.834

a. Predictors: (Constant), CSR*Political Connections, CSR, Political Connections

b. Dependent Variable: Tax Avoidance

Source : Secondary data processed SPSS 25

Table 5 presents a DW statistic of 1.834. With a sample size of 66 ($n = 66$) and three independent variables ($k = 3$), the upper critical value (du) is 1.6974, resulting in a value of $4 - du$ equal to 2.3026. Because the DW statistic lies between du and $4 - du$ ($du < d < 4 - du$). Thus, the model is free from autocorrelation problems.

4. Heteroscedasticity Test

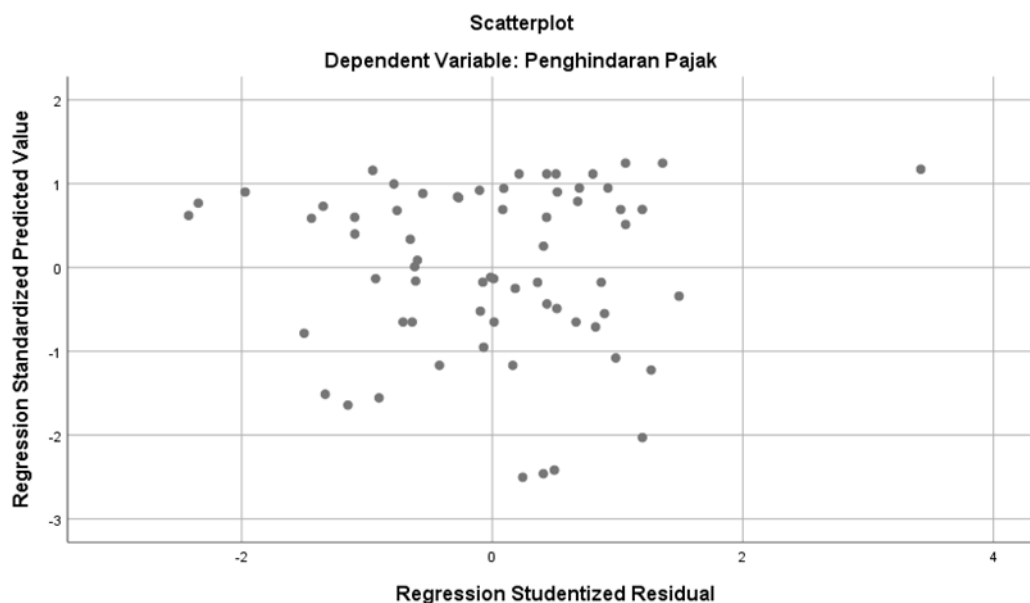


Figure 1. Heteroscedasticity Test

As illustrated in Figure 1, the residual scatterplot shows that the data points are randomly distributed and do not display a specific pattern. This indicates that the regression model does not suffer from heteroscedasticity.

Analysis of the Multiple Regression Linear

Table 6. Regression Analysis Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.350	.059		-5.910	.000
	CSR	.837	.082	.904	10.205	.000
	Political Connections	.011	.004	.653	3.025	.004
	CSR*Political Connections	-.012	.005	-.552	-2.478	.016

a. Dependent Variable: Tax Avoidance

Source : Data Processed (2025)

The following equations can be derived from the data in Table 4.5:

$$Y = -0,350 + 0,837X1 + 0,011X2 - 0,012X1X2 + \epsilon$$

1. The constant value of -0.350 indicates that if the variables of CSR, Political Connection, and CSR*Political Connection are valued at 0, then the TA variable calculated using ETR is valued at -0.350.
2. The CSR variable's coefficient is 0.837, meaning that if CSR rises by one unit, the TA determined by ETR will likewise rise by 0.837 units.
3. The PC variable's coefficient is 0.011, meaning that if the PC increases by one unit, the TA determined by ETR also increases by 0.011 units.
4. The coefficient of the CSR*Political Connection variable is -0.012, meaning that TA measured using ETR will drop by 0.012 units for every unit rise in CSR*Political Connection.

Hypothesis Test

1. Statistical test t

The t-statistical test is typically employed to ascertain each independent variable's consisting of the CSR, Political Connection, and CSR*Political Connection on TA. The following are the t-test findings:

Table 7. Test Results t

Coefficients ^a						
Model		Unstandardized Coefficients		Standardize	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.350	.059		-5.910	.000
	CSR	.837	.082	.904	10.205	.000
	Political Connections	.011	.004	.653	3.025	.004
	CSR*Political Connections	-.012	.005	-.552	-2.478	.016

a. Dependent Variable: Tax Avoidance

Source : Data Processed (2025)

Table 7 shows the results of the partial test (hypothesis test 1 to 3), as follows:

1. The CSR variable shows a significant effect on tax avoidance, with a t-value of 10.205 and a significance level of 0.000. Since $p < 0.05$, H1 is accepted.
2. Political connections significantly affect tax avoidance, as indicated by a t-value of 3.024 and a significance level of 0.004. Because $p < 0.05$, H2 is supported.
3. The interaction between CSR and PC has a significant effect on TA, with a t-value of -2.478 and a p-value of 0.016. Given that $p < 0.05$, H3 is accepted, suggesting that PC weaken the influence of CSR on TA.

2. Statistical Test F

Table 8. F Test Results

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.449	3	.816	41.861	.000b
	Residual	1.209	62	.019		
	Total	3.658	65			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), CSR*Political Connections, CSR, Political Connections

Source : Data Processed (2025)

Table 8 indicates that the F-test yields an F-statistic of 41.861 with a significance level of 0.000. This result also implies that CSR, PC, and the interaction term CSR*Political Connection jointly have a significant effect on TA.

3. Coefficient of Determination (R²)

The goal of the coefficient of determination (R²) is to quantify the extent to which the dependent variables can be explained by the model.

Table 9. Determination Coefficient Test Results

Model Summary^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818a	.669	.653	.13964
a. Predictors: (Constant), CSR*Political Connections, CSR, Political Connections				
b. Dependent Variable: Tax Avoidance				

Source : Data Processed (2025)

An R Square value of 0.669 was achieved, as shown in Table 9. This indicates that 66.9% of the variation in the Tax Avoidance variable could be explained by the variables of CSR, Political Connection, and CSR*Political Connection; the remaining 33.1% was impacted by additional variables not included in this study.

Discussion

The Influence of CSR on Tax Avoidance

The results indicate that CSR significantly influences TA as reflected by a significance value of 0.000 which is below α (0.05). The positive coefficient value (0.837) indicates that greater CSR engagement is linked to a higher ETR. Since a higher ETR reflects lower levels of TA. This finding implies that greater CSR engagement corresponds to reduced TA practices. This suggests that firms with a strong commitment to CSR tend to emphasize transparency and ethical conduct, thereby limiting their involvement in TA activities. Prior studies support this view, showing that companies with robust CSR practices are less inclined to pursue TA tactics, as such behavior aligns more closely with stakeholder expectations regarding ethical responsibility (Hoi, C.K., Wu & Zhang, 2013). Consistent with this, Raithatha & Shaw (2021) states that companies that comply with CSR regulations have lower tax aggressiveness because they are influenced by the company's focus on maintaining its reputation.

The Effect of Political Connections on Tax Avoidance

The study's results demonstrate that PC significantly affect TA as indicated by a significance value of 0.004 which is below α (0.05). The positive coefficient (0.011) shows that stronger PC are associated with higher levels of TA. Companies with stronger PC tend to have greater opportunities to engage in TA. The presence of political ties can grant firms privileged access to information, regulatory protection, or more lenient treatment from tax authorities, thereby reducing the risk of detection and sanctions for TA practices. Moreover, close relationships with political actors enable companies to take advantage of favorable loopholes in tax policies or regulations.

The Effect of Political Connections on Weakening CSR Relationships on Tax Avoidance

The results indicate that political connections weaken the link between CSR and TA as reflected by a significance value of 0.016 which is below α (0.05). The negative coefficient value (-0.012) illustrates that the increase in PC will be followed by a decrease in CSR and TA. Businesses that participate in TA and socially irresponsible behavior may step up their CSR initiatives to counteract the bad reputation these actions have. However, PC are often perceived

as a mechanism to legitimize or reduce the risks of TA (Rashid et al., 2024). The moderating role of PC thus diminishes the capacity of CSR to curb TA, implying that PC firms are less inclined to fulfill their social responsibilities effectively. Moreover, the findings show that companies with strong political ties tend to adopt more aggressive tax strategies, as CSR becomes less influential in shaping their tax behavior. Conversely, firms with weaker PC appear to demonstrate stronger commitments to social responsibility. These results are supported the findings of (Rashid et al., 2024).

CONCLUSION

The study found that corporate social responsibility (CSR) has a significant positive effect on tax avoidance (TA), political connections (PC) also significantly influence TA, and PC weaken the relationship between CSR and TA. However, limitations include a relatively small sample size due to limited data availability, which may limit generalizability, and a composite CSR disclosure scoring method that aggregates all components, potentially reducing analytical depth. For future research, scholars could use a larger sample, extend the observation period, and disaggregate CSR into specific components to pinpoint which most strongly affect TA; additionally, incorporating more independent and moderating variables would yield deeper insights into these complex dynamics.

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