

The Impact of Corporate Social Responsibility Disclosure and Financial Performance on Tax Avoidance: Iranian Angle

Mahdi Salehi¹, Hossein Tarighi² and Tahereh Alidoust Shahri³

¹Associate Professor of Accounting, Faculty of Economics and Administrative Sciences

Ferdowsi University of Mashhad (FUM), Mashhad, Iran, E-mail: Mahdi.salehi@um.ac.ir

²Master of Science in Accounting, Attar Institute of Higher Education, Mashhad, Iran

Corresponding author E-mail: hossein.tarighi@outlook.com

³Master of Science in Accounting, Islamic Azad University, Qaenat branch, Iran, E-mail: Tabre_alidusti@yahoo.com

ARTICLE INFO

Received: 17 March 2021

Revised: 25 March 2021

Accepted: 20 April 2021

Published: 5 June 2021

Abstract: This study aimed at examine the association between Corporate Social Responsibility Disclosure (CSR) and financial performance with the level of tax avoidance of listed companies on the Tehran Stock Exchange (TSE). The study population consisted of 91 listed companies on the Tehran Stock Exchange during the years 2009-2014. The content analysis used to measure social responsibility disclosure level, and hypotheses are tested by multiple regression analysis. The results of this paper show that there is no a significant connection between level of CSR disclosure and tax avoidance. The moderating effects of high earnings performance also have no impact on the relation between CSR and tax avoidance. Furthermore, the results demonstrate that there is not significant relationship between corporate financial performance (ROA, Tobin's Q, and EVA) and tax avoidance. In general, Iranian companies with good financial performance, as well as companies that sought to tax avoidance activities, did not believe much in disclosing social responsibility to achieve their goals.

Keywords: Corporate Social Responsibility Disclosure (CSR), financial performance, tax avoidance, TSE.

1. INTRODUCTION

The governments need financial funds such as tax revenue in order to exercise their responsibilities. On the one hand, Companies are looking

To cite this article:

Mahdi Salehi, Hossein Tarighi and Tahereh Alidoust Shahri (2021). The Impact of Corporate Social Responsibility Disclosure and Financial Performance on Tax Avoidance: Iranian Angle. *Journal of Money, Banking and Finance*, Vol. 7, No. 1, 2021, pp. 47-65

for ways to reduce their tax obligations in order for earning more profits. And on the other hand, they need to the correct fulfillment of social responsibilities to achieve long-term success. Corporate Social Responsibility (CSR) means that organizations should be able to improve social welfare by doing various activities. This view arises from the idea that a business is closely related to its surroundings and the fact that its success depends on the society health (Boesso and Michelin, 2010). In general, we can say that accurate and timely payment of taxes is one of the main characteristics of social responsibility. Moser and Martin (2012) argued that CSR activities contain all the organization's actions and in this regard, pay tax is the most important point of social responsibility. Therefore, organizations by means of exercising social responsibility are trying to protect themselves against the legal and regulatory risk as well as political penalties, because tax avoidance activities can result in consequences such as an increase in political and media pressure, damage to corporate reputation, and financial penalties (Wilson, 2009). On the whole, organizations must act warily with respect to CSR disclosure; or that they have to reduce the costs associated with tax avoidance activities through proper management of social responsibility (Godfrey, 2005). Furthermore, Hoi *et al.* (2013) suggest that if social responsibility is a risk management strategy, then there should be a correlation between tax avoidance and socially irresponsible activities. Because one of the most important components of CSR is related to legal actions, and organizations should pay taxes according to domestic or multinational regulations. It is worth bearing in mind that firms need to have both two aspects of social responsibility for being accountable to all the stakeholders. The first aspect is the proper exercise of social responsibility and next aspect is the preparation of CSR reports, in a way that is beneficial to society and the companies. In developing countries like Iran, The importance of CSR disclosure and its impact on tax avoidance activities is higher than other countries, because the current economic situation in these countries is so that companies have an important role in the development of the country and society. Obviously, this will not be possible if they do not pay taxes and disclose their CSR. On the other hand, incomes have an important role in enterprise resource. Evidence suggests that the Supply of the social responsibility costs needs to get more resources and this has led researchers to conclude that engaging in CSR activities as well as the full and timely payment of taxes is allocated to the companies with high earnings performance. As far as we know, taking CSR and having a favorable financial performance are effective in tax planning, because if the position of the earnings yield is weak, managers will not pay attention to take their CSR activities and most of all they will avoid paying taxes.

Generally, firms with low earnings performance, rarely pay attention to the demands of non-shareholder and they may get involved in tax avoidance scheme. Hence, the landscape of this study is investigating the effect of CSR disclosure and financial performance on tax avoidance.

The reminder of the present research is organized as follows: Next section frames the study into a theoretical framework, hypotheses development, and literature. Section 3 presents the research methodology and outlines where data is obtained and the sample selection procedure. Section 4 then presents the main results and implications drawn from statistical analyses and finally, Section 5 presents the conclusion.

2. THEORETICAL FRAMEWORK, LITERATURE AND HYPOTHESES DEVELOPMENT

Bowen (1953) presented the concept of social responsibility for the first time. He suggested that social responsibility (SR) has a commitment to pursue the policies, decisions, and actions that are in line with the social values. While other scientists argue that SR is a social effort of the company to promote goods and products that will be offered to society, which may not have many financial benefits for the company (Turker, 2009; Turban and Greening, 1997). Henriques and Sadosky (1999) state that corporate social responsibility is focused on meeting the expectations of society. It is clear that the importance of social responsibility for improving the welfare of society is beyond economic and financial interests (McWilliams and Siegel, 2001). And social obligations also are more important than legal requirements and mandatory regulations. Several studies have shown that tax avoidance could be a tax-saving tool that decreases costs and increases stockholders' wealth (Robinson *et al.*, 2010; Hanlon and Heitzman, 2010). In general, some people believe that social responsibility is the equivalent of the humanitarian gifts and charitable contributions, and others think it means social consciousness, also some researchers know it means legitimation and acceptability, and few scholars consider it as a task assigned to companies in order to apply codes of conduct (Wallace, 2003). The concept of social accountability is presented by Weihrich and Koontz (1993), which is a relatively new concept and is largely similar to the concept of social responsibility. This concept means the ability of a company to report its actions and operations to the social environment, so that is beneficial to society and the company. Apparently, social responsibility disclosure is a bridge between business units and stakeholders (Epstein and Freedman, 1994). Since one of the main dimensions of accountability is reporting and disclosure, accountability to stakeholders regarding the fulfillment of social responsibilities would not be possible without reporting

and disclosure of what the company has done in order to exercise its social responsibility. Two brief and wide definition of tax avoidance have presented. In the event of brief definition of tax avoidance, Khan, Srinivasan and Tan (2016) defined tax avoidance in this way “investment in tax-exempt assets”. Also, Agrawal (2007) believes that tax avoidance is a kind of tax evasion without breaking the rules. The second definition of tax avoidance is much broader so that it considers performing a wide range of tax-reducing activities aimed at reducing the level of tax payments to the government and ultimately decreasing tax liabilities (Annuar, Salihu and Obid, 2014). In this broad definition, any decreasing activity relevance profit before tax which reduces the level of tax payment is considered as tax avoidance activities (Hanlon and Heitzman, 2010). Freedman (2003), Landolf (2006), and Freise, Link & Mayer (2008) state that tax payment by firms has significant social consequences in society. Because tax income spends on things such as the provision of public goods, education, national defense, and health Cares. In this regard, several studies have been conducted regarding social responsibility and its relationship with corporate tax policies.

In an interesting study in the Iranian market, Salehi *et al.* (2017) found that ownership structure and board of directors’ structure did not have a significant effect on the disclosure level of corporate social responsibility. Moreover, Salehi *et al.* (2019) realized there is a positive significant relationship between firm size, firm age and level of CSR, while there is a negative association between financial leverage and profitability with level of CSR. Amalia and Suprapti (2020) indicate there is no difference between the Indonesian firms with high CSR disclosures and those with the low ones towards tax avoidance. Similarly, Luxmawati and Prihantini (2020) concluded CSR had no effect on tax avoidance, but gender is able to moderate the effect of Corporate Social Responsibility (CSR) on tax avoidance. Preuss (2010) concluded that companies that have a high social responsibility pay their taxes and act in accordance with the norms of social responsibility. He also realized that firms with their headquarter in a tax haven do not design fewer codes of conduct, representing that these firms are not less responsible in comparison with the firms in the control group. Fisher (2014) argued that tax avoidance damaging not only to shareholders but also damaging to the government and companies. In the same vein, Watson (2011) showed that socially irresponsible firms are more tax aggressive and have larger unrecognized tax benefits in comparison with other firms. Hoi *et al.* (2013) surveyed the association between CSR and tax avoidance. In short, they showed that companies with too much irresponsible CSR activities have a higher possibility of participating in

tax-sheltering activities and greater discretionary/permanent book-tax differences. Using a sample of Egyptian firms for the period 2007–2016, Abdelfattah and Aboud (2020) show corporate tax avoidance is positively associated with CSR disclosure. Huseynov & Klamm (2012) found evidence that when firms divide into portfolios based on CSR levels, CSR could affect tax avoidance. Sikka (2010) inferred that some companies participate in CSR actions and tax avoidance activities. But in a recent study from a developed country, Lanis and Richardson (2012) investigated the relationship between CSR and corporate tax aggressiveness in Australia market for the period of 2008 to 2009. They discovered there is a negative significant association between CSR disclosure and tax aggressiveness. Their findings also indicated that social investment commitment and corporate and CSR policy of a firm are key determinants of CSR activities that have a negative impact on tax aggressiveness. At the opposite side, some studies have shown opposite results. For example, among Canadian firms, there is not any significant association between the tax behavior of a company and its CSR actions (Landry et al, 2013). Collectively, according to the theoretical framework and research background, the first hypothesis of this study has been developed:

***H1:** There is a significant association between CSR and tax avoidance.*

Efficiency means using the least resources in order to achieve maximum productivity. With such a view, must have constantly thought to cost savings in all sectors in order to achieve the best performance, and should be prevented from leaving the company's liquidity even for paying tax. Because managers' motivation for tax avoidance is to better show the profitability and efficiency, which leads to increase shareholder value or receive credit from creditors. Accordingly, firms probably engage in Tax-Avoidance activities to achieve higher performance. Because the motivation for increasing profits can cause Tax-Avoidance actions (Desai and Dharmapala, 2006). From another perspective, it can be argued that Companies with high efficiency are not reluctant to do Tax-Avoidance activities. Watson (2015) demonstrates that when the company is faced with scarce resources, paying attention to the demands of non-shareholder stakeholders is omitted. Hence, when the financial performance of a company is good, this limitation will not exist as well as tax avoidance will be less. Desai and Dharmapala (2006) showed that despite the benefit of tax avoidance for managers, these actions impose considerable agency costs on shareholders. Based on data collected from China stock market over a ten-year period between 1998 and 2007, Zeng (2010) proved that there is a negative relationship between effective tax rates and profitability, firm size, capital structure, and capital intensity. Which suggests large and profitable

companies are less interested in paying tax. Ayers *et al.* (2011) examined the effect of Tax Deferral on firm value. They understood that there is a positive association between current year tax deferral and both the change in next period profitability and stock returns. The most important point is that these relations increase for corporations with greater investment opportunities, financial limitations, and strong corporate governance. The paper of Watson (2015) shows that a lack of social responsibility is positively linked to tax avoidance in companies with low current or future earnings performance, but this effect is weakened when current or future earnings performance is better. The findings of his study indicate CSR is positively related to tax avoidance when current or future earnings performance is low but, again, the effect vanishes when current or future earnings performance is better.

H2: There is a significant relationship between the level of pre-tax return on assets and tax avoidance.

H3: Earnings performance moderates the relation between tax avoidance and CSR.

H4: There is a significant relationship between high-level financial performance based on Tobin's Q and tax avoidance.

H5: There is a significant relationship between high-level financial performance based on EVA and tax avoidance.

3. METHODOLOGY

This paper is considered correlational in terms of examining the relationship between variables. After collecting the required data from reliable and available resources, multiple regression analysis panels was used to investigate the relationship between the independent variables and the dependent variable and test research hypotheses using R software.

Population and statistical samples

Based on the elimination method, companies that had the following criteria were selected as samples:

- According to the research time period (2009-2014), the company is listed on the Tehran Stock Exchange before the year 2009 and its name is not removed from the companies mentioned by the end of 2014.
- Investment companies, leasing, credit and financial institutions and banks are not included in the sample because of their different natures.
- The activity of selected companies has not stopped and their financial period during 2009 to 2014 has not changed.

- Financial information required especially notes accompanying financial statements and annual reports of the board of directors to the General Assembly are available for the years 2009 to 2014 in full in order to extract the required data.

According to these criteria, 91 companies were selected for evaluation in this study. In this regard, there were a number of 546 fiscal years whose information was completely extracted and reviewed.

The definition of variables

The dependent variable

The dependent variable is tax avoidance which is calculated through the following model:

$$\text{RETRit} = \text{ETRit} / \text{ATRit}$$

RETRit: tax avoidance,

ETRit: effective tax rate which equals tax expense to taxable income,

ATRit: applicable (legal) tax rate

Corporate's effective tax rate is obtained by dividing income tax expense by income before tax (taxable income) and shows that corporate tax is a percentage of income before taxes. Because all business income may not be taxable, this rate is affected by tax avoidance activities. The legal tax rate is determined according to Article 6 of the Law for Development of New Financial Instruments and Institutions when related guidelines were adopted and notified in 2010. 22.5% tax rate (with 10% tax exemption for stock companies under Article 143 of Direct Tax Act) in 2009, 20% tax rate for stock companies with free floating shares above 20% in 2010 and later and 22.5% tax rate for stock companies with free floating shares below 20% (20% tax exemption for free floating shares above 20% under Article 6 of the Law for Development of New Financial Instruments and Institutions). In this regard, the variable company's floating shares percentage was also extracted through TSE site to determine the legal rate of corporate tax. Dividing the effective tax rate by the legal tax rate reflects the rate of corporate tax avoidance. When this index is less, the tax avoidance is higher.

Independent variables

Corporate social responsibility disclosure: The content analysis method was used to evaluate the level of social responsibility disclosure. After an extensive review of the relevant literature, the checklist includes 39 items that this information is adapted from the studies of Aribi and Gao (2010), and Gao *et al.* (2005). The information includes environmental items,

products and services, human resources, customers, community responsibility and energy, Which is expected to disclose voluntary or mandatory in the company's annual report. Total number of items disclosed is an expression of social responsibility disclosure level.

Table 1: Social responsibility disclosure checklist

<i>Index</i>	<i>Sub-index (subset)</i>
Environmental issues	<ol style="list-style-type: none"> 1. Pollution and pollutants control (greenhouse gases) 2. Prevention of environmental damage 3. Prevention or treatment of waste material / waste water / waste 4. Conservation and optimal use of farmland 5. Research and development in environmental affairs 6. Compliance with environmental policies (ISO14000) 7. Investing in environmental projects 8. Other environmental issues
Products and services	<ol style="list-style-type: none"> 9. Product development / market share 10. Product Quality / ISO14000 11. Product safety and health 12. Stop production or services for a negative effect on public health 13. Other products and services
Human resources	<ol style="list-style-type: none"> 14. Number of employees (jobs) 15. Monthly salary / cash bonus and benefits 16. Shares owned by employees 17. Employees' retirement and end-of-service benefits 18. Health and safety in the workplace 19. Training and development of staff 20. Sports and recreation 21. Loans or staff insurance 22. Employees' morale and communications (support for marriage, housing, etc.) 23. Other human resources
Clientele	<ol style="list-style-type: none"> 24. Clients' health 25. Resolve complaints and customer satisfaction 26. The policy of late payments and installments for specific customers 27. Provision of facilities and after-sales service 28. Meet the needs of customers 29. Other clients
Social responsibility	<ol style="list-style-type: none"> 30. Social investment (development of science and technology, etc.) 31. Support for social activities 32. Support for charities and rehabilitation centers 33. Legal proceedings / litigation 34. Cultural activities (conferences, seminars, etc.) 35. Other social responsibilities
Energy	<ol style="list-style-type: none"> 36. Energy protection and saving 37. Development and exploration of new resources 38. Use of alternative and new sources 39. Other energies

Three indicators are used to measure the financial performance:

Return on Assets (ROA): This is an indicator variable that is equal to zero if the pretax return on assets is less than % 10 and one otherwise.

Tobin's Q index: This is an indicator variable that is equal to one if Tobin's Q ratio is higher than the average and zero otherwise. Tobin's Q index is calculated by this way: (Book Value of Assets + Market Value of Equity – Book Value of Equity – Deferred Taxes) / Book Value of Assets (Moutinho et al, 2012).

Economic value added (EVA): In order to create value for shareholders, a company's operating profit must exceed its cost of capital. EVA is an indicator variable that is equal to one if EVA is higher than the average and zero otherwise. Therefore, EVA is calculated as follows:

$$EVA = NOPAT - (Capital \times WACC)$$

NOPAT: Net operating profit after tax.

Capital: Book value of total capital at the beginning of the period.

WACC: The weighted average cost of capital is the rate that a firm is expected to pay on average to all its security holders to finance its assets. The WACC is commonly referred to as the firm's cost of capital. The following formula is used to calculate the WACC (Brealey et al, 2001).

$$WACC = [W_d \times K_d (1 - t)] + [W_e \times K_e]$$

W_d : the weight of debt

$K_d (1-t)$: after-tax cost of debt rate.

K_d : the cost of debt rate is calculated by dividing interest expense on total debt.

W_e : the weight of equity.

K_e : Rate of cost of common stock. The Gordon model (1995) was used to calculate the expected rate of return relevance cost of common stock. If the stock price and expected dividends are specified, expected rate of return will be obtained from the

following models: $K_e = \frac{DPS}{P_0} + g$

K_e : Return on common stock P_0 : stock price at the beginning of the period DPS : dividend per share

G : growth rate. A mathematical model is used to calculate the

growth rate: $g = \left(\frac{DPS_t}{DPS_0}\right)^{\frac{1}{t}} - 1$

Control variables

The variables of firm size (natural logarithm of total assets), financial leverage (long-term debt divided by total assets), firm age (the number of years since the company has been listed on the Tehran Stock Exchange) and audit firm size (this variable is equal to one if the auditor is from the Iranian audit organization and zero otherwise) were controlled.

4. RESULTS

Descriptive Statistics : in order to analyze the data, the descriptive statistics including minimum, maximum, mean, and standard deviation were calculated and presented in Table (2).

Table 2: Descriptive statistics for quantitative variables

<i>variable</i>	<i>Year-observation</i>	<i>minimum</i>	<i>maximum</i>	<i>mean</i>	<i>Std Deviation</i>
Tax avoidance	546	0	1.466	0.469	0.425
CSR	546	1	25	9.808	4.222
Firm size	546	10.104	18.775	13.325	1.481
leverage	546	0	1.372	0.096	0.135
Firm age	546	6	47	16.264	7.154

Looking at the details, as regards CSR, average corporate social responsibility disclosure index which is equal to 9.808 shows that of sample companies are reluctant to disclose their social responsibility and disclosure level in selected companies is at a low level.

Table 3: The frequency distribution of qualitative variables

<i>variable</i>	<i>situation</i>	<i>frequency</i>	<i>relative abundance</i>
Performance (Return on Assets)	ROA of more than 10%	294	54%
	ROA of less than 10%	252	46%
Performance (Tobin's Q)	Tobin's Q higher than the average	200	37%
	Tobin's Q index below the average	346	63%
Performance (Economic value added)	EVA index higher than the average	440	81%
	EVA index below the average	106	19%
Audit firm size	company is audited by Iranian Audit organization	132	24%
	company is audited by other audit firms	414	76%

Overall, what stands out from the table above is that 132-year observations related to 22 firms are audited by Iranian audit organization, while the rest of the firms are audited by other audit firms. Also, the EVA relevance 440 year-observations is higher than the average as well as the EVA relevance 106-year observations are below the average. The ROA ratio of 294-year observation is more than %10. Finally, it can be seen that Tobin's Q index has been below the average in most companies.

Hypotheses testing

The First hypothesis: There is a significant relationship between corporate social responsibility disclosure and tax avoidance.

The second hypothesis: There is a significant connection between the level of pre-tax return on assets and tax avoidance.

The third hypothesis: Earnings performance moderates the relation between tax avoidance and corporate social responsibility.

In order to test the research hypotheses, a suitable model was chosen for each hypothesis. Model related to the first, second and third hypotheses is as follows:

$$RETR_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 Hiprofit_{it} + \beta_3 CSR_{it} * Hiprofit_{it} + \beta_4 Firm\ Size_{it} + \beta_5 LEV_{it} + \beta_6 Age_{it} + \beta_7 SizeAudit_{it} + \varepsilon_{it}$$

RETR_{it}: tax avoidance index

CSR_{it}: the level of corporate social responsibility

Hiprofit_{it}: this is a binary variable indicating high earnings performance, equal to one when the pretax return on assets is at least 10 percent and zero otherwise. In other words, Companies with ROA of less than 10 percent fall into the low-profit group and companies with ROA of 10 percent or greater into the high-profit group.

CSR_{it} * Hiprofit_{it}: It shows the interactive effects of CSR level and high earnings performance.

Firm Size_{it}: this is equal to the natural logarithm of total assets.

LEV_{it}: This variable is called financial leverage, which is equal to long-term debt divided by total assets.

Age_{it}: it demonstrates the number of years since the company has been listed in the Tehran Stock Exchange.

Size Audit_{it}: this variable is equal to one if the auditor is from the Iranian audit organization and zero otherwise.

Table 4: F-Limer test result to select the appropriate method for OLS regression and a panel regression

<i>Null hypothesis (H_0)</i>	<i>F statistic</i>	<i>P-value</i>	<i>Test result</i>
OLS method is preferred to panel model	9.0507	0.001 >	H_0 is failed to accept

It is worth bearing in mind that the first step is to choose the right model using F-Limer test. As seen in the table, at the level of 5%, H_0 hypothesis is failed to accept and therefore F-Limer test result confirms the fact that the OLS regression method is preferred to panel method.

Table 5: Hausman test result

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
Random effects model is more appropriate	64.96	0.001 >	H_0 is failed to accept

Hausman test is used to determine which method is better, panel method with fixed effects or panel method with random effects. If the probability of the test statistic is more than 0.05 in Hausman test, a random effects model is analyzed at the confidence level of 95 percent. But if the probability of the test statistic is less than 0.05, fixed effects method will be used. Hence, the results indicate that the panel method with fixed effects is preferred to random effects.

Table 6: Integration capabilities test result

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
The integrated data model is appropriate	0.96115	0.5411	H_0 is not rejected

After determining the panel model with fixed effects, integration capabilities test is used to evaluate the need for integration of the effect of time and place versus bidirectional fixed effects. The results of the test are presented in table 6. According to the table results, the p-value is 0.5411 and more than 0.05, so the null hypothesis on using the integrated data is not rejected and integrated data panel model was selected for regression analysis.

Table 7: Breusch–Godfrey test results

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
Absence of serial correlation	171.8	0.001 >	H_0 is rejected

After selecting the appropriate model to fit the data, Breusch–Godfrey test was used to check the infrastructure acceptance for the lack of serial correlation in the model residues. If we look at the amount of P-value, it is less than 5%. H_0 hypothesis is failed to accept and therefore the test results show that there is no serial correlation in the model residues. To fit the model, the generalized panel method of integrated data should be used. Thus, the results of the model fit through the generalized panel method of integrated data for the first, second and third hypothesis are as follows:

Table 8: Results of model parameter estimation and significance testing of the hypothesis 1, 2, 3

Index	Symbol	Coefficient	SD	t-test statistic	P-value
y-intercept	β_0	0.4139	0.2527	1.673	0.1015
The level of corporate social responsibility	CSR	0.0123-	0.0068	1.797-	0.0724
High earnings performance	Hiprofit	0.1154	0.07428	1.554	0.1201
The interaction between CSR & Hiprofit	CSR * Hiprofit	0.01352	0.0070	1.92	0.0549
Firm size	SIZE	0.0089	0.0210	0.426	0.6705
Financial leverage	LEV	0.1148-	0.1111	1.033-	0.3016
Firm age	Age	0.0046-	0.0043	1.061-	0.2888
Audit firm size	SizeAudit	0.0206	0.0481	0.429	0.6682

According to the results in Table 8, the significance statistic of the variables of CSR, Hiprofit, and (CSR * Hiprofit) is 0.0724, 0.1201, and 0.0549 respectively, which are higher than %5. Therefore, there is not any significant association between three independent variables and tax avoidance (dependent variable). We can conclude that the first, second and send hypothesis is not confirmed.

The fourth hypothesis test

The fourth hypothesis: there is a significant association between the high level of financial performance in terms of Tobin's Q and tax avoidance.

$$RETR_{it} = \beta_0 + \beta_1 \text{Tobin-Q}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{LEV}_{it} + \beta_4 \text{Age}_{it} + \beta_5 \text{SizeAudit}_{it} + \varepsilon_{it}$$

According to a full explanation of choosing the right model for prior hypothesis, only the test results will be presented.

Table 9: F-Limer test result to select the appropriate method for OLS regression and a panel regression

Null hypothesis (H_0)	F statistic	P-value	Test result
OLS method is preferred to panel model	10.685	0.001 >	H_0 is failed to accept

As seen in table 9, at the level of 5%, H_0 hypothesis is rejected and consequently, F-Limer test result confirms the fact that the OLS regression method is preferred to panel method. Hausman test is used to determine which method is better, panel method with fixed effects or panel method with random effects.

Table 10: Hausman test result

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
Random effects model is more appropriate	59.417	0.001 >	H_0 is rejected

The results indicate that the panel method with fixed effects is preferred to random effects. After determining the panel model with fixed effects, integration capabilities test is used to evaluate the need for integration of the effect of time and place versus bidirectional fixed effects.

Table 11: Integration capabilities test result

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
The integrated data model is appropriate	1.1877	0.2292	H_0 is not rejected

According to the table results, the p-value is 0.2292 and more than 0.05, so the null hypothesis on using the integrated data is not rejected and integrated data panel model was selected for regression analysis. After selecting the appropriate model to fit the data, Breusch–Godfrey test was used to check the infrastructure acceptance for the lack of serial correlation in the model residues. Breusch–Godfrey test results are presented below.

Table 12: Breusch–Godfrey test results

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
Absence of serial correlation	220.22	0.001 >	H_0 is rejected

P-value is less than 5%. H_0 hypothesis is rejected and therefore the test results show that there is no serial correlation in the model residues. To fit the model, the generalized panel method of integrated data should be used. The results of the model fit through the generalized panel method of integrated data for the fourth hypothesis is as follows:

Table 13: Results of model parameter estimation and significance testing of the fourth hypothesis

<i>Index</i>	<i>Symbol</i>	<i>Coefficient</i>	<i>SD</i>	<i>t-test statistic</i>	<i>P-value</i>
y-intercept	β_0	0.4632	0.2735	1.693	0.0904
High earnings performance (Tobin's Q)	Tobin-Q	0.0465	0.03434	1.354	0.1758
Firm size	Size	0.0079	0.02198	0.361	0.7184
Financial leverage	Lev	0.1472-	0.1165	1.264-	0.2064
Firm age	Age	0.0065-	0.0048	1.351-	0.1767
Audit firm size	SizeAudit	0.01195	0.05099	0.234	0.8147

Based on the results in Table 13, the significance statistic of the high level of financial performance (Tobin's Q) is equal to 0.1758 which is more than 5%. So at the level of 5%, no significant relationship was observed between the high level of financial performance in terms of Tobin's Q index and tax avoidance. Therefore, the fourth hypothesis is not confirmed.

The second hypothesis test

The fifth hypothesis: there is a significant association between the high level of financial performance in terms of EVA and avoidance tax.

$$RETR_{it} = \beta_0 + \beta_1 Eva_{it} + \beta_2 Size_{it} + \beta_3 LEV_{it} + \beta_4 Age_{it} + \beta_5 SizeAudit_{it} + \varepsilon_{it}$$

Table 14: F-Limer test result to select the appropriate method for OLS regression and a panel regression

<i>Null hypothesis (H_0)</i>	<i>F statistic</i>	<i>P-value</i>	<i>Test result</i>
OLS method is preferred to panel model	11.008	0.001 >	H_0 is failed to accept

As seen in table 9, at the level of 5%, H_0 hypothesis is rejected and consequently, F-Limer test result confirms the fact that the OLS regression method is preferred to panel method.

Table 15: Hausman test result

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
Random effects model is more appropriate	40.804	0.001 >	H_0 is rejected

The results indicate that the panel method with fixed effects is preferred to random effects.

Table 16: Integration capabilities test result

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
The integrated data model is appropriate	1.1479	0.2717	H_0 is not rejected

According to the table results, the p-value is 0.2717 and more than 0.05, so the null hypothesis on using the integrated data is not rejected and integrated data panel model was selected for regression analysis.

Table 17: Breusch–Godfrey test results

<i>Null hypothesis (H_0)</i>	<i>Chi-square statistic</i>	<i>P-value</i>	<i>Test result</i>
Absence of serial correlation	222.58	0.001 >	H_0 is rejected

P-value is less than 5%. H_0 hypothesis is rejected and therefore the test results show that there is no serial correlation in the model residues. To fit the model, the generalized panel method of integrated data should be used. The results of the model fit through the generalized panel method of integrated data for the fifth hypothesis is as follows:

Table 18: Results of model parameter estimation and significance testing of the fifth hypothesis

<i>Index</i>	<i>Symbol</i>	<i>Coefficient</i>	<i>SD</i>	<i>t-test statistic</i>	<i>P-value</i>
y-intercept	β_0	0.4064	0.2849	1.428	0.153
Economic value added	EVA	0.0284	0.0376	0.754	0.451
Firm size	Size	0.01069	0.02239	0.477	0.633
Financial leverage	Lev	0.1434-	0.1167	1.229-	0.219
Firm age	Age	0.0057-	0.0047	1.189-	0.234
Audit firm size	SizeAudit	0.0130	0.0511	0.255	0.799

Based on the results in Table 18, the significance statistic of the high level of financial performance (EVA) is equal to 0.451 which is more than 5%. So at the level of 5%, no specific conclusion can be reached regarding the effect of the high level of financial performance on tax avoidance.

5. CONCLUSION

Based on the evidence and results, we can conclude that CSR disclosure has no effect on tax avoidance. This finding is inconsistent with the results of Preuss (2010) and Watson (2015). They concluded that there is a

significant relationship between corporate social responsibility and tax avoidance but this study is not the case. In addition to different spatial and temporal conditions, failure to comply the result could be because of Iranian companies still do not care about the principles of social responsibility and do not consider the lack of tax avoidance actions as the basic principle of social responsibility.

In this study, we consider the moderating effects of high earnings performance on the relation between CSR and tax avoidance. The outcomes show that high earnings performance cannot influence companies' commitments to act responsibly in the field of taxation, which is not consistent with the paper of Watson (2015). He observed that when the corporate financial performance is low, there is a significant positive association between the lack of social responsibility and tax avoidance. But when the corporate financial performance is high, there is not such relationship. In other words, the findings of his research confirm that the high level of corporate financial performance can attract U.S. firms' attention to pay tax. As a result, the reason for the different result of this study with Watson (2015) is that Iranian firms do not have special attention to non-shareholder stakeholders, even when the financial performance of a firm is good. In addition, the evidence showed that there is no significant relationship between corporate performance in terms of (ROA, Tobin's Q index, and EVA) and tax avoidance.

References

- Abdelfattah, T., & Aboud, A. (2020). Tax avoidance, corporate governance, and corporate social responsibility: The case of the Egyptian capital market. *Journal of International Accounting, Auditing and Taxation*, 100304.
- Agrawal, K. K. (2007). *Corporate Tax Planning*. Vol 1. Sixth Edition. 3-11.
- Amalia, F. A., & Suprapti, E. (2020). Does the High or Low of Corporate Social Responsibility Disclosure Affect Tax Avoidance?. *Journal of Accounting and Investment*, 1(2), 277-288.
- Annuar, H. A., Salihu, I. A., & Obid, S. N. S. (2014). Corporate ownership, governance and tax avoidance: An interactive effects. *Procedia-Social and Behavioral Sciences*, 164, 150-160.
- Aribi, Z. A., & Gao, S. (2010). Corporate social responsibility disclosure: A comparison between Islamic and conventional financial institutions. *Journal of Financial Reporting and Accounting*, 8(2), 72-91.
- Ayers, B. C., Laplante, S. K., & Schwab, C. M. (2011). Does Tax Deferral Enhance Firm Value?.
- Boesso, G., & Michelon, G. (2010). The effects of stakeholder prioritization on corporate financial performance: an empirical investigation. *International Journal of Management*, 27(3), 470.

- Bowen, H. R. (1953). *Social Responsibility of the Businessman*. New York: Harper and Row.
- Brealey, R. A., Myers, S. C., & Marcus, A. J. (2001). *Fundamentals of Corporate Finance Third Edition, with additional material from Fundamentals of Corporate Finance, Alternate Fifth Edition Essentials of Corporate Finance*, Stephen A. Ross, Randolph W. Westerfield, Bradford D. Jordan.
- Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics*, 79(1), 145-179.
- Epstein, M. J., & Freedman, M. (1994). Social disclosure and the individual investor. *Accounting, Auditing & Accountability Journal*, 7(4), 94-109.
- Fisher, J. M. (2014). Fairer shores: Tax havens, tax avoidance, and corporate social responsibility. *BUL Rev.*, 94, 337.
- Freedman, J. (2003). Tax and corporate responsibility. *Tax Journal*, 695(2), 1-4.
- Friese, A., Link, S., & Mayer, S. (2008). Taxation and corporate governance — the state of the art. In *Tax and corporate governance* (pp. 357-425). Springer Berlin Heidelberg.
- Gao, S. S., Heravi, S., & Xiao, J. Z. (2005, June). Determinants of corporate social and environmental reporting in Hong Kong: a research note. In *Accounting Forum* (Vol. 29, No. 2, pp. 233-242). Elsevier.
- Godfrey, P. C. (2005). The relationship between corporate philanthropy and shareholder wealth: A risk management perspective. *Academy of management review*, 30(4), 777-798.
- Gordon, M. J. (1959). Dividends, earnings, and stock prices. *The review of economics and statistics*, 99-105.
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2), 127-178.
- Henriques, I., & Sadorsky, P. (1999). The relationship between environmental commitment and managerial perceptions of stakeholder importance. *Academy of management Journal*, 42(1), 87-99.
- Hoi, C. K., Wu, Q., & Zhang, H. (2013). Is corporate social responsibility (CSR) associated with tax avoidance? Evidence from irresponsible CSR activities. *The Accounting Review*, 88(6), 2025-2059.
- Huseynov, F., & Klamm, B. K. (2012). Tax avoidance, tax management and corporate social responsibility. *Journal of Corporate Finance*, 18(4), 804-827.
- Khan, M., Srinivasan, S., & Tan, L. (2016). Institutional ownership and corporate tax avoidance: New evidence. *The Accounting Review*.
- Landolf, U. (2006). Tax and corporate responsibility. *International Tax Review*, 29(July), 6-9.
- Landry, S., Deslandes, M., & Fortin, A. (2013). Tax aggressiveness, corporate social responsibility, and ownership structure.
- Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, 31(1), 86-108.
- Luxmawati, F., & Prihantini, F. N. (2020). The Effect of Corporate Social Responsibility (CSR) Disclosure on Tax Avoidance with Gender as Moderating Variable In Mining Companies. *Economics and Business Solutions Journal*, 4(1), 49-60.

- McWilliams, A., and D.Siegel (2001). "Corporate Social Responsibility and Financial Performance: Correlation or Misspecification?". *Strategic Management Journal*, 2001 .21(5). PP: 603- 609.
- Moser, D. V., & Martin, P. R. (2012). A broader perspective on corporate social responsibility research in accounting. *The Accounting Review*, 87(3), 797-806.
- Moutinho, V., Cerqueira, A., & Brandao, E. (2012). Audit fees and firm performance.
- Preuss, L. (2010). Tax avoidance and corporate social responsibility: you can't do both, or can you?. *Corporate Governance: The international journal of business in society*, 10(4), 365-374.
- Robinson, J. R., Sikes, S. A., & Weaver, C. D. (2010). Performance measurement of corporate tax departments. *The Accounting Review*, 85(3), 1035-1064.
- Salehi, M., Tarighi, H., & Rezanezhad, M. (2017). The relationship between board of directors' structure and company ownership with corporate social responsibility disclosure. *Humanomics*.
- Salehi, M., Tarighi, H., & Rezanezhad, M. (2019). Empirical study on the effective factors of social responsibility disclosure of Iranian companies. *Journal of Asian Business and Economic Studies*.
- Sikka, P. (2010, December). Smoke and mirrors: Corporate social responsibility and tax avoidance. In *Accounting Forum* (Vol. 34, No. 3, pp. 153-168). Elsevier.
- Sikka, P. (2010, December). Smoke and mirrors: Corporate social responsibility and tax avoidance. In *Accounting Forum* (Vol. 34, No. 3, pp. 153-168). Elsevier.
- Turban, D. B., & Greening, D. W. (1997). Corporate social performance and organizational attractiveness to prospective employees. *Academy of management journal*, 40(3), 658-672.
- Turker, D. (2009). How corporate social responsibility influences organizational commitment. *Journal of Business Ethics*, 89(2), 189-204.
- Wallace, A. (2003). Two models of CSR to communities, Mesa State College, Sinder, Jamie- Hill, P, Ronald, CSR in the 21st century, journal of business ethics, No. 48.
- Watson, L. (2011). Corporate social responsibility and tax aggressiveness: An examination of unrecognized tax benefits. *The Pennsylvania State University working paper*.
- Watson, L. (2015). Corporate social responsibility, tax avoidance, and earnings performance. *The Journal of the American Taxation Association*, 37(2), 1-21.
- Wehrich, H., and Koontz, H. (1993). *Management: a Global Perspective*. New York. McGraw- Hill. 10th ed.
- Wilson, R.J. (2009). An examination of corporate tax shelter participants. *The Accounting Review*, 84(3), 969-999.
- Zeng, T. (2010). Income tax liability for large corporations in China: 1998-2007. *Asian review of Accounting*, 18(3), 180-196.