

**THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY (CSR)
DISCLOSURE AND POLITICAL CONNECTION ON CORPORATE TAX
AVOIDANCE: A STUDY FROM INDONESIA'S MINING SECTOR
LISTED COMPANIES**

BY

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**As One of the Requirements to Hold Title
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**Accounting Department
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ABSTRACT

THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) DISCLOSURE AND POLITICAL CONNECTION ON CORPORATE TAX AVOIDANCE: A STUDY FROM INDONESIA'S MINING SECTOR LISTED COMPANIES OF YEAR 2020-2024

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This study investigates the effect of Corporate Social Responsibility (CSR) disclosure and political connection on corporate tax avoidance among mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. As CSR practices increasingly shape stakeholder expectations, questions arise as to whether such disclosures genuinely reflect ethical corporate behavior or are strategically employed to legitimize tax planning. In addition to CSR disclosure, political connection is examined as an external institutional factor that may influence firms' tax behavior by reducing regulatory scrutiny and enforcement risk. CSR disclosure is measured using the Global Reporting Initiative (GRI) or POJK index, while tax avoidance is proxied by the Effective Tax Rate (ETR). Additionally, political connection is identified based on the presence of politically affiliated individuals in the firms' board list. This study adopts a quantitative approach employing panel data linear regression analysis. The research population consists of mining companies consistently listed on the IDX during the observation period, with samples selected through purposive sampling, having 40 mining companies in total. This study aiming to contribute to academic discourse and practical implications for policymakers, investors, and regulators. The findings found that there are no significant effect between CSR disclosure and political connection on tax avoidance. The results of this study concluded that there are many factors both from internal and external that could affect tax avoidance activity in Indonesia's mining companies yet was not covered in this study.

Key words: Corporate Social Responsibility Disclosure, Political Connection, Tax Avoidance

ABSTRAK

THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) DISCLOSURE AND POLITICAL CONNECTION ON CORPORATE TAX AVOIDANCE: A STUDY FROM INDONESIA'S MINING SECTOR LISTED COMPANIES OF YEAR 2020-2024

Oleh:

KINANTI RANUM FALINA

Penelitian ini bertujuan untuk melihat pengaruh pengungkapan Corporate Social Responsibility (CSR) dan koneksi politik terhadap penghindaran pajak pada perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2020–2024. Seiring meningkatnya praktik CSR dalam membentuk ekspektasi para pemangku kepentingan, muncul pertanyaan apakah pengungkapan tersebut benar-benar mencerminkan perilaku perusahaan yang etis atau justru digunakan secara strategis untuk menutup praktik perencanaan pajak. Selain pengungkapan CSR, koneksi politik juga diteliti sebagai faktor institusional eksternal yang dapat memengaruhi perilaku pajak perusahaan dengan mengurangi pengawasan regulasi dan risiko penegakan hukum. Pengungkapan CSR diukur menggunakan Indeks Global Reporting Initiative (GRI) atau POJK, sedangkan penghindaran pajak diproksikan dengan Effective Tax Rate (ETR). Selain itu, koneksi politik diidentifikasi berdasarkan keberadaan individu yang memiliki afiliasi politik dalam daftar dewan perusahaan. Penelitian ini menggunakan pendekatan kuantitatif dengan analisis regresi linear data panel. Populasi penelitian terdiri dari perusahaan pertambangan yang secara konsisten terdaftar di BEI selama periode pengamatan, dengan menggunakan metode purposive sampling sehingga diperoleh total 40 perusahaan pertambangan. Penelitian ini bertujuan untuk memberikan kontribusi terhadap pengembangan literatur akademik serta implikasi praktis bagi pembuat kebijakan, investor, dan regulator. Hasil penelitian menunjukkan bahwa tidak terdapat pengaruh signifikan antara pengungkapan CSR dan koneksi politik terhadap penghindaran pajak. Hasil penelitian ini menyimpulkan bahwa terdapat banyak faktor, baik internal maupun eksternal, yang dapat memengaruhi aktivitas penghindaran pajak pada perusahaan pertambangan di Indonesia namun belum tercakup dalam penelitian ini.

Kata kunci: Pengungkapan Corporate Social Responsibility, Koneksi Politik, Penghindaran Pajak

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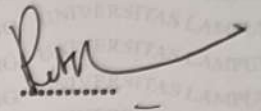
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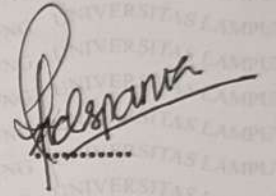
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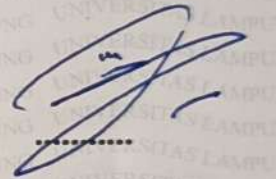
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Hereby declare that my undergraduate thesis entitled **“The Effect of Corporate Social Responsibility (CSR) Disclosure and Political Connection on Corporate Tax Avoidance: A Study From Indonesia’s Mining Sector Listed Companies of Year 2020-2024”** is entirely my own original work. In this undergraduate thesis, there is no part of entirety of the writing, ideas, or opinions of other authors that I have acknowledged as my own without proper acknowledgement of the original author. If it is proven in the future that this statement is not true, I am willing to accept sanctions in accordance with the applicable regulations.

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The author, Kinanti Ranum Falina, was born in Bandar Lampung on May 13, 2004, as the first child of two siblings.

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DEDICATION

All praise and gratitude are devoted to Allah SWT for His blessings, mercy, guidance, and direction, which have enabled the author to complete this undergraduate thesis. Peace and blessings be upon our Prophet Muhammad SAW, who already brought us to the brighter era filled with knowledge and understanding as we experience today.

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MOTTO

"So, verily, with the hardship, there is relief. Verily, with the hardship, there is relief."

- Ash-Sharh 94:5-6 -

“You Only Live Once”

“I’m never alone and I will never be”

- Jung Wooyoung -

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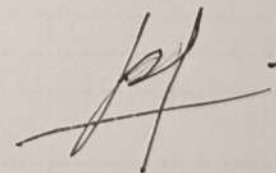
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I. INTRODUCTION

1.1. Background

Corporate Social Responsibility (CSR) and political connection has become an important subject of academic interest globally, especially among companies that emphasize openness in disclosing their CSR activities and their Executive Boards profile background. This study aimed to see the effect of CSR Disclosure and Political Connection on Tax Avoidance. Based on Legitimacy Theory by Dowling & Pfeffer (1975) in Almutairi & Abdelazim (2024), CSR Disclosure could be used as legitimacy tool (shield) to cover a firm's tax avoidance behavior. Additionally, Upper Echelon Theory by Hambrick & Mason (1984) in Yudanto & Damayanti (2022) mentioned that political connection helps to decide tax avoidance practices as the result of companies' executive decision.

Nowadays, an enterprise not only affect their own economic development activities, but also their influence in the society's sustainable development (Cui et al., 2025). CSR encourages enterprises to pursue economic gain while still pay attention to society, the environment, employee welfare by proactively fulfill their responsibilities and duties to society (Cui et al., 2025). Firms are expected to behave in a socially responsible manner while at the same time generating value for investors over focused on financial results rather than other aspect of business could create a failure (Aramburu and Pescador, 2019). In Indonesia, the issue is even more significant because the government has mandated CSR implementation through Law No. 40 of 2007 on Limited Liability Companies. Moreover, regulatory bodies such as the Financial Services Authority (OJK) have strengthened sustainability reporting obligations through Regulation No. 51/POJK.03/2017, requiring public companies to disclose social and environmental activities. However, this push for transparency can create a kind of

strategic paradox. Companies that disclose a lot about their CSR may use that information as a “masking mechanism” or “legitimacy” tool to protect their reputation from the risk caused by their tax avoidance practices ((Lanis and Richardson, 2012) in (Rahmatika et al., 2025)). Certain companies still indeed actively engage in corporate social responsibility (CSR) movement yet still manage to avoid paying taxes, proven by many of them still find ways to avoid those government regulations, as an example, under Law No. 36 of 2008, specific CSR programs can be used to reduce corporate income tax obligations (Ivanda et al., 2024).

Consequently, at the same time, corporate tax avoidance remains as one of the most controversial corporate practices. Tax avoidance refers to a company’s effort to keep funds within the organization that would otherwise be paid to the government as taxes (Wang et al., 2020). Resources generated by tax avoidance can be used to reduce product prices, increase employee wages, create employment opportunities, and enhance corporate value, behaviors that are beneficial to corporate stakeholders, such as consumers, employees, and investors (Jiang et al., 2022). According to Agency Theory by Jensen (1976) in Syarif & Koerniawan (2025), the behavior of tax avoidance can be understood as a consequence of agency conflicts between principals (shareholders) and agents (managers), wherein managers are expected to give priority to their own interests in increasing their gains by avoiding paying taxes. Even though tax avoidance is legal, it is often seen as unethical because it reduces the company’s support for public welfare. Tax avoidance is one of the concern for tax agencies and academics since it leads to a loss of government tax revenue and also creating an unfair distribution of tax burden, resulting a negative impact on economic and social development (Gao et al., 2025). Other than reputational damage, according to Hardeck & Hertl (2014), tax avoidance also comes with certain costs, including implementation expenses and the risk of legal action if detected by authorities.

When managers recognize a gap between their company’s actions and societal expectations, they tend to adopt various strategies to restore legitimacy that align with the organization’s behavior to meet social norms, so they could make a good

public perceptions without changing their risky behavior (Archel et al., 2009). Shocker & Sethi (1973) stated that every social institution, including business organizations, functions within society through a social contract that determines its legitimacy and continued existence. Under this contract, a firm's survival and growth depend on its ability to provide outcomes that are socially valued. In relation with that, when business organization is doing such tax planning strategies that threaten societal approval, firms may employ compensatory mechanisms like CSR disclosure to realign public perception and sustain their "social contract" (Shocker and Sethi, 1973). Furthermore, companies feel pressured to come up with strategies to conceal their tax avoidance issues and often presenting these efforts through their CSR (Wahab et al., 2022).

According to Duhoon & Singh (2023), CSR disclosure and political connection are one of the factors that possibly contribute to tax-avoiding practices. CSR disclosure in the studies by Alsaadi (2020) and Arifin & Rahmiati (2020) in Duhoon & Singh (2023) found that some companies use the benefits of tax savings to meet their social responsibility and also to highlight strong CSR performance. Other than CSR disclosure, politically connected companies have an advantage such as lower audit risk in doing tax avoidance due to their connections from government (Duhoon and Singh, 2023).

In Indonesia, mining sector companies are the most active in CSR reporting due to regulatory pressure and environmental exposure. Mining companies are also highly vulnerable to tax avoidance due to its strong profits, frequent related-party transactions, and complicated cross-border operations (Syarif and Koerniawan, 2025). According to Ivanda et al. (2024), the sector consistently records a tax ratio far below the national average, from 4,3% in 2017 to 1,2% in 2020. Additionally, according to DDTC News, tax arrears from companies or taxpayers in mineral and coal mining for year 2025 is reaching up to 3 trillion rupiah. This phenomenon suggests that CSR disclosure may function as a legitimacy mechanism that allows firms to maintain public trust and stakeholder approval while engaging in aggressive tax planning.

Importantly, in emerging market contexts such as Indonesia's mining sectors that face specific regulatory in their business activities, corporate tax behavior is not determined solely by internal ethical considerations or disclosure practices. External institutional factors, such as political connections, may play a crucial role in shaping firms' intention and constraints related to tax compliance. Upper Echelon Theory (Hambrick and Mason, 1984) suggests that top management decisions influence the strategy or decisions made by the company (Yudanto and Damayanti, 2022a). Political connections make companies feel protected by the government, which reduces their fear of sanctions and encourages them to engage in tax avoidance, they would sense of protection leads firms to adopt more aggressive tax planning (Yudanto and Damayanti, 2022a). In Indonesia, politicians who can create political connections in a company do not yet have a legal protection in a law, proven by the only existing regulations are only in the Indonesia Financial Services Authority Regulation Number 12 of 2017, that also only examines issues related to money laundering and not about tax avoidance behavior, which provides special treatment to politically exposed people (PEP) to prevent money laundering in the financial services sector (Firmansyah et al., 2022). Politically connected firms tend to have greater access also to external financing, including bank loans, therefore the interest expenses arising from these loans can increase operating costs, which may reduce taxable income and potentially lower the company's tax burden (Rusli et al., 2025).

The loss in tax revenue is still reaching higher number as time passes by. According to Tax Justice Network for year 2024, Indonesia experiences losses for \$2,806,311,920 in tax revenue due to global tax abuse. Given the industry's major role in the national economy, its tax contribution appears surprisingly low, even though mining sector companies stand as Indonesia's second-largest exporter and producer and included in fifth most contributor to tax revenue beside manufacturing, trade, financial services, and real estate. In the first quarter of 2019, the industry contributed a total of IDR 160.62 trillion, a sharp increase from its earlier contribution of just IDR 33.43 trillion (Ivanda et al., 2024). According to Dayani and Suryandari (2022), there are approximately 60% of mining companies listed on IDX that is indicated to engage in tax avoidance practices

(Napitupulu, 2025). Additionally, based on data from Indonesia's Ministry of Finance, the tax ratio, which is the comparison between tax revenue and Gross Domestic Product (GDP), can serve as an initial indicator of tax avoidance practices. The data below show that there is a decline in tax revenue for the mining sector.

Table 1.1 National and Mining Tax Ratio from 2017-2020

Tax Ratio	2017	2018	2019	2020
National	10,7%	11,5%	9,7%	8,3%
Mining	4,3%	4,9%	1,7%	1,2%

(Source: Ivanda et al., 2024)

Real evidence also appear in one of the mining sector company listed in Indonesia's IDX, which is PT Adaro Energy, that revealed in a 2019 report by Global Witness titled "*Taxing Times for Adaro*" regarding indications of the company engaged in profit shifting (transfer pricing) through its Singapore-based subsidiary, Coaltrade Services International, from 2009 to 2017, followed by finding that Adaro underpaid taxes by over \$125 million and reduced its tax liability in Indonesia by nearly \$14 million annually (Trisnawati, 2021). Transfer pricing is a common tactic in tax strategies through setting the prices of transactions between related companies to shift profits to lower-tax jurisdictions (OECD, 2022). PT Adaro Energy still managed to run tax avoidance practice even though the company has consistently publish their sustainability report consistently since 2010 and have politically connected executives, Garibaldi "Boy" Thohir. According to Sulistiyanti & Saputra (2020), other tax avoidance cases in Indonesia that involved mining companies are happened in companies from the Bakrie Group, namely PT Kaltim Prima Coal (KPC), PT Bumi Resources, and PT Arutmin Indonesia, which were allegedly linked to tax evasion totaling Rp 2.1 trillion. Other than that, Bakrie Group is mainly controlled by the family of Aburizal Bakrie, former Chairman of the Golkar Party and a former government minister. According to the Directorate General of Taxation report, the largest tax arrears were owed by PT KPC, amounting to Rp 1.5 trillion, followed

by PT Bumi Resources with Rp 376 billion, and PT Arutmin Indonesia with Rp 300 billion. PT Kaltim Prima Coal (PT KPC) allegedly engaged in tax avoidance through transfer pricing by selling coal to its affiliated company, PT Indocoal Resource Limited, at a price far below the market rate. The contracted price was only half of the normal price that PT KPC typically charged to other buyers. PT Indocoal then resold the coal to other customers using the normal price ordinarily applied by PT KPC. As a result, PT KPC's coal sales revenue was significantly lower and caused an estimated loss to the state of up to Rp 1.7 trillion. Other case reported by news from IKPI (2025) stated that Indonesia's Directorate General of Taxes (DJP) found that there are hundreds of crude palm oil (CPO) exporters suspected in reporting lower export values to reduce their tax payments happened in November 2025, with estimated state losses of around IDR 140 billion. Additionally, PwC Indonesia also has determined that tax transparency reports are not used by 70% of Indonesia's top 40 mining firms.

However, empirical evidence remains diverse. Several researches are resulted in various findings regarding the effect of CSR disclosure and political connection in corporate tax avoidance. Previous studies are resulted in positive relationship between CSR disclosure and tax avoidance of companies. As stated in legitimacy theory, CSR disclosure could be used as a tool to conceal tax avoidance behavior of companies in order to align with societal expectations, strengthen their reputation therefore indirectly enable tax avoidance behavior still run while using CSR disclosure to improve their public image (Acosta Garcia et al., 2024; Almutairi and Abdelazim, 2024; Ivanda et al., 2024; Karavitis et al., 2025; Wulandari and Fanani, 2024). The use of CSR disclosure could also be used as a risk-management tool to avoid the potential negative effect of companies' tax avoidance behavior.

Previous studies also found positive relationship between Political Connection on Tax Avoidance. Firms with strong political connections tend to choose policies that make tax avoidance actions can be used, wherein management's political ties with government officials and policymakers also encourage greater risk-taking

(Almutairi & Abdelazim, 2024; Firmansyah et al., 2022; Indiarti & Widiatmiko, 2023; Yudanto & Damayanti, 2022).

In contrary, there are also studies that found CSR has negative relationship with tax avoidance. Companies could have purposefully initiate CSR not to carry out tax avoidance, but solely to maintain the long term good name and reputation of companies. Companies could prioritize CSR more than reducing tax rates, which further explained through stakeholder theory that suggests businesses to not engage in tax avoidance behavior since it might be harmful to both the stakeholders and society as a whole. Mandated instruction to implement CSR also could reduce its tax aggressiveness behavior (Ding et al., 2022; Du and Li, 2024; Rashid et al., 2024; Yusuf et al., 2025). Other than those, political connection can either may not have an effect on tax avoidance as it is not become its primary cause and only several politically connected board within the company (Diningrum and Kurniawati, 2024; Rusli et al., 2025), or political connection have negatively affect tax avoidance as politically connected members of the board of commissioners as executives have the authority to oversee and advise directors in order to prevent actions that could harm the company, such as tax avoidance that may damage its reputation (Diningrum and Kurniawati, 2024).

There are still gap found in those findings, resulting in different results of effect between CSR Disclosure, Political Connection and tax avoidance, either positively or negatively affect each other. This study explores whether CSR disclosed activities among these companies represent genuine ethical conduct or a strategic instrument to sustain legitimacy while engaging in tax minimization. Some studies also suggest that firms with political ties face lower regulatory pressure and tax enforcement risk, which allows them to pursue more aggressive tax strategies. Others argue that politically connected firms tend to be more cautious, as their close ties to the government increase public attention and reputational risk. These differences indicate that the impact of political connection on tax avoidance is not uniform and depends heavily on the institutional environment. To fill those gap, this research mainly aimed to discover the

relationship of CSR Disclosure and Political Connection on Corporate Tax Avoidance, especially in Indonesia's mining sector companies.

1.2. Questions of the Problems

The questions of the problems in this research are as below:

1. Is there a relationship between CSR disclosure and corporate tax avoidance among Indonesia's listed mining companies?
2. Is there a relationship between political connection and corporate tax avoidance in Indonesia's listed mining companies?

1.3. Research Objectives

The research objectives are as below:

1. To investigate the relationship between CSR disclosure and corporate tax avoidance in the Indonesia's listed mining companies.
2. To investigate the relationship between political connection and corporate tax avoidance in the Indonesia's listed mining companies.

1.4. Research Contribution

1.4.1. Empirical Contribution

This study replicated from previous study by Almutairi & Abdelazim (2024) that resulted in both positive relationship between CSR and Political Connection on Tax Avoidance in 70 top non-financial companies listed on the Egyptian Exchange (EGX) from year 2017-2022 and study by Firmansyah et al. (2022) that resulted a positive relationship between Political Connection on Tax Avoidance in Indonesia's manufacturing companies from 2014-2019. However, study conducted by Almutairi & Abdelazim (2024) experienced limitation since it was using exclusive data from non-financial companies as CSR practices and political connected executives may vary widely across industries. Study conducted by Firmansyah et al. (2022) also only focused on manufacturing companies in Indonesia. Therefore, this study contributes to Indonesian accounting research by focusing specifically on the mining companies in Indonesia that potentially engage in tax avoidance practices while still disclosing CSR. This study also focus

on mining companies in Indonesia that has political connections and seek benefits from it to engage in tax avoidance. The study offers new insights into whether CSR disclosure functions as a genuine commitment to stakeholders or merely as a strategic tool to deflect scrutiny from aggressive tax avoidance and either politically connected executives within a firm could affect tax avoidance by facing easier access to taxes regulation or tend to be more cautious of the risk behind doing tax avoidance.

1.4.2. Regulatory Contribution

This research has significant practical implications, particularly for Indonesian tax authorities and financial regulators. By uncovering the potential use of CSR disclosure as a tool to mask corporate tax avoidance and politically connected executives advantages, the findings can support more effective risk-based tax audits and policy enforcement. It is important since Indonesia has required companies to implement CSR disclosure. It is stated in Law Number 40 of 2007 concerning Limited Liability Companies (Company Law) with amendment by the Job Creation Government Regulation in Lieu of Law (Perppu), and also in Government Regulation (PP) Number 47 of 2012 regarding Corporate Social and Environmental Responsibility of Limited Liability Companies.

The results of this study will help policymakers develop integrated frameworks that ensure a firm's CSR disclosures align with transparent and ethical tax practices. The findings can help the Ministry of Energy and Mineral Resources (ESDM) improve the RKAB (Work Plan and Budget) approval process. By connecting social performance with tax compliance, regulators can ensure that mining licenses are awarded only to companies that are genuinely "good corporate citizens" in both their social obligations and their tax responsibilities. As there is no specific regulation that regulates politically connected executives in doing tax avoidance, policymakers could also develop a new regulation to prevent this practice happens. Additionally, companies can use these insights to strengthen internal governance mechanisms and align their CSR strategies with genuine tax compliance. By aligning social responsibility programs with genuine tax compliance and put good use of political connections, firms can strengthen

corporate integrity, reduce reputational risks, and improve greater trust among stakeholders and regulatory bodies.

1.4.3. Practical Contribution

The practical benefits of this study can be seen in how it helps companies, investors, and regulators make better decisions. For company managers, the findings help explain how CSR activities and political connections can influence tax-related decisions and shape how the firm is viewed by the public. For investors, the study provides useful insights to evaluate whether CSR disclosure reflects a genuine commitment to stakeholders or is primarily used to conceal aggressive tax practices, particularly in firms with strong political connections. Boards of directors and commissioners can use these insights to strengthen governance practices, such as improving independent oversight and audit quality, to reduce excessive managerial discretion and agency problems. Finally, by focusing on Indonesia's mining companies, this research offers a valuable benchmark for other firms aiming to improve both their CSR implementation and tax transparency.

II. LITERATURE REVIEW

2.1. Theoretical Framework

2.1.1 Legitimacy Theory

According to legitimacy theory (Dowling and Pfeffer, 1975) in Ivanda et al. (2024), companies get their operational legitimacy from the social context in which they function, based on mutually agreed-upon contracts and societal goals. Shocker & Sethi (1973) explained that every organization, including businesses, operates in society based on an unspoken agreement that allows it to exist. To survive and grow, it must provide something useful for the public and share benefits fairly with the groups that support it. To keep this right, the organization has to continually show that it is legitimate and relevant, meaning that people still need its services and accept the way it shares its rewards.

From this perspective, CSR reporting could also be used more as a way to maintain a company's legitimacy than as a genuine act of ethical responsibility. This is especially true for mining sector that associated with serious environmental and social impacts, such as ecosystem damage, contamination of water resources, displacement of traditional communities, and conflicts with local residents (Schwartz et al. (2021) in Oliveira & Da Silva (2026)).

2.1.2 Agency Theory

An agency relationship refers to a contractual arrangement where one or more individuals (known as principals) appoint another individual (the agent) to carry out certain tasks on their behalf, which includes granting the agent some level of decision-making authority (Jensen, 1976). In most agency relationships, both the

principal and the agent will face some costs to monitor and control behavior (both financial and non-financial, making the agent's decisions may not always match what is best for the principal (Jensen, 1976). Management required to make decisions to improve the welfare of company owners, with one way to increase the net income generated by the company, triggering the management to avoid taxes through low tax payments to the government and increasing net profit (Wirianata et al., 2024). Additionally, management's political ties with government officials and policymakers encourage greater confidence in taking risks, as these relationships reduce uncertainty and provide a sense of protection when making strategic decisions (Indiarti & Widiatmiko, 2023).

2.1.3 Upper Echelon Theory

The upper echelon theory by Hambrick & Mason (1984) in Yudanto & Damayanti (2022), explains that the leader's characteristics could influence the performance produced by an entity. This theory suggests that decisions made by top management shape a company's strategies and overall direction resulting that leadership plays a crucial role in determining strategic choices, which ultimately influence the company's performance, including the making decisions in doing tax avoidance (Yudanto & Damayanti, 2022).

2.1.4 Corporate Social Responsibility (CSR)

Bowen (1953) in Seelent et al. (2025), as the pioneer of the Corporate Social Responsibility (CSR) movement, was the first to describe CSR as the "social responsibilities of businessmen and businesswomen" that emphasized that business leaders should make decisions that align with societal goals and values, not merely those that serve the company's internal interests.

The Commission of the European Communities (CEC) defined Corporate Social Responsibility (CSR) as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. CSR emerges as a response to stakeholder pressure, urging companies to focus not only on profit but also to take responsibility for the economic, social, and environmental impacts of their

operations (Wulandari and Fanani, 2024). CSR is presented voluntarily to not imposed under government regulations that involves taking social and environmental impacts into an account and an ethical manner toward stakeholders (Turcotte and Lachance, 2023). CSR within a company includes several scopes, such as aware of labor rights, promoting fairness and inclusion, ensuring health and safety, and improving employees' working and living conditions (Turcotte and Lachance, 2023). According to Mohammad (2024), CSR helps to raise the standard of living, promotes justice, and enable environmental protection.

The implementation of CSR in Indonesia's companies has been regulated specifically in Law Number 40 of 2007 concerning Limited Liability Companies (Company Law) and its amendment by the Job Creation Government Regulation in Lieu of Law (Perppu), in which further regulated by Government Regulation (PP) Number 47 of 2012 concerning Corporate Social and Environmental Responsibility of Limited Liability Companies. According to KPMG, CSR disclosure has become increasingly widespread, seen by the number of companies engaging with particular international reporting models or approaches (e.g., Global Reporting Initiative (GRI), Integrated Reporting (IR), Sustainable Development Goals Reporting, Sustainability Accounting Standards Board), leading to address a wider range of social and environmental themes (Soobaroyen et al., 2023).

2.1.5 Political Connection

Political connection is a status where there exists a relationship between a specific party and a party with political interest which is used in a bid to attain a specific issue that may be useful to each events (Rusli et al., 2025). A company is considered politically connected when it has close ties to political actors through its ownership or leadership structure, or a member of the board of directors or commissioners, is a current or former member of parliament, a minister or cabinet member, affiliated with a political party, or has previously served as an official in the central or regional government, including the military (Firmansyah et al., 2022). Other than those criteria, Joni et al. (2020) specifically explained in their study that politically connected firms are the ones who have its board members

appointed as top bureaucrat in local or central government. It means that political connection does not include ordinary civil servants or non-strategic public employees and only applied to individuals having held high-ranking governmental, political, or military positions.

Building corporate political connections (CPCs) has therefore become an important part of firms' strategic decision-making, exactly valuable when companies face regulatory pressures, pursue international expansion, develop product innovations, or engage in corporate social responsibility (CSR) activities (Wei et al., 2023). External risks, particularly those arising from changes in regulations or government policies, can be reduced through political connections and when new policies or regulations are introduced that affect business activities, management with ties to the government is more likely to obtain early information, allowing the company to anticipate and adjust before the policies are formally implemented (Yudanto & Damayanti, 2022).

2.1.6 Tax Avoidance

Tax planning or tax avoidance require effort to reduce taxes legally by reducing the tax burden that does not violate the provisions of the tax law (Wirianata et al., 2024). Tax avoidance uses by businesses to maximizing after-tax profits for shareholders, resulted in such negative effect that will causing administrative burdens, damage to reputation, and possible fines from tax authorities (Karavitis et al., 2025). Tax avoidance is one of the concern for tax agencies and academics since it leads to a loss of government tax revenue and also creating an unfair distribution of tax burden, resulting a negative impact on economic and social development (Gao et al., 2025). Additionally, tax avoidance may negatively affect other stakeholders, who are increasingly calling on companies to adopt socially responsible practices. According to Ivanda et al. (2024), tax avoidance is calculated using Effective Tax Rate (ETR), which is the number of tax burden that determined by multiplying the tax base with the applicable tax rate.

2.2. Hypothesis Development

2.2.1 CSR Disclosure and Tax Avoidance

Corporate Social Responsibility (CSR) is widely viewed as a disclosure for companies to align with societal expectations and maintain their long-term legitimacy. Based on legitimacy theory (Dowling and Pfeffer, 1975), if a firm has a certain level of corporate governance that it uses to restore or enhance the lost legitimacy, it is perceived as being a professional entity in the eyes of society (Soobaroyen and Mahadeo, 2008). Bouaziz (2022) also Susanto and Veronica (2022) explained that the behaviour of tax avoidance practices done by companies may cause negative impact on company's reputation and can be reduced by the companies' decision on disclosing CSR activities (Wirianata et al., 2024). According to Alsaadi (2020) in Almutairi & Abdelazim (2024), the risk management perspective of CSR make companies engage in CSR to cover up their aggressive tax avoiding and other socially irresponsible behaviour. However, despite of the risks coming from tax avoidance practice, Hien et al. (2025) mentioned that maintaining CSR in a substantive manner is still essential as CSR helps strengthening stakeholder trust and mitigating reputational risks when companies are actively doing tax avoidance practices.

Several previous research have found the effect of CSR on corporate tax avoidance, specifically on various research objects. Wirianata et al. (2024) found that CSR has no significant effect on corporate tax avoidance in companies in the energy, basic materials, industrial, primary and secondary consumer goods sectors listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021. In research conducted by Rashid et al. (2024), there is negative effect between CSR and tax avoidance of 30 listed banks on the Dhaka Stock Exchange covering 2012 to 2020. Others negative effect also found among publicly listed companies headquartered in BRICS countries from 2014 to 2020 through reserach conducted by Du & Li (2024). In contrary, according to Acosta Garcia et al. (2024), CSR has a positive impact on tax avoidance, specifically in a country that has low rate of economic freedom. It aligns with a research conducted by Ivanda et al. (2024) that also shows that CSR positively affect tax avoidance. Wulandari & Fanani (2024) stated that CSR has a positive relationship on tax avoidance since firms that have

low level of tax reporting tend to comply on disclosing CSR in order to avoid negative consequences resulted from their tax avoidance practices. Almutairi & Abdelazim (2024) has found that firms that regularly contribute in CSR practices most likely conduct higher levels of tax avoidance. Firms with CEO power affected also found to have positive relationship in its CSR and tax avoidance (Diem, 2024).

Building on Legitimacy Theory, companies may undertake CSR activities not only out of genuine responsibility but also as a means to sustain legitimacy and influence public perception. This reasoning is especially applicable to mining companies that have activities commonly considered as a threat to the natural surroundings, with environmental impacts on the air, water and soils ((Rodrigues and Mendes, 2018) in (Pons et al., 2021)). Economically, mining companies are also highly vulnerable to tax avoidance as it commonly has strong profits, regular related-party transactions, and cross-border operations (Syarif and Koerniawan, 2025). Legitimacy theory also believes that when a company complies with legal regulations in business activities, it will maintain the social trust of the community and contribute to sustainable development (Diem, 2024). Therefore, this study aims to seek a potentially negative relationship between CSR and tax avoidance in Indonesia's mining listed companies.

H1: Corporate Social Responsibility (CSR) Disclosure tend to negatively affects corporate tax avoidance in Indonesia's mining companies listed in IDX.

2.2.2 Political Connection and Tax Avoidance

According to Rusli et al. (2025), political connection refers to a condition in which a company maintains relationships with individuals or groups that have political influence to support certain interests or strategic objectives. the company is generally considered politically connected when it has at least a 10% ownership held by politically affiliated individuals, or when members of its board of directors or commissioners have political backgrounds (Rusli et al., 2025). Several researches mapped by Firmansyah et al. (2022) have shown that political connections can provide various advantages for business operations, including

greater access to financing opportunities, more favorable tax treatment, the potential to receive government subsidies, reduced market pressure regarding public transparency, and a lower likelihood of tax audits as well as lighter tax penalties.

Based on Agency Theory (Jensen, 1976), differences in interests can happen between managers and stakeholders because managers may focus to get excessive economic repayment meanwhile stakeholders want to get the most profit based on their investment, thus building a situation named agency conflicts (Rusli et al., 2025). When agency conflicts arise, managers as key decision-makers may be more engaged in tax avoidance, as they often have incentives to reduce the company's tax expenses and boost net profits (Rusli et al., 2025). Additionally, management's political relationships with the government and policy makers are what motivate management's bravery in taking risks and instead giving various advantages, such as government protection treatment, greater access to information about tax regulations and enforcement practices, reduced exposure to potential legal disputes, and a lower likelihood of tax violations being detected (Indarti & Widiatmoko, 2023). To support this, Upper Echelons Theory (Hambrick and Mason, 1984) also suggests that company outcomes are strongly influenced by the background, experience, and networks of top executives. The leader's characteristics influence the performance produced by an entity (Yudanto & Damayanti, 2022). Leaders or board members with political ties may shape corporate strategies based on their personal viewpoints and access to government networks, which can influence risk-taking behavior and increase the likelihood of engaging in aggressive tax practices because they perceive regulatory risks to be lower.

Several previous research have found various result related to the relationship between political connection and tax avoidance. Almutairi & Abdelazim (2024) mentions that there is positive relationship between political connection and tax avoidance in non-financial companies listed in Egyptian Exchange (EGX) from year 2017 to 2022. In manufacturing companies listed on the Indonesian Stock Exchange of year 2019-2021 through a research by Indiarti & Widiatmiko (2023)

and in year 2014 to 2019 researched by Firmansyah et al. (2022), there is a positive relationship between political connection and tax avoidance. Through World Bank Open data investigated by Yudanto & Damayanti (2022), political connection is also positively affect tax avoidance. However, in contrary, Diningrum & Kurniawati (2024) found that there is negative effect of political connection of board of commissioner on tax avoidance, and no significant effect of board of directors' political connection on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange from 2020-2022. Rusli et al. (2025) also mentioned that there is no impact of political connection on tax avoidance.

Based on Agency Theory and Upper Echelons Theory, company's executives who have political connections may feel more confident and have greater freedom when making strategic decisions, including the choice to engage in more aggressive tax planning practices. Therefore, this study aims to seek a positive relationship between CSR and tax avoidance in Indonesia's mining listed companies.

H2: Political Connection tend to positively affects corporate tax avoidance in Indonesia's mining companies listed in IDX.

2.3. Conceptual Framework

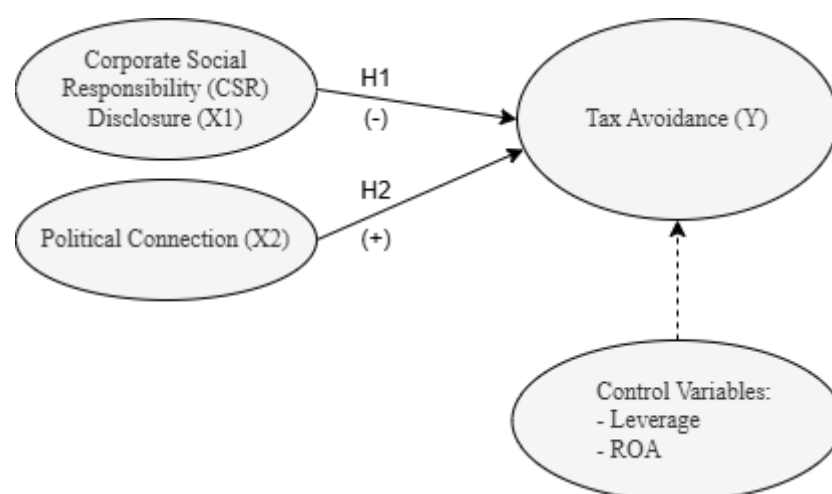


Figure 2.1 Conceptual Framework

III. RESEARCH METHODS

3.1. Type of Research and Data

In this study, the analytical tool used is quantitative analysis with panel data regression model is employed to test the effect of Corporate Social Responsibility (CSR) Disclosure and Political Connection as the independent variables on Tax Avoidance as the dependent variable. This study will be use secondary data. CSR disclosure data would be obtained from annual reports or sustainability reports of Indonesia's mining companies, using content analysis such as POJK Index or 91 indicators of GRI Index. Political connection data would be obtained from companies' executives data and could extracting information via the internet. For tax avoidance data, it will be calculated using financial data from Indonesia's mining sector companies' financial statements using Effective Tax Rate (ETR) as its proxy.

3.2. Population and Sample

This study would see about the relationship between Corporate Social Responsibility (CSR) Disclosure and Political Connection on Tax Avoidance specifically in Indonesia's mining sector listed companies. The data will be acquired from year 2020 until 2024 based on the related financial report and sustainability report needed to use for the variable measurement. The population in this study includes all companies listed on the Indonesia Stock Exchange (IDX) and included as companies that operates in mining sector during the observation period, which spans from 2020 to 2024. According to Salkind, n.d. (2018), population is a group of potential participants to generalize the results of a study, with sample as a subset of that population. The sample in this study was selected using a purposive sampling technique. The criteria used include:

1. The company was consistently appear and included as mining sector companies in IDX during the 2020–2024 period
2. The company published complete annual reports and/or sustainability reports during the same period
3. The companies do not experience zero or negative ETR during the reporting period

3.3. Operating Variable Definition

This study examines three main variables: Corporate Social Responsibility (CSR) Disclosure and Political Connection as the independent variables and Corporate Tax Avoidance as the dependent variable. To ensure all variables can be quantitatively measured and analyzed, each is defined operationally based on established proxies and measurement approaches commonly used in prior research.

1. Corporate Social Responsibility (CSR) Disclosure

The first independent variable, Corporate Social Responsibility (CSR) can be defined as a company's commitment in form of contribution to society to reach sustainability for the company, the community, and society (Widianti and Prasetyo, 2023). It is first described by Bowen (1953) in Seelent et al. (2025), as the “social responsibilities of businessmen and businesswomen” that explained business leaders should make decisions that align with societal goals and values, not based only on company's internal interests.

Consistent with prior study from Almutairi & Abdelazim (2024), CSR disclosure is measured using the Global Reporting Initiative (GRI). It aligns with research conducted by Ivanda et al. (2024), Arieftiara et al. (2025), Wirianata et al. (2024), and Wulandari & Fanani (2024). This comprehensive index provides a standardized and globally comparable approach to assessing the extent of CSR disclosure in corporate reporting. If the companies choose to use POJK Index, this study adjust it so that it discloses the same indicators as it was stated in the GRI Index. The formula to measure CSR is as follow:

$$CSR_j = (\sum X_{ij}) / N_j$$

In this study, the indicators are divided into six categories: economic, social, environmental, human rights, community, and product responsibility, with the total of 91 items disclosed (Ivanda et al., 2024). The measurement process was carried out by matching the items on the checklist with those disclosed in the company's annual report. *CSR_j* is a metric used to evaluate a company's level of social responsibility disclosure. Each disclosed item (*N_j*) received a score of 1, while undisclosed items were given a score of 0. The total score ($\sum X_{ij}$) indicates the company's overall level of CSR disclosure, thereby reflecting its level of transparency and commitment to fulfilling social and environmental responsibilities.

2. Political Connection

The second independent variable, political connection, was first described by Faccio (2006) in Wei et al. (2023) as a relationship build between firms and political actors. Firmansyah et al. (2022) mentioned that political connection refers to the company shareholders including the board of directors' and commissioners' profiles that can be obtained mainly through the company's annual report. According to previous researches (Almutairi & Abdelazim, 2024; Diningrum & Kurniawati, 2024; Firmansyah et al., 2022; Indarti & Widiatmiko, 2023; Yudanto & Damayanti, 2022; Yusuf et al., 2025), political connection is measured by dummy variables, when value of 1 is for corporations in which there are members of participant of parliament, ministers, or humans associated with to politics in the corporation's ranks and 0 if there are no members of parliament, ministers, or people related to politics in the corporation's ranks (Rusli et al., 2025). Joni et al. (2020) mentioned that companies counted as politically connected firms have its board members placed creently or previously as top bureaucrat in local or central government. It means that political connection does not include ordinary civil servants or non-strategic public employees and only applied to individuals having held high-ranking governmental, political, or military positions.

3. Tax Avoidance

The dependent variable in this study is Corporate Tax Avoidance, which refers to managerial efforts to reduce the company's tax obligations through legal methods. One of the earliest and most influential uses of ETR to analyze corporate tax behavior appeared in Stickney & McGee (1982) research. Most of previous studies are also using ETR as Tax Avoidance's proxy (Almutairi and Abdelazim, 2024; Diem, 2024; Ivanda et al., 2024; Karavitis et al., 2025; Wirianata et al., 2024; Wulandari and Fanani, 2024). ETR is calculated by dividing total tax expense by profit before tax, which reflects the proportion of income contributed to taxation relative to pre-tax earnings. ETR as the ratio of tax expense to pretax book income represents an inverse measure of tax avoidance and can be easily measured from financial statements (Velte, 2024). A lower ETR indicates a higher degree of tax avoidance, whereas a higher ETR signifies greater tax compliance. The data for tax avoidance is sourced from Indonesia's mining companies' financial statements in the related years used. The detailed calculation is as follow:

$$ETR = \frac{\text{Tax Expense}}{\text{Profit Before Tax}}$$

Table 3.1 Variable Measurement

Variable	Source	Measurement
Corporate Social Responsibility (CSR) (Almutairi and Abdelazim, 2024)	POJK and GRI Index	POJK 51/2017 and 91 Indicators GRI G4
Political Connection	Financial Statement	Dummy Variable
Tax Avoidance (Ivanda et al., 2024)	Effective Tax Rate (ETR) (Stickney and McGee, 1982)	$ETR = \frac{\text{Tax Expense}}{\text{Profit Before Tax}}$

4. Control Variables

Several control variables are used in this research. Control variables are added to regression models to help identify the causal impact of a treatment on an outcome (Hünermund and Louw, 2025). According to Almutairi & Abdelazim (2024), Leverage and Return on Assets (ROA) being used as control variables, with leverage measured using the ratio of total debt to total assets, and ROA was determined by dividing pre-tax income by total assets. Firmansyah et al. (2022) mentioned that leverage should be controlled because interest expense on debt is tax-deductible, which can create tax savings that may be driven by higher indebtedness rather than tax avoidance. ROA should also be controlled because changes in company performance can lead to changes in taxes across years (Firmansyah et al., 2022).

3.4. Regression Panel Data Model

This study employs a panel data regression model combining time-series and cross-sectional data of Indonesia's mining sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2024. Panel data are used because they capture both inter-company (cross-section) and inter-period (time-series) variations, increasing the degrees of freedom and reducing collinearity among variables (Gujarati and Porter, 2009). The estimated regression panel data model is as follow:

$$\text{TAXAV}_{it} = \beta_0 + \beta_1 \text{CSR}_{it} + \beta_2 \text{PCON}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{ROA}_{it} + \varepsilon_{it}$$

Where:

TAXAV_{it} : Corporate Tax Avoidance of firm i in year t

CSR_{it} : Corporate Social Responsibility disclosure

PCON_{it} : Political Connection

LEV_{it} : Leverage

ROA_{it} : Return on Assets

ε_{it} : error term

Baltagi in Gujarati and Porter (2009) stated that there are several advantages in using panel data:

1. Panel data relates to individuals, firms, states, countries, etc. over time, leading to no bound to be heterogeneity in these units.
2. By combining time-series and cross-sectional data, panel data produce richer information with greater variability, reduced collinearity, more degrees of freedom, and higher estimation efficiency.
3. Through repeated observations over time, panel data are better suited to analyze dynamic changes, such as unemployment duration, job turnover, or labor mobility.
4. Panel data can identify and measure effects that are not observable in pure time-series or cross-sectional data, such as the impact of minimum wage adjustments on employment and earnings.
5. This type of data enables the analysis of more complex behavioral models, including studies of economies of scale and technological advancement.
6. By encompassing numerous units over several periods, panel data help reduce aggregation bias that may occur when individual or firm-level data are grouped into broad categories.

3.5. Data Procedure Analysis

Descriptive statistics summarize each variable's characteristics, including mean, minimum, maximum, and standard deviation. This provides an overview of data distribution, central tendency, and variability, ensuring data consistency prior to regression analysis. Gujarati & Porter (2009) emphasizes this step as essential to detect outliers and assess normality tendencies before modeling.

3.5.1. Descriptive Statistical Analysis

Gujarati & Porter (2009) outlined the Classical Normal Linear Regression Model (CNLRM) framework as a series of diagnostic tests conducted to ensure that the regression model used in this study satisfies the assumptions of the Ordinary Least Squares (OLS) method. These tests are crucial to confirm that the model produces Best Linear Unbiased Estimators (BLUE) and that the statistical inferences

regarding the relationships between Corporate Social Responsibility (CSR) and Political Connection on Corporate Tax Avoidance in Indonesia's mining companies are valid and reliable.

3.5.2. Panel Data Regression Estimation Model

a. Pooled Least Squares (PLS) Model or Common Effect (CEM) Model

The Pooled Least Squares model, also referred to as the Common Effect Model, assumes that all firms and time periods share a common intercept and slope. It treats the combined panel data as one large dataset, ignoring any cross-sectional (firm-specific) or temporal (year-specific) differences. The model is expressed as:

$$\text{TAXAV}_{it} = \beta_0 + \beta_1 \text{CSR}_{it} + \beta_2 \text{PCON}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{ROA}_{it} + \varepsilon_{it}$$

Where:

i : firm (cross-section)

t : time (year)

β_0 : common intercept

$\beta_1 - \beta_5$: slope coefficients

ε_{it} : random error term

b. Fixed Effects Model (FEM)

According to Gujarati & Porter (2009), the Fixed Effects Model is appropriate when unobserved firm characteristics are correlated with the explanatory variables. The Fixed Effects Model allows each firm to have its own intercept, thereby capturing unobserved firm-specific characteristics that may affect tax avoidance but remain constant over time. This is useful when such characteristics (e.g., management style, corporate culture, or governance practices) may correlate with explanatory variables such as CSR disclosure and political connection.

The FEM can be written as:

$$\text{TAXAV}_{it} = \alpha_i + \beta_1 \text{CSR}_{it} + \beta_2 \text{PCON}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{ROA}_{it} + \varepsilon_{it}$$

Where α_i represents the individual-specific intercept for firm i .

c. Random Effects Model (REM)

The Random Effects Model assumes that the differences across firms are random rather than fixed and that these individual effects are uncorrelated with the explanatory variables. (Gujarati and Porter, 2009) mentioned that the REM is more efficient than FEM when the random effects are truly uncorrelated with the regressors. However, if the unobserved effects (μ_i) correlate with explanatory variables such as CSR disclosure and political connection, the FEM will provide more consistent estimates. This model decomposes the error term into two components, a cross-sectional (individual) effect and an idiosyncratic error term.

$$\text{TAXAV}_{it} = \beta_0 + \beta_1 \text{CSR}_{it} + \beta_2 \text{PCON}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{ROA}_{it} + \mu_i + v_{it}$$

Where μ_i is the unobserved firm-specific random effect and v_{it} is the idiosyncratic error term that varies across firms and time.

3.5.3. Selection of Panel Data Regression Model

1. Chow Test

The Chow Test, also known as the F-test for poolability, was proposed first by Chow (1960). The test is used to determine whether the intercepts across individual firms are identical or differ significantly. It evaluates whether a single (common) intercept, as assumed in the Pooled Least Squares (PLS) model, is sufficient to represent all firms or whether firm-specific intercepts are necessary, as specified in the Fixed Effects Model (FEM). The hypotheses are stated as follows:

H_0 : Common intercept across firms (Pooled OLS is appropriate)

H_1 : Different intercepts across firms (Fixed Effects Model is preferred)

If the computed F -value exceeds the critical value or the corresponding p -value < 0.05 , the null hypothesis H_0 is rejected, indicating that the intercepts differ significantly across firms.

2. Hausman Test

The Hausman Test, developed by Hausman (1978) and explained by (Gujarati and Porter, 2009), is used to decide between the Fixed Effects Model (FEM) and the Random Effects Model (REM). This test examines whether the unique errors (μ_i) are correlated with the regressors. If they are correlated, the REM estimates become inconsistent, and the FEM should be used instead.

The hypotheses are:

H_0 : Random Effects Model

H_1 : Fixed Effects Model

In this study, the Fixed Effects Model will be used when firm-specific characteristics that cannot be directly observed, such as long-standing CSR disclosure patterns, strong political ties, or management's ethical stance, are linked to CSR disclosure, political connection, or other financial variables. On the other hand, if these firm-level characteristics occur randomly and show no systematic relationship with the explanatory variables, the Random Effects Model will be preferred because it provides more efficient estimates.

3. Breusch–Pagan Lagrange Multiplier (LM) Test

The Breusch–Pagan Lagrange Multiplier (LM) Test, developed by Breusch & Pagan (1979), evaluates whether the Random Effects Model provides a better fit than the Pooled OLS model. While the Pooled OLS assumes that all firms are homogeneous, the REM allows for random variations in intercepts that are uncorrelated with the regressors.

The hypotheses for the LM test are:

$$H_0: \sigma_\mu^2 = 0 \text{ (Pooled OLS preferred)}$$

$$H_1: \sigma_\mu^2 > 0 \text{ (REM preferred)}$$

If the LM statistic is significant (p-value < 0.05), the null hypothesis of no panel effect is rejected, indicating that the Random Effects Model provides a better fit than the Pooled OLS model. In this research, if the LM test is significant, it implies that unobserved firm-specific factors in the mining sector (such as production scale, resource endowment, or regional regulatory conditions) have random influences on tax avoidance behavior that should be captured by the REM rather than ignored in a pooled model.

3.5.4. Classical Assumption Test

a. Normality Test

Normality Test aims to confirm that the residuals (ε_{it}) from the regression model are normally distributed. According to (Gujarati and Porter, 2009), normality of errors is a prerequisite for valid hypothesis testing because it ensures that the t-statistic and F-statistic follow their theoretical distributions. The Jarque–Bera (JB) test will be applied to assess normality. If the resulting p-value is greater than 0.05, the residuals are considered normally distributed, indicating that the model meets the normality assumption.

b. Multicollinearity Test

Multicollinearity Test is conducted to detect the degree of correlation among independent variables, namely CSR disclosure, political connection, leverage, and ROA. Gujarati & Porter (2009) notes that high multicollinearity inflates the standard errors of coefficients and reduces the precision of parameter estimates. The Variance Inflation Factor (VIF) is used to measure this correlation. A VIF value of less than 10 indicates that multicollinearity is not a serious problem, suggesting that each explanatory

variable provides unique information about the variation in corporate tax avoidance.

c. Heteroscedasticity Test

Heteroscedasticity Test examines whether the variance of the residuals remains constant across observations. Gujarati & Porter (2009) explains that heteroscedasticity, or unequal error variance, leads to inefficient estimates even though OLS coefficients remain unbiased. The Breusch–Pagan or White test will be used to detect this issue. If the test yields a p-value greater than 0.05, the null hypothesis of homoscedasticity cannot be rejected, meaning that the variance of the residuals is constant and the model satisfies this assumption.

d. Autocorrelation Test

Autocorrelation Test evaluates whether the residuals are correlated across time periods, which is particularly relevant in panel data settings where firm observations are repeated over several years. Gujarati & Porter (2009) emphasizes that the presence of autocorrelation violates the independence assumption and can result in inefficient estimates. The Durbin–Watson (DW) statistic or Breusch–Godfrey test will be applied for detection. A DW value near 2 indicates that autocorrelation is absent, confirming that the model satisfies this assumption.

Collectively, these diagnostic tests ensure that the estimated regression model aligns with the assumptions of the CNLRM framework and meets the Gauss–Markov theorem conditions. By confirming normality, independence, and homoscedasticity of residuals, as well as the absence of multicollinearity among predictors, the study ensures that the regression results provide valid and efficient insights into the influence of CSR on corporate tax avoidance within Indonesia’s mining sector.

3.5.5. Hypothesis Testing

Hypothesis testing plays a role in drawing research conclusions and assessing the accuracy of the data. It consists of three types of tests, namely:

1. t-Test

The t-test assesses the statistical significance of each estimated regression coefficient to determine whether individual independent variables have a meaningful impact on the dependent variable, corporate tax avoidance, while holding other variables constant (*ceteris paribus*). According to Gujarati & Porter (2009), the t-test helps to determine whether the sample evidence provides sufficient reason to reject the null hypothesis that a particular slope coefficient is equal to zero.

The general hypotheses for each coefficient are formulated as follows:

- $H_0: \beta_i = 0$
(Variable i has no significant effect on corporate tax avoidance)
- $H_1: \beta_i \neq 0$
(Variable i has a significant effect on corporate tax avoidance)

For the main independent variables, the hypotheses are specified as:

- $H1: \beta_1 > 0$
Indicates that higher CSR disclosure is expected to increase the level of corporate tax avoidance.
- $H2: \beta_2 > 0$
Indicates that stronger political connections are expected to increase the level of corporate tax avoidance.

If the estimated coefficients for CSR disclosure (β_1) and political connection (β_2) are positive and statistically significant, the results support the research hypotheses. A positive and significant CSR disclosure coefficient suggests that firms may use CSR disclosure as a legitimacy strategy to maintain a socially responsible image while engaging in tax-minimization practices. Similarly, a positive and significant political connection coefficient indicates

that politically connected firms may benefit from reduced regulatory pressure or enforcement risk, enabling greater tax avoidance.

2. F-Test

The F-test evaluates whether the explanatory variables collectively have a statistically significant impact on the dependent variable. It tests the null hypothesis that all slope coefficients are simultaneously equal to zero.

Gujarati & Porter (2009) explained that this test assesses the joint explanatory power of the model.

The hypotheses are expressed as:

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$$

$$H_1: \text{At least one } \beta_i \neq 0$$

If the calculated F-statistic is significant (p-value < 0.05), the null hypothesis is rejected. This indicates that CSR disclosure, political connection, and the control variables (leverage and ROA) collectively influence corporate tax avoidance behavior among Indonesia's mining companies. A significant F-test result confirms that the model is statistically valid and capable of explaining variations in corporate tax avoidance.

3. Coefficient of Determination (R^2 and Adjusted R^2)

The coefficient of determination (R^2) measures the proportion of variation in the dependent variable (corporate tax avoidance) that can be explained by the set of independent variables (CSR Disclosure and Political Connection).

Gujarati & Porter (2009) defines R^2 as an indicator of the model's wellness in its regression line approximates the actual data points. A higher Adjusted R^2 value indicates that CSR disclosure, political connection, and the control variables explain a substantial portion of the variation in corporate tax avoidance without overstating the model's goodness of fit.

V. CONCLUSION, LIMITATION, AND RECOMMENDATION

5.1. Conclusion

Based on the results of this study that examines the effect of CSR disclosure and political connections on tax avoidance in Indonesian mining companies from 2020–2024, several conclusions can be drawn. From the simultaneous test, the independent variables in this model affect tax avoidance when considered together. However, when each variable is tested separately, the results show that neither CSR disclosure nor political connection has a statistically significant effect on tax avoidance.

More specifically, the insignificant effect of CSR disclosure indicates that the level of CSR disclosure measured using the GRI Index does not explain differences in tax avoidance among the sampled firms. As for the analysis of political connection on tax avoidance, this study suggests that having political ties within the company does not automatically lead to higher or lower tax avoidance. However, in terms of control variables, leverage is the only control variable that appears to have a stronger relationship meanwhile ROA also does not show a significant effect on tax avoidance.

The study also shows that the explanatory power of the model is limited as the model explain only about 10.22% of the variation of this study's independent variables in tax avoidance. This suggests that tax avoidance in mining companies is likely affected by various other determinants not captured in this study, such as firm characteristics, governance mechanisms not included in the model, the quality of monitoring, and broader regulatory and tax-policy environments.

Empirically, this study provides evidence regarding the determinants of tax avoidance in Indonesian mining companies. The findings indicate that CSR disclosure and political connection have no significant effect on tax avoidance, meaning that CSR disclosure and political ties do not necessarily affect directly into firms' fiscal behavior.

5.2. Limitation

This research has several limitations:

1. This study focuses only on two independent variables, which are CSR disclosure and political connection. Factors that may affected tax avoidance practices such as corporate governance, audit quality, and many more are not included in the model.

5.3. Recommendation

Based on the result of this research, there are several recommendations that could be proposed:

1. Future research could investigate more on other variables such as family firms, institutional ownership, dual class ownership, government ownership, independent directors, directors' religion, board size, women directors, auditor financial expertise, big four auditor quality, independent auditors, and others that may able to explained better regarding tax avoidance practices.
2. Future research could also investigate further on other sector/industries other than mining companies to seek more result in exploring factors of tax avoidance.
3. Future research could use the newest specific GRI index for mining companies to investigate deeper into mining companies' CSR disclosure level. Future reserach could also try using different proxy for tax avoidance such as CETR, BTD, or others to explore more regarding tax avoidance practices.

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