ABSTRACT

This study explores the moderating effect of institutional quality on the relationship between corporate social responsibility (CSR) and tax avoidance. By applying the stakeholder theory and stakeholder salience theory, the first hypothesis proposes a positive relationship between CSR and tax avoidance. Furthermore, the second hypothesis expects that the poorer the institutional quality a country has, the stronger the positive relationship between CSR and tax avoidance. Based on the fixed effects regression model on a sample of 987 firm-year observations in the East Asia region from 2017 to 2021, the findings suggest the contrary. The evidence suggests that poorer institutional quality strengthens the negative relationship between CSR and tax avoidance, while stronger institutional quality weakens this relationship. The result is significant when both short-term tax avoidance measurements of cash-effective tax rate (*CETR*) and GAAP effective tax rate (*GETR*), while it is insignificant when five-year cash effective tax rate (*LCETR*) is applied. The negative relationship suggest that East Asian firms regard tax avoidance practices goes against the practice of CSR. Therefore, the improvement of institutional quality needs to be complemented by the enforcement of CSR regulation by policymakers and governments to reduce the likelihood of firms engaging in tax avoidance.

Keywords: Corporate Social Responsibility, Tax Avoidance, Effective Tax Rate, Institutional Quality, National Governance