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DOES ESG PERFORMANCE INFLUENCE CORPORATE TAX AVOIDANCE? AN EMPIRICAL ANALYSIS

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Abstract
This study aims to analyze the relationship between environmental, social, and governance (ESG) and tax avoidance in non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024. This study employed a quantitative approach with secondary data, using a sample of 25 companies obtained through purposive sampling and simple regression tests. The results indicate that an increase in a company's ESG value is associated with a decrease in tax avoidance practices. These findings are expected to help investors make informed decisions and encourage companies to integrate ESG into their business activities to minimize the risk of tax avoidance.

Keywords: Environmental, Social, Governance, Tax Avoidance

1. Introduction

Taxes are very important for the Indonesian economy because they are one of the biggest sources of state income. The money collected in taxes is used for different things, like funding projects to improve the country, helping the government run its programs and services, managing the economy, and keeping prices from going up too fast. According to the General Provisions and Tax Procedures Law (Undang-Undang Ketentuan Umum Tata Cara Perpajakan), taxes are mandatory and coercive financial obligations that must be met by individuals and entities. Taxes can reduce the amount of money a corporate entity has available after expenses, which can motivate companies to avoid paying taxes. Tax avoidance is when taxpayers do things to reduce or avoid their tax obligations so that they pay less tax (Manurung, 2020). A World Bank survey in a report called "Indonesia Economic Prospect, December 2024" said that 26% of taxpayers do not pay all their taxes. It also says that around 52% of taxpayers say it's easy to avoid paying taxes (Wildan, 2024).

Right now, people around the world, including in Indonesia, are talking about the environment, social issues, and governance, or ESG. ESG is a set of standards used by companies to measure how they are implementing investment practices. These standards have three main aspects: environmental, social, and governance. When companies implement ESG in their business activities, it shows that they are integrating and implementing policies related to the three main aspects that support sustainability activities. ESG is a way to measure the impact of sustainability and corporate ethics in making investment decisions using three main factors. This means that the company's ESG assessment is very important to be able to evaluate ESG practices in its business operations. Right now, 91% of companies in Indonesia know how important it is to follow ESG standards and are already working on environmental, social, and governance management (Yulianto, 2025). ESG isn't required for all types of companies in Indonesia yet, but some types of companies have to implement ESG in their business activities.

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These include issuers, public companies, and financial institutions regulated in POJK No. 51/POJK.03/2017 and SEOJK No. 16/2021.

Companies that care about the environment, society, and good governance will consider all parts of their business operations according to the rules that apply to them. This is done to make sure that business operations follow the laws that apply to them, help the environment, and help the country. Several companies have submitted ESG reports as a sign of their commitment to business practices, regulatory compliance, and social and environmental responsibility. One way a company shows that it follows the rules is by paying its taxes. Companies that are worried about this issue tend to reduce their use of tax avoidance practices. However, many companies in Indonesia are not yet using ESG standards in their business activities. Achmad Solichin Lutfiyanto, the Director of Compliance at PT Bank Rakyat Indonesia (Persero) Tbk, says that companies in Indonesia are not applying ESG-based company standards evenly. Many companies are still focusing only on environmental aspects (Amalia, 2024).

Studies have shown that ESG is important for how companies operate and has a big impact on tax avoidance. Companies that care about the environment, society, and good governance are committed to preventing tax avoidance. ESG also reduces tax avoidance practices by lowering costs, improving the quality of internal avoidance, and increasing external oversight (Elgharbawy & Aladwey, 2025; Isnandi, 2024; Jiang et al., 2024; Silvera et al., 2024). In 2023, PT Solusi Bangun Indonesia Tbk. performed well in terms of ESG. From an environmental perspective, the company obtained green PROPER status and reduced emissions. From a social perspective, the company received the SDGs (Platinum) award for social reclamation and new energy innovation. In terms of governance, the company's Sustainability Report was transparent and aligned with the Global Reporting Index (sustainabilityreports.com). In 2023, PT Solusi Bangun Indonesia Tbk received an award from the Cileungsi Tax Office as the taxpayer with the largest revenue (pajak.go.id). However, other studies have shown that ESG does not affect tax avoidance. When companies implement ESG, it doesn't encourage them to avoid tax avoidance. Good corporate governance does not guarantee that companies will avoid tax avoidance practices (Anggraini & Wahyudi, 2022; Gunawan, 2017; Wardani & Hidayati, 2025).

The aim of this study is to understand how the presence of Environmental, Social, and Governance (ESG) companies affects the behavior of companies that avoid taxes. This study looks at companies that report how they are implementing environmental, social, and governance (ESG) practices. The results of this study should provide new insights into environmental, social, and governance (ESG) practices among non-financial companies in Indonesia and their relationship with tax avoidance behavior. This study also helps us understand better how companies' promises to be environmentally friendly affect their taxes. This study should help investors understand how environmental, social, and governance (ESG) practices affect tax avoidance. It should help investors see how companies' commitment to good ESG practices can affect their tax compliance and the risks of tax avoidance. This will help investors make better investment decisions.

2. Theoretical Background

2.1 Agency Theory and Tax Avoidance

This research draws on two key theories: agency theory, which explains tax avoidance behavior, and legitimacy theory, which motivates companies to improve their performance in environmental, social, and governance (ESG) areas. According to Agency

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Theory, the contractual relationship between company owners (principals) and management (agents) is discussed in the context of managing a business (Jensen & Meckling, 1976). Company owners can grant management the authority and trust necessary to develop the best strategies for company growth and sustainability. The separation of ownership and management gives rise to differences in interests, causing all parties to optimize their respective profits and welfare.

2.2 Tax Avoidance Practices

This theory explains how agents may avoid taxes. Tax avoidance is defined as the attempt by taxpayers to minimize or avoid their tax obligations by exploiting loopholes, such as engineering debt, providing unfair benefits to employees, providing unfair grants, and using inappropriate tax rates. According to Dyreng et al. (2008), tax avoidance encompasses any action that reduces a company's tax liability. One reason companies engage in tax avoidance practices is their perception of taxes as a burden that reduces net profits.

2.3 Environmental, Social, and Governance (ESG)

The term "Environmental, Social, & Governance" (ESG) was first introduced by the United Nations Global Compact in 2004. ESG is an assessment framework that evaluates a company's impact on the environment, social contributions, and corporate governance. Implementing ESG standards demonstrates a company's commitment to environmental, social, and governance issues. ESG is also used as an indicator of ethics and integrity in investment decisions referring to three central factors: environmental, social, and governance. Investors tend to be more interested in investing in companies that have integrated ESG standards into their business operations.

2.4 Legitimacy Theory and ESG

Legitimacy theory states that companies maintain their existence by aligning their business activities with prevailing societal values and norms. According to Dowling & Pfeffer (1975), this theory is based on an interconnected social contract between companies and society, ensuring that all company activities align with societal values. The interaction between companies and society is the main focus of this theory. According to this theory, companies, as members of society, must ensure that their business operations align with societal values and norms. Legitimacy theory emphasizes the need for management to align individuals, society, and the government so companies can carry out their business activities in accordance with societal interests and maintain public trust.

Based on this legitimacy theory, companies must have values that align with the social values and norms of society and the state. Companies must pay attention to the impact their business activities have on society and the state. One-way companies apply the legitimacy theory is by implementing and measuring ESG standards in their business activities. Management must be accountable to society, investors, the government, and the company itself. Therefore, management must pay attention to and take responsibility for every decision made to carry out business operations based on the interests of all parties. One consequence of companies applying ESG standards to their business processes is that they tend to avoid risky activities. ESG focuses on transparency, ethics, and responsibility, encouraging companies to manage their businesses transparently and responsibly while avoiding tax avoidance practices. Consequently, companies that implement ESG standards in their business processes tend to avoid tax avoidance practices.

2.5 Hypothesis Development

Previous research by Krisna & Juliarto (2024) and Sadjiarto et al. (2024) found that environmental, social, and governance (ESG) factors negatively impact tax avoidance. These findings demonstrate that companies with higher ESG scores engage in fewer tax avoidance practices and do not consider tax avoidance a primary strategy for attracting investors. Companies with high ESG scores demonstrate environmental and social responsibility and transparency in their business operations (Sanulika & Oktiani, 2024). According to Hanifia & Lastanti (2025), companies that effectively implement ESG strive to act in accordance with societal values and norms, including transparency and tax compliance. A company's involvement in ESG indicates that it is building a good corporate reputation by avoiding tax avoidance practices, as such activities can damage a company's reputation (Lee et al., 2021).

H1: ESG has an impact on tax avoidance.

3. Methods

This study employs a quantitative approach with hypothesis testing to analyze the impact of Environmental, Social, and Governance (ESG) factors on tax avoidance. This study uses secondary data from all non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024, and simple regression is used for the data analysis. The sample was selected using purposive sampling with the following criteria:

1) Companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024.
2) Companies that have financial reports for 2021–2024 in the Refinitiv Eikon software from Thomson Reuters.
3) Companies that declared profits in Rupiah for 2021-2024.
4) Companies that have declared ESG values for 2021-2024 in the Refinitiv Eikon software from Thomson Reuters.

The operational definition of variables is as follows:

1) Independent Variable
   The independent variable in this study is environmental, social, and governance (ESG). ESG is a sustainable framework that helps businesses balance generating investor returns with having a positive environmental and social impact. The ESG value obtained from Refinitiv is used to measure ESG variables. Companies that implement ESG effectively will have a deeper understanding of long-term strategic issues. Thus, ESG information can help predict accurate and realistic analytical thinking (Jeanice & Kim, 2023). Companies with high ESG values are considered to perform better in environmental, social, and governance aspects and are able to efficiently manage ESG-related risks (Yulianto, 2025). Transparent financial reporting and strong performance in environmental, social, and governance aspects reflect a company's high ESG value (Iqbal, 2024).
2) Dependent Variable
   The dependent variable in this study is tax avoidance. Tax avoidance is the effort made by taxpayers to reduce their tax burden by exploiting loopholes. This study measures tax avoidance using the effective tax ratio (ETR) formula. The ETR is calculated by dividing a company's total tax burden by its pre-tax profit (Dyreng et al., 2008). Because the ETR reflects a company's total tax burden, it can be used to

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evaluate the company's level of tax liability. A decreasing ETR indicates that a company is making greater efforts to avoid taxes (Octavia & Sari, 2022).

4. Results And Discussion

Table 1. Research Sample

No	Criteria	Total
1	Companies listed on the IDX that reported ESG values during the 2021-2024 Period.	69
2	Companies that did not consistently report ESG values during the 2021-2024 period.	(31)
3	Companies that did not make a profit from 2021 to 2024.	(13)
4	Number of companies sampled	25

As shown in Figure 1, the average ESG score has increased consistently every year from 2021 to 2024. This increase indicates that companies are paying more attention to and committing more resources to the implementation of ESG principles, as well as integrating ESG values into their business activities. Figure 2 shows that the average ETR increased every year, except for a slight decrease in 2023. The increase in 2024 indicates that more companies are avoiding tax avoidance practices.

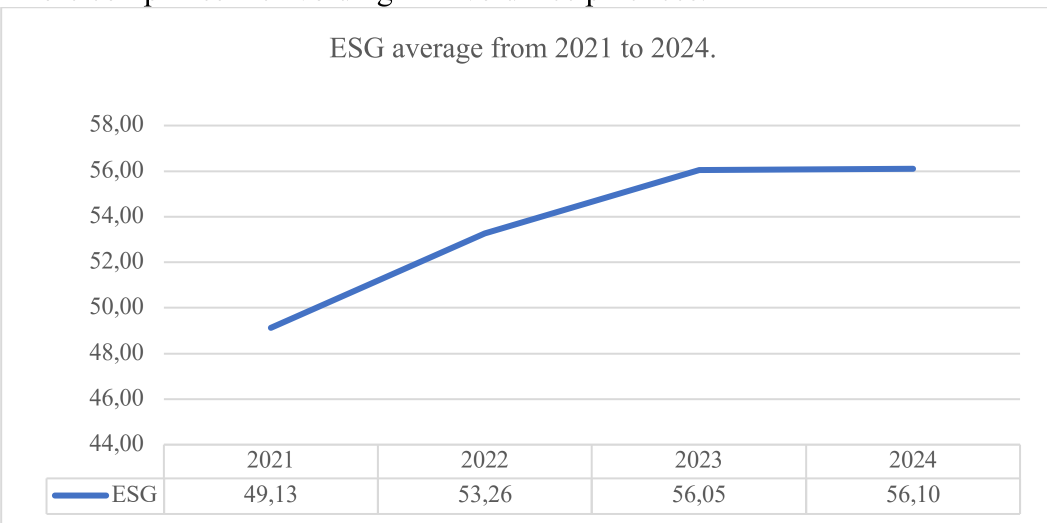

Figure 1. ESG average from 2021-2024

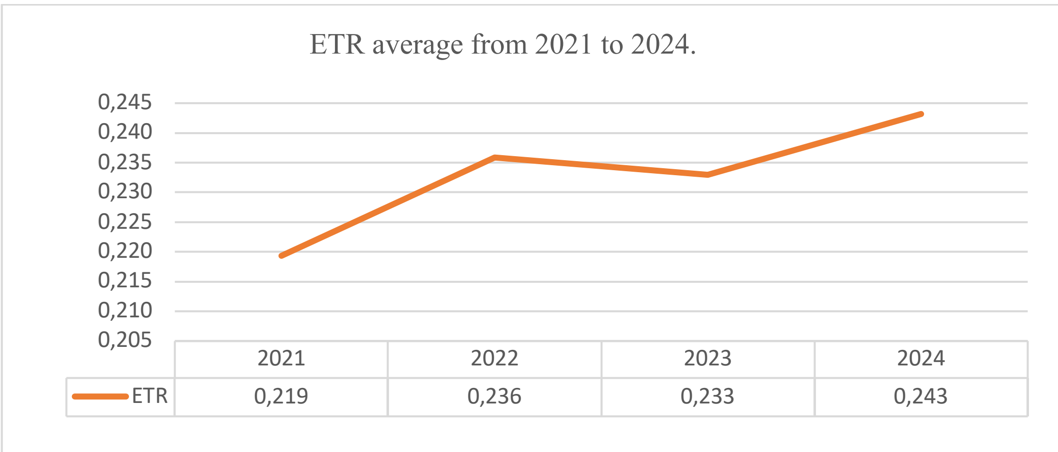

Figure 2. ETR average from 2021-2024

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We conducted a classical assumption test, and the data in this study are free from classical problems. Table 2 shows the results of the goodness fit model's test.

Table 2. ANOVA Test Result

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.043	1	0.043	4.800	0.031[b]
Residual	0.880	98	0.009		
Total	0.923	99			

a. Dependent Variable: NEW_ETR
b. Predictors: (Constant), ESG
Source: EViews 12 Output (2024)

Based on the test results table above, it can be seen that the significant value is 0.031, which is less than 0.05. Therefore, it can be concluded that the regression model is a good fit and that the ESG variable can predict the tax avoidance variable. While, the results of the simple regression test are presented in Table 3.

Table 3. Simple Regression Test Results

Variable	Coefficient (β)	t-Statistic	Sig. (p-value)	Conclusion	F-Statistic	Sig. F	R^2
ESG	-0.276	-2.185	0.031	Significant	4.775	0.031	0.082
Note: The coefficient (β) of ESG is -0.276 with a significance value of 0.031 ($p < 0.05$), indicating that ESG has a significant negative effect on tax avoidance. The negative coefficient shows that higher ESG implementation reduces the likelihood of tax avoidance practices. The model summary also demonstrates that the regression model is fit, as indicated by the F-statistic of 4.775 ($p = 0.031$). The coefficient of determination ($R^2 = 0.082$) suggests that ESG explains 8.2% of the variation in tax avoidance.							

Source: EViews 12 Output (2024)

Based on the test results, the hypothesis that ESG influences tax avoidance is accepted, as the value of 0.031 is less than 0.05. The results of this study indicate a negative relationship between ESG and tax avoidance practices. The higher a company's ESG value, the less it avoids taxes. Companies with high ESG values indicate that they have successfully implemented ESG standards, ensuring that none of their business operations violate applicable ethics. Therefore, these companies tend to avoid risky activities, such as tax avoidance.

Governance is a key aspect related to tax avoidance. Companies with responsible management and good governance implementation tend to avoid tax avoidance practices. These companies are also more transparent in their financial reports, demonstrating their commitment to and implementation of ESG in their business activities.

From a social perspective, companies that avoid tax avoidance practices are considered legitimate under legitimacy theory, which emphasizes a corporation's responsibility to society and the state. Tax avoidance is considered unethical and a violation of social norms. Consequently, companies that implement Environmental, Social, and Governance (ESG) standards in their business operations tend to avoid or reject tax avoidance practices. Furthermore, these companies demonstrate awareness of and concern for the social impacts of their operations on society, taking responsibility for their decisions regarding tax policy adoption.

While environmental aspects are not directly related to tax avoidance, companies demonstrate integrity in their business activities by committing to environmental aspects.

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They utilize government policies, including tax incentives, legally and do not exploit loopholes for tax avoidance. Companies that avoid tax avoidance practices as part of ESG implementation provide opportunities to increase investor confidence. Investors perceive these companies as being better able to maintain their reputation and image by conducting business transparently and ethically.

This finding aligns with the research of Hidayati & Zuhroh (2023) and Monica & Ajimat (2024), which suggests that good ESG implementation can discourage tax avoidance. This is influenced by demands from the community, government, and investors, who encourage companies to behave more ethically and transparently. Additionally, companies can increase trust, build corporate reputation, and maintain a positive image. Companies with high ESG values state their values and responsibilities to stakeholders. Additionally, a company's commitment to ESG encourages transparency with the community and state through corporate tax compliance (Teja, 2024). Indudewi (2024) explains that ESG negatively influences tax avoidance. ESG implementation in companies demonstrates a commitment to long-term investment sustainability, encouraging management to avoid risks, including those caused by tax avoidance.

5. Conclusion

This study aims to analyze the relationship between environmental, social, and governance (ESG) factors and tax avoidance practices. The results reveal that ESG has a significant influence on tax avoidance. Companies that successfully implement ESG standards and have high ESG scores are more likely to avoid tax avoidance practices. ESG encourages companies to be responsible to the community, investors, and the government, leading to greater transparency and ethical behavior in all their operational decisions.

One limitation of this study is the small data sample, as many companies have not yet fully reported on ESG standards. Future researchers are advised to expand the sample size to include more comprehensive data, which would allow for a more accurate representation of companies' tax avoidance practices.

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