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An Exploration of Corporate Tax Avoidance from the Perspective of Environmental, Social, and Governance (ESG) Performance

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ABSTRACT

This research aims to analyze the influence of environmental, social, and governance (ESG) performance on corporate tax avoidance. While companies may engage in tax avoidance to minimize their tax burden, they are also expected to demonstrate accountability to stakeholders, including through the disclosure of their environmental, social, and governance performance. This study uses companies listed by the Bumi Global Karbon (BGK) Foundation as the research objects, with a total of 263 firm-year observations for the 2020–2023 period. The data analysis technique used is static panel data regression, with the random effects model selected as the best-fit model. The results of the study show that environmental performance increases tax avoidance practices, while companies with strong governance performance and aggregate ESG performance are less likely to engage in tax avoidance. This study provides novelty by showing that each ESG dimension has a different influence on tax avoidance practices. This finding suggests that corporate sustainability commitments do not always result in a decrease in tax avoidance, especially in the environmental dimension. The results of this study enrich the existing literature on the relationship between ESG and tax avoidance, especially in the context of companies listed in the BGK Foundation index.

Keywords: *Tax Avoidance, Environmental Performance, Social Performance, Governance Performance.*

INTRODUCTION

Tax avoidance has become a widespread phenomenon across various countries (Khan & Siddiqui, 2021). Meanwhile, tax payments constitute a vital source of government revenue, contributing to economic growth (Jiang et al., 2024) and the enhancement of social welfare (Sukowidyanti et al., 2024). Corporate tax avoidance is commonly conceptualized as efforts to minimize the amount of explicit taxes owed (Hanlon & Heitzman, 2010), the boundary between legal and illegal is not clear and can only be known after it occurs and is determined by the authority (B. B. Lee et al., 2015). Therefore, forms of tax avoidance can include tax management, tax planning, tax aggressiveness, tax sheltering, tax evasion (Kovermann & Velte, 2019).

Corporate taxes can be viewed as a form of social responsibility because they have an impact on society at large. Therefore, when paying taxes, companies must consider ethics, society, and other stakeholders (Lanis & Richardson, 2012). Corporate tax can be seen as a form of social responsibility because it has an impact on large society, so that in paying taxes the company must consider ethics, society, and stakeholders Costs and benefits of tax avoidance can be received by stakeholders in different ways. Some stakeholders will benefit from tax avoidance, others will have to bear the costs (Hendrik et al., 2021). Tax payments make a positive contribution to the welfare of society. In contrast, tax avoidance is considered socially irresponsible because the reduction in tax revenue has the potential to cause irreversible losses to society (Sukowidyanti et al., 2024).

From a social perspective, corporate taxation plays a central role in the relationship between business and society, as it reflects not only compliance with legal obligations, but also a broader commitment by companies to responsible behavior and sustainability (Mitroulia et al., 2025). Therefore, tax avoidance can be considered a socially irresponsible practice (Zeng, 2019). Traditionally, corporate tax avoidance has been viewed as a form of wealth transfer from the government to companies, which should increase company value (X. Chen et al., 2014; Nebie & Cheng, 2023). However, tax avoidance is not without costs. Direct costs include implementation costs, loss of reputation, potential sanctions, and other factors that cause tax avoidance to reduce company value (Ha et al., 2021).

In recent years, Environmental, Social, and Governance (ESG) principles have become an important focus in research on tax avoidance. ESG reflects a company's commitment to environmental responsibility, social concern, and good corporate governance. As attention to sustainability issues increases, ESG disclosures are becoming increasingly relevant to investors, regulators and other stakeholders (Hariyanto & Ghozali, 2024). Environmental, Social, and Governance (ESG) criteria have become an important paradigm in assessing the sustainability and ethics of investments, businesses, and policies, with increased ESG reporting driven by the awareness that companies play a role in pollution and must therefore help tackle issues of climate change and social inequality (Thi et al., 2025). ESG is a way to measure the sustainability and ethical impact of companies in investment decision-making using these three main factors (Angelina & Carolina, 2025).

Companies with high ESG performance tend to avoid aggressive tax avoidance practices because such actions can damage reputation and public trust (Lanis & Richardson, 2015). This is in line with the view that sustainability-oriented companies are more likely to comply with their fiscal obligations as part of corporate social responsibility. Some research results show that companies with high ESG performance are less involved in tax avoidance (Al-Hashfi, 2024; Amarna et al., 2025; Elgharabawy & Aladwey, 2025; Thi et al., 2025). Different research results are shown by Duong & Huang (2022; Yanto et al. (2025) which shows that ESG performance has a positive influence on corporate tax avoidance. In line with the results of research Lee (2024) which shows that the ESG dimension has a positive influence on tax avoidance. Tax avoidance practices can harm the value of the company and damage relationships with stakeholders, so companies can use ESG practices to divert attention from these unethical actions (Amarna et al., 2025).

Furthermore, this study seeks to re-examine the effect of ESG performance on corporate tax avoidance by using companies listed in the Bumi Global Karbon (BGK) Foundation. The BGK Foundation develops the Sustainability Composite Stock Price Index (IHSGK) based on the level of transparency in corporate disclosure presented in their Sustainability Reports. The IHSGK includes firms that have prepared Sustainability Reports in accordance with the Global Reporting Initiative (GRI) standards. There are 33 indicators used in the calculation of the ESG Index according to the BGK Foundation.

The practices of ESG and corporate tax avoidance have become important issues in business ethics because, although the ESG framework is intended to enhance transparency, ethical behavior, and long-term sustainability, its effectiveness in preventing unethical financial practices, including tax avoidance, remains a matter of debate (Thi et al., 2025).

Stakeholder Theory

According to stakeholder theory, organizations have responsibilities to various stakeholders, including the community, employees, and the environment (Murwaningsari, 2024). In line with this perspective, companies are expected to adopt long-term goals in implementing ESG practices. Thus, rather than focusing solely on short-term financial gains, companies recognize that sustainable and responsible practices can yield better results for all stakeholders in the long run. Thus, ESG aims not only to improve the company's image, but also to improve social welfare and encourage more sustainable business activities (Ekawati, 2025).

Contrary to conventional theory, which centers on shareholders and focuses on profit maximization, Stakeholder Theory emphasizes the importance of aligning the various interests of parties affected by corporate actions, so that organizations need to implement policies that are in line with ethical norms, promote transparency, and address social and environmental issues in order to build and maintain stakeholder trust (Thi et al., 2025). And in this case, taxes occupy an important position (Hill & Jones, 1992).

Tax compliance is a logical and natural way for companies to build and strengthen positive relationships with stakeholders (Mohanadas et al., 2020). Stakeholders view tax avoidance as something that contradicts their expectations of appropriate corporate behavior, thus putting the sustainability and long-term survival of companies that engage in tax avoidance at risk (Lanis & Richardson, 2015). Thus, stakeholder theory offers the perspective that tax avoidance is not merely a matter of financial efficiency, but also part of a company's efforts to fulfill its obligations to various parties involved in and affected by the company's operations (Chen et al., 2023). Tax compliance is seen as an integral part of a company's commitment to social sustainability and long-term reputation.

Tax Avoidance

Tax avoidance is a deliberate attempt by companies to reduce their tax liabilities through legal or illegal means or strategies. Because the line between legal and illegal actions is unclear, the legality of a company's tax position is determined by the competent authority after the event. This means that there are no clear examples of legal or illegal tax avoidance (Lee et al., 2015). Tang (2017) defines corporate tax avoidance as any activity that reduces a company's tax burden relative to the statutory tax rate (STR), whether this activity is legal or illegal under tax rules or not.

Some companies engage in tax avoidance to reduce their tax liabilities and increase distributable wealth and to generate cash flow that can be used for investment, which ultimately increases the value of the company (Alkurdi & Mardini, 2020). Companies that engage in tax avoidance rarely make an open admission of their aggressive tax practices (Mohanadas et al., 2020). Such recognition would alienate them from other compliant taxpayers in society and undermine their social status and brand legitimacy (Sikka, 2010). Companies' avoidance in publicizing their aggressive tax practices indicates their inherent awareness that such behavior is against expected social standards. Thus, companies that seek to maintain their legitimacy in society tend to be less tax aggressive (Lanis & Richardson, 2012).

Economic. Social and Governance (ESG) Performance

Environmental, social, and governance (ESG) is a framework used by investors and stakeholders to evaluate corporate sustainability (Lee, 2024). ESG disclosure is associated with various positive outcomes for companies, such as improved reputation, operational efficiency, risk management, and access to financing, as well as the perception that companies are more socially responsible which can increase trust, customer loyalty, and competitive advantage (Yuan et al., 2025). ESG includes environmental, social, and corporate governance initiatives that are seen as a measure of business ethics as they relate to social activism or environmental protection driven by corporate social responsibility (Duong & Huang, 2022).

Stakeholder Theory recognizes the possibility of conflict between stakeholder groups, for example when investors want optimal financial returns while regulators and society demand accountability so that companies can implement ESG disclosure as a strategy to reduce these conflicts by building trust and legitimacy, while addressing issues of unethical practices such as tax avoidance (Thi et al., 2025).

According to Jiang et al. (2024) ESG has an influence on tax avoidance for three reasons. First, ESG performance can reduce funding constraints thereby suppressing tax avoidance behavior. This is because information and reputation derived from ESG performance help reduce information asymmetry between companies and stakeholders, while increasing stakeholder trust, support, and acceptance through a responsible corporate image (Kim et al., 2018). Second, ESG performance, especially in the governance dimension, improves the quality of internal control and reduces tax avoidance by providing additional non-financial information that reduces information asymmetry, thereby increasing transparency, improving the internal operating environment, and strengthening internal communication and monitoring mechanisms. Third, ESG performance increases public attention and strengthens external supervision, thereby inhibiting corporate tax avoidance. Analyst coverage acts as an important mechanism in corporate governance by increasing public awareness of tax-aggressive behavior, reducing information asymmetry, and suppressing managerial opportunism through increased reputational costs and decreased profits from such practices.

Previous research results show that companies with high ESG performance will avoid tax avoidance behavior (Al-Hashfi, 2024; Amarna et al., 2025; Elgharabawy & Aladwey, 2025; Thi et al., 2025). Based on this description, the hypotheses in this study are

Hypothesis 1: Environmental performance has a negative effect on tax avoidance

Hypothesis 2. Social performance has a negative effect on tax avoidance

Hypothesis 3. Governance performance has a negative effect on tax avoidance

Hypothesis 4. ESG performance has a negative effect on tax avoidance.

METHOD

Data

The data in this study includes companies listed on the BGK Foundation from 2020 to 2023. The sample consists of (1) non-financial companies with a December fiscal year-end, (2) companies whose financial statements are obtained from the Osiris database, and (3) companies that have an ESG score from the BGK Foundation. Companies with incomplete data, companies that have negative profits and tax benefits and companies with ETR values less than 0 and more than 1 are excluded from the sample,

Table 1. Observation Sample selection process

Company-year observations of manufacturing companies with December fiscal year-end for the period 2016-2020	330
Less	
Incomplete variable data	5
Companies that have negative profits and tax refund	54
Companies with ETR values greater than 1	3
Final number of company-year observations	263

Measurement Variable

Variable	Definition	Operational
Dependent variable		
Tax Avoidance (ETR)	Tax avoidance is proxied by Effective Tax Rate (ETR). ETR is calculated by comparing (scaling) the tax burden to pre-tax income (Alomair et al., 2025) The ETR measurement in this study uses adjustments as in the study Chytis et al. (2020): ETR (a) is 0 for companies that receive tax refunds, (b) is 100% for companies that have positive taxes but negative or zero income, and (c) is limited in the range between 0 and 100%. A higher ETR indicates a lower level of tax avoidance, and vice versa.	$ETR = \frac{tax\ expense}{pre - tax\ income}$
Independent variable		
Environmental Performance (ENV)	Environmental performance is measured by a score published by the BGK Foundation with a value ratio of 0 percent for companies that disclose the minimum amount of ESG data to 100 percent for the maximum amount of disclosure, where the higher the score, the better the company's environmental performance.	ENV= Percentage of environmental disclosure values on the BGK Foundation website
Social Performance (SOC)	Social performance is measured by a score published by the BGK Foundation with a value ratio of 0 percent for companies that disclose the minimum amount of ESG data to 100 percent for the maximum amount of disclosure, where the higher the score, the better the company's Social performance.	SOC= Percentage of social disclosure values on the BGK Foundation website
Governance Performance (GOV)	Governance performance is measured by a score published by the BGK Foundation with a value ratio of 0 percent for companies that disclose the minimum amount of ESG data to 100 percent for the maximum amount of disclosure, where the higher the score, the better the company's governance performance.	GOV= Percentage of corporate governance disclosure values on the BGK Foundation website
ESG Performance (ESG)	ESG performance is measured by combining the three disclosure dimensions: environmental, social, and governance, and then calculating the average score	$ESG = \frac{ENV + SOC + GOV}{3}$
Control Variable		

Firm Performance (ROA)	Firm performance proxied by ROA. ROA reflect the performance of the firm to gain profit	$ROA = \frac{Net\ Income}{Total\ Asset}$
Firm Size (SIZE)	Firm Size reflecting the size of company by its asset.	Firm size = Total Asset

Research Model

There are 2 research model

Model 1:

$$ETR_{it} = \alpha + \beta_1 ENV_{it} + \beta_2 SOC_{it} + \beta_3 GOV_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \varepsilon \quad \text{...........................(1)}$$

Model 2:

$$ETR = \alpha + \beta_1 ESG_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \varepsilon \quad \text{...(2)}$$

ETR is tax avoidance; ENV = environmental performance; SOC = social performance; GOV = governance performance; EGG = ESG performance; ROA = financial performance; SIZE = company size. Model 1 in this study is used to answer Hypotheses 1, 2 and 3 in this study. While hypothesis 4 will be answered by model 2. The data analysis technique in this study is to use unbalanced panel data regression.

RESULT AND DISCUSSION

Descriptive Statistics

Table 2 in this study shows descriptive statistics in this study. Descriptive statistics in this study consist of the maximum value, minimum value, average value, median value and standard deviation of each research variable.

Table 2. Variable Descriptive Statistics

	Max	Min	Mean	Median	Std. Dev.	n
ETR	0.708	0.000	0.228350	0.223000	0.133744	263
ENV	0.990	0.030	36.84791	0.29	25.73900	263
SOC	0.950	0.040	33.95057	0.26	23.09823	263
GOV	0.980	0.040	34.10266	0.27	20.62980	263
ESG	0.960	0.050	34.98099	0.27	22.53673	263
ROA	0.599000	-0.002	0.085057	0.057000	0.085274	263
SIZE	8,900,000,000	9,685,910	2,520,000,000	1,270,000,000	4,100,000,000	263

Note: ETR is the level of tax avoidance; ENV is environmental performance calculated from environmental disclosure score; SOC is social performance measured by social disclosure score; GOV is governance performance measured from governance disclosure score; ESG is ESG performance is the aggregate value of environmental, social and governance scores; ROA is financial performance measured from net income divided by total assets; SIZE is company size measured from total assets.

Descriptive statistics in table 2 show that the value of tax avoidance (ETR) has a maximum value of 0.708, indicating that the company reports its tax burden of 70.8% of its profit before tax. With a statutory corporate tax rate of 22%, it shows that the company reports a greater tax burden of 48.8%. The minimum ETR value of 0 indicates that the company does not charge tax expenses on its income statement. With an average value of 0.2283 while the standard deviation of 0.13374 shows that the data variation for ETR is low, the data tends to be homogeneous. Furthermore, data on environmental performance variables (ENV), social performance (SOC), governance performance (GOV) and ESG performance (ESG) have almost the same value. Indicating that the disclosures made by companies in the observation tend to be low with a value of less than 50%. The average value of ENV, SOC, GOV and ESG is below the standard deviation value, this indicates that the data is relatively consistent and not much different between companies.

Correlation Analysis

Furthermore, table 3 shows the results of Pearson correlation between variables.

Table 3. Correlation Matrix

	ETR	ENV	SOC	GOV	ESG	ROA	ASSET
ETR	1.000						
ENV	0.194	1.000					
SOC	0.199	0.913	1.000				
GOV	0.219	0.915	0.936	1.000			
ESG	0.208	0.972	0.975	0.973	1.000		
ROA	-0.143	0.017	-0.008	0.007	0.007	1.000	
SIZE	0.027	0.117	0.067	0.107	0.100	-0.004	1.000

Note: ETR is the level of tax avoidance; ENV is environmental performance; SOC is social performance; GOV is governance performance; ESG is ESG performance, ROA is financial performance; SIZE is company size.

Pearson correlation results show that some variables have very strong correlation values (SOC-ENV; GOV-ENV; ESG-ENV; GOV-SOC; ESG-SOC; ESG-GOV) but some others are very weak. This shows that ENV, SOC, GOV and ESG variables have a strong relationship, but the relationship is not a perfect correlation.

Regression Analysis

Table 4 presents the results of the regression analysis for the two models employed in this study. The table summarises the statistical relationships among the variables and provides evidence regarding the influence of ESG performance on corporate tax avoidance..

Table 4. Regression Result

Variabel	**(1) ETR**	**(2) ETR**
ENV	(-0,00132)	
	0,0987*	
SOC	(0,00021)	
	0,8429	
GOV	(0,00215)	
	0,0668*	
ESG	-	(0,00074)
		0,0515*
ROA	(-0,3429)	(-0,34738)
	0,0009**	0,0008**
SIZE	(2.00E-12)	(1,74E-12)
	0,4766	0,5327
Constanta	0.21704	0,22486
Observasi	263	263
adj R square	0.058043	0.04844

F-statistic	0.001034	0.001204

Notes: The symbols * and ** indicate that the results are significant at the 1% and 10% levels, respectively. ETR refers to the effective tax rate as a proxy for tax avoidance; ENV represents environmental performance; SOC represents social performance; GOV represents governance performance; ESG denotes overall ESG performance; ROA represents financial performance; and SIZE refers to firm size.

The results of the hypothesis testing for Hypothesis 1 are consistent with the findings of Dewanti & Rusydi (2025) and Ekawati (2025), which show that environmental performance has a negative effect on the ETR at a 10% significance level. This is indicated by the coefficient value of -0.00132 and a p-value of 0.0987, demonstrating that the higher the environmental performance, the lower the ETR. A lower ETR indicates a higher level of tax avoidance. Therefore, Hypothesis 1, which states that environmental performance has a negative effect on tax avoidance, is not supported.

Companies with strong corporate cultures generally encourage employees to act in accordance with the organisation's values, including social responsibility and sustainability. However, such companies may project an image of being socially responsible while simultaneously engaging in higher levels of tax aggressiveness as a form of cosmetic behavior (Zhang, 2025) and greenwashing practices (Dewanti & Rusydi, 2025). Furthermore, environmental disclosure requires additional costs, leading companies to seek cost savings through tax avoidance. Thus, environmental activities and tax payments can become substitutive; as environmental disclosure costs increase, firms tend to minimize tax payments through tax avoidance(Yanto et al., 2025). From the perspective of stakeholder theory, this tax avoidance behavior may generate benefits for shareholders in the form of higher reported profits.

Hypothesis 2 of the study states that social performance has a negative effect on tax avoidance. However, the regression results show a coefficient of 0.00021 with a p-value of 0.8429, which means that social performance has no effect on corporate tax avoidance. These results are in line with research (Ekawati, 2025; H. Lee, 2024; Yoon et al., 2021), where the results also show that social performance has no effect on tax avoidance. The results of this study indicate that in observations using companies in the BGK Foundation, environmental performance and governance performance are the factors that most influence corporate tax avoidance.

Hypothesis 3 in this study states that governaance performance has a negative effect on tax avoidance. The results of this study indicate that the coefficient of GOV is 0.00215 with a p-value of 0.0668 which indicates that GOV has a significant effect on ETR at the 10% significance level. These results indicate that the higher the governance performance, the higher the effective tax rate. The high ETR value indicates low corporate tax avoidance. Based on the regression results, it can be stated that hypothesis 3 in this study is supported.

Governance is an important aspect related to tax avoidance, where companies with responsible management and good governance practices tend to avoid tax avoidance practices and are more transparent in their financial reports (Angelina & Carolina, 2025). Companies with good management practices tend to have strong corporate governance, where supervisory mechanisms are strictly implemented to minimize the risk of tax avoidance practices. However, although management performance is often assessed based on the profits generated, tax avoidance can pose a reputational risk and threaten the sustainability of the company, so companies that are oriented towards good relations with stakeholders tend to avoid such practices (Dewanti & Rusydi, 2025)

Hypothesis 4 of this study is supported, seen from the regression results which show a coefficient value of 0.00074 with a p-value of 0.0515, which means that ESG performance has a positive effect on the ETR value at the 10% significance level. These results indicate that the better the ESG performance of a company, the higher the company's recognized tax burden will be, which indicates a low level of corporate tax avoidance.

The results of this study are in line with Elgharabawy & Aladwey (2025; Jiang et al. (2024); Sugimin et al. (2024); Yoon et al. (2021) which state that the level of ESG will reduce tax avoidance practices. ESG disclosure increases financial and non-financial transparency and decreases information asymmetry, making it more difficult for companies to implement complex tax avoidance schemes and more likely to adopt socially responsible tax policies. In addition, ESG disclosure ensures strong internal controls, ethical leadership, and oversight through independent boards and audit committees, thereby preventing aggressive practices such as profit shifting and the use of tax havens, while promoting long-term value creation (Yuan et al., 2025). In addition, ESG performance inhibits tax avoidance behavior by reducing corporate funding constraints, improving the quality of internal controls, and strengthening external supervision (Yoon et al., 2021).

Companies with high ESG values indicate that they have successfully implemented ESG standards so that no operational activities violate applicable ethics, so these companies tend to avoid risky activities such as tax avoidance (Angelina & Carolina, 2025). Higher ESG disclosure puts companies under greater scrutiny from stakeholders such as the government, investors, and the public, so companies are encouraged to align their tax practices with the ethical standards they promote (Yanto et al., 2025). Conducting tax aggressiveness will conflict with the responsible image displayed through sustainability reporting, potentially causing reputational damage and rejection from stakeholders.

The results of this study indicate that financial performance as measured by ROA has a positive influence on corporate tax avoidance. This means that companies that have high profitability will reduce the value of the corporate tax burden, so they are more involved in tax avoidance. The size of the company has no influence on tax avoidance.

CONCLUSION

Tax avoidance is any action taken by a company to reduce the amount of tax burden using both legal and illegal means. On the other hand, companies are required to act ethically. The company's operating ethics can be seen from ESG performance which consists of environmental performance, social performance and governance performance. From the perspective of stakeholder theory, companies are not only responsible to shareholders, but also to other stakeholders such as society and government. Tax avoidance actions will be contradictory to the demands of ethical companies. The results of this study indicate that environmental performance can increase corporate tax avoidance, while governance performance and ESG performance can reduce the level of corporate tax avoidance. Hassil research shows that social performance cannot affect corporate tax avoidance practices.

The results of this study provide important implications for companies, policy makers, and other stakeholders. First, the finding that environmental performance actually increases tax avoidance suggests that some companies may view environmental activities as a substitute for tax payment obligations. In other words, the costs incurred for environmental programs can be used as an excuse to reduce the tax burden, thus encouraging tax avoidance practices. Supervision by the authorities is needed so that there is no abuse related to environmental costs.

Second, the finding that overall governance performance and ESG performance can reduce tax avoidance confirms the importance of good, transparent corporate governance and effective internal control mechanisms in minimizing tax avoidance practices. This reinforces the urgency of companies to strengthen corporate governance which will ultimately improve the company's reputation in the eyes of the public.

Third, the ineffectiveness of social performance on tax avoidance indicates that corporate social activities tend to be a formality. Thus, companies need to direct their social activities so that they are not only symbolic, but based on values and accountability principles that are consistent with tax compliance.

Overall, this study implies that the success of ESG implementation in reducing tax avoidance is highly dependent on the quality of governance owned by the company, not just on environmental or social activities that are formalities. The government, investors, and the public need to be more critical in assessing the authenticity of ESG commitments, not just the appearance or external reporting of the company.

descriptive statistics in this study show that companies have a fairly low average value of disclosure both environmental performance, social performance and governance performance. it is necessary for the government to establish rules related to the company's obligation to disclose.

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