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EXAMINING THE ROLE OF ESG IN REDUCING TAX AVOIDANCE: THE MODERATING EFFECT OF TAX INCENTIVES

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ABSTRAK

Meningkatnya perhatian terhadap tanggung jawab perusahaan menegaskan pentingnya operasional bisnis yang berkelanjutan, termasuk melalui pemberian insentif perpajakan. Penelitian ini menguji pengaruh kinerja ESG terhadap praktik *tax avoidance* serta peran moderasi *tax incentive* dalam mendorong perilaku bisnis yang transparan dan berkelanjutan. Sampel mencakup perusahaan terdaftar di Bursa Efek Indonesia yang memiliki skor ESG dalam aset Thomson Reuters periode 2018–2022. Hasil menunjukkan bahwa aspek *environmental* dan *governance* tidak berpengaruh signifikan terhadap *tax avoidance*, sedangkan aspek *social* berpengaruh negatif signifikan. Analisis regresi moderasi mengindikasikan bahwa *tax incentive* memoderasi hubungan ESG pada aspek *environmental* dan *social* dengan *tax avoidance*. Temuan ini mengimplikasikan bahwa penguatan kebijakan insentif pajak berpotensi meningkatkan kepatuhan perusahaan serta mendorong praktik bisnis yang berkelanjutan dan transparan. Penelitian selanjutnya disarankan mengeksplorasi jenis insentif pajak yang efektif dalam mendorong pengembangan keberlanjutan secara substansial tanpa mendorong perilaku oportunistik.

Kata Kunci: ESG, penghindaran pajak, insentif pajak

ABSTRACT

The growing attention to corporate responsibility underscores the importance of sustainable business operations, including through incentivized tax systems. This study aims to examine the extent to which firms leverage ESG performance to engage in tax avoidance and how tax incentives promote transparent and sustainable business practices. The research objects are firms listed on the Indonesia Stock Exchange with Thomson Reuters ESG scores for the period 2018-2022. Statistical results indicate no significant relationship between ESG scores for the environmental and governance aspects and tax avoidance. However, there is a significant negative relationship between the social aspect and tax avoidance. Moderated Regression Analysis indicates that tax incentives moderate the ESG components for the environmental and social aspects in relation to tax avoidance. Future research could explore the types of tax incentives most effective at motivating firms to enhance sustainable development without engaging in fraudulent actions. These findings imply that strengthening tax incentive policies can improve corporate compliance and promote sustainable and transparent business behavior.

Keywords: ESG, tax avoidance, tax incentive

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1. Introduction

The investigation of tax avoidance remains a persistent concern for corporate value (Jarboui et al., 2020). *Tax avoidance has evolved into a sustainability issue and remains prevalent to this day* (Vijver et al., 2020), including in developing countries (Wier, 2020). Many developing countries are characterized by poor tax governance (Rixen, 2011), weak tax enforcement (Bimo et al., 2019), high levels of tax avoidance (Putri & Suryarini, 2017), and significant public revenue losses (Sunarsih et al., 2019). A study by Awaliah et al. (2022) found that nearly all corporate sectors listed on the Indonesia Stock Exchange (IDX) engage in tax avoidance practices. According to the Tax Justice Network report, Indonesia faces an annual loss of approximately USD 4.86 billion, equivalent to IDR 68.7 trillion (at an exchange rate of IDR 14,149 per USD), due to corporate tax avoidance practices, accounting for IDR 67.6 trillion of the total. The remaining IDR 1.1 trillion stems from individual taxpayers (Santoso, 2020).

Corporate tax behavior has evolved into a critical issue in global public policy. As corporate taxpayers, companies often exploit loopholes and inefficiencies in tax regulations to reduce their taxable income through tax avoidance strategies. Tax avoidance is a legal and secure strategy or practice undertaken by companies that operate within the bounds of applicable tax laws (Napitupulu et al., 2019). A study by Garg et al. (2022) suggests that corporate engagement in tax avoidance is driven by managerial self-interest, leading to opportunistic behavior. Dakhli (2022) views tax avoidance as a business scheme aimed at reducing the tax burden and increasing profits after tax. Abdelmoula et al. (2022) consider tax avoidance as a highly risky business decision, as it constitutes corporate actions that disregard social welfare and pose threats to corporate governance, employees, society, the environment, and other stakeholders.

Despite being considered a high-risk practice, many companies engage in tax avoidance using various strategies. For instance, studies by Abid & Dammak (2022), Anggraini & Wahyudi (2022), Dewi & Gunawan, 2019; and Pratiwi & Siregar (2019) found that a company's common strategy for tax avoidance involves leveraging issues related to sustainable development or the Sustainable Development Goals (SDGs). The promotion of SDGs has become a significant concern within companies as it can be used as a strategy to conceal opportunistic behavior and maintain legitimacy, thereby enhancing the company's image among stakeholders (Anggraini & Wahyudi, 2022).

The Environmental, Social, and Governance (ESG) standards provide the key parameters for achieving the SDGs (Harnesk, 2019; Mgbame et al., 2020). According to a study conducted by Xu et al. (2021), ESG standards can be conceptualized in three key aspects. First, ESG scores serve as an effective measure of a company's initiatives in ESG practices. Second, ESG ratings offer a more objective metric for assessing a company's sustainable performance. Third, recent developments in ESG studies have generated significant interest among investors, managers, and other stakeholders regarding the role of ESG management in emerging markets.

This phenomenon has attracted considerable academic interest, with numerous studies exploring the link between ESG performance and corporate tax behavior (Agustini et al., 2023; Anggraini & Wahyudi, 2022; Harnesk, 2019; Jarboui et al., 2020; Lee & Kim, 2021; Yoon et al., 2021). However, studies on ESG and tax avoidance have produced inconsistent results. For instance, a study by Anggraini & Wahyudi (2022) found that ESG disclosure had no significant relationship with tax avoidance. Conversely, several studies found a significant negative relationship between ESG performance and tax avoidance (Agustini et al., 2023; Jarboui et al., 2020; Yoon et al., 2021). This suggests that companies with strong ESG performance tend to avoid reputationally damaging practices, including aggressive tax strategies, whereas companies perceived as neglecting ESG aspects may be more likely to engage in tax avoidance practices. Therefore, it is essential to disclose corporate responsibility to all stakeholders through a balanced ESG framework to measure organizational performance. Such a framework is useful for industry practitioners. ESG reporting is categorized into three criteria: environmental, social, and governance aspects.

Environmental, social, and governance (ESG) risks are not only issues in the development of investment markets. From an opportunistic standpoint, strong ESG performance can be utilized as a motivation for companies to maintain their reputation while potentially disregarding tax obligations (Lee & Kim, 2021). As part of risk management, companies may adopt ESG activities opportunistically as an initial defense mechanism against regulatory penalties should a negative incident occur. Alsaadi (2020) revealed that companies often position themselves as pioneers in addressing social, ethical, and environmental issues, yet simultaneously engage in tax avoidance practices. This behavior is considered a form of structured hypocrisy. In response, governments have introduced regulations and incentives to motivate corporate taxpayers to contribute to economic, social, and environmental development. Tax incentives are regarded as initiatives to mitigate the decline in the national economy.

Tax incentives are regarded as factors that can either strengthen or weaken the relationship between ESG performance reporting and tax avoidance. The primary purpose of these incentives is to influence the behavior of economic agents or provide assistance to certain population groups. According to a study by Kacem et al. (2022), tax incentives are available for responsible businesses. The "Taxand Poland" report indicates that the tax system allows companies to benefit from various tax advantages, such as those related to the employment of persons with disabilities, creation of new jobs in special economic zones, donations for specific social causes, and investments in green funds. Tax incentives are believed to help companies minimize risks associated with tax penalties or legal controversies that may arise from aggressive tax avoidance practices (Septiani & Tjaraka, 2022). By opting for these incentive programs, companies can avoid potential issues, comply with the law, and maintain their reputation as socially and environmentally responsible entities. Therefore, tax incentives can play a role in addressing economic, environmental, and employment issues. In fact, taxation serves as a tool to achieve sustainable development goals (SDGs) through ESG performance.

The growing prominence of sustainable development issues has catalyzed a surge in studies related to environmental and social topics. Studies on ESG performance continue to emerge with various sample selections, research designs, and trends. Among these, ESG performance plays a crucial role in addressing sustainable development, as outlined by Atan et al. (2018), Mgbame et al. (2020), and Xu et al. (2021). Furthermore, ESG performance is widely recognized as a non-financial aspect, as stated by Almeyda & Darmansyah (2019) and Quiros et al. (2019). Several studies have also linked ESG performance to opportunistic corporate strategies, specifically through tax avoidance (Agustini et al., 2023; Anggraini & Wahyudi, 2022; Harnesk, 2019; Yoon et al., 2021). This reinforces and confirms the significance of this issue in both academic and practical research on sustainability and corporate tax strategies.

This study was conducted due to inconsistencies in previous research findings. Agustini et al. (2023) and Yoon et al. (2021) found that ESG disclosure simultaneously has a negative effect on tax avoidance. However, Anggraini & Wahyudi (2022) found no significant relationship between ESG and tax avoidance. Furthermore, Harnesk (2019) reported no significant relationship between ESG disclosure in the social and governance aspects and tax avoidance. Based on these prior studies, inconsistencies in the results were identified, prompting this study to re-examine the relationship. Furthermore, many previous studies have not comprehensively explored the moderating factors that may influence the relationship between ESG performance and tax avoidance. Therefore, this study introduces tax incentives as a moderating variable that can either strengthen or weaken the relationship between ESG performance and tax avoidance. This is motivated by the observation that while companies are increasingly expected to participate in efforts to promote sustainable development, many simultaneously engage in aggressive tax avoidance. Thus, tax avoidance is often carried out alongside their participation in social and environmental responsibilities (Kacem et al., 2022). Accordingly, tax incentives are posited to moderate the relationship between environmental, social, and governance (ESG) aspects and tax avoidance. The aim is to determine whether government-provided tax incentives strengthen or weaken this relationship.

Based on the discussion of factors influencing tax avoidance, this study offers several novelties. First, it integrates ESG performance and tax incentives within a single analytical framework to explain corporate tax behavior, an approach that remains relatively unexplored in Indonesia and other emerging markets. Second, this study examines the moderating effect of tax incentives on the relationship between ESG performance and tax avoidance using longitudinal data from 2018–2022, thereby providing new empirical insights into the interaction between sustainability and fiscal policy. Third, the study reinforces the theoretical connection between legitimacy theory and stakeholder theory in explaining corporate sustainability behavior related to taxation.

This study provides contributions across three main aspects. The theoretical contribution expands understanding of the influence of ESG performance on tax avoidance behavior by introducing tax incentives as a moderating variable, thereby enriching the literature on sustainability and taxation. The practical contribution offers insights for corporate managers to balance fiscal efficiency and sustainable practices, thereby fostering transparency and long-term firm value. The policy contribution provides empirical evidence for policymakers to design more effective tax incentive schemes promoting compliance while encouraging responsible and sustainable business behavior.

2. Literature Review and Hypothesis Development

Legitimacy Theory

Legitimacy Theory was first introduced by Dowling and Pfeffer (1975), focusing on the interaction between companies and society. This theory views society as a critical asset that contributes to corporate growth (Abdelmoula et al., 2022). Kacem et al. (2022) describe legitimacy theory as a concept wherein social institutions utilize the resources necessary for survival, and these resources are provided by society. Therefore, to maintain their privileges, organizations must fulfill their legal, ethical, and moral obligations within the societal framework. Legitimacy is thus defined as the general perception that organizational actions are appropriate within a certain social system (Abdelmoula et al., 2022). Furthermore, environmental and social responsibilities are seen as strategies or actions intended to establish legitimacy within society. Accordingly, Xu et al. (2021) explain that companies aiming to build (or regain) an acceptable level of legitimacy achieve this through socially responsible conduct or by paying higher taxes if either is regarded as an acceptable means to achieve legitimacy.

In the context of this study, Legitimacy Theory is relevant as it provides a theoretical basis for understanding how ESG performance influences corporate tax behavior. Companies with strong ESG commitments are compelled to adopt socially and ethically acceptable practices, including responsible tax behavior, to maintain legitimacy with stakeholders and society. Tax incentives further reinforce this dynamic by providing a tangible impetus for companies to align their tax practices with societal expectations.

Stakeholder Theory

Stakeholder Theory emerged from the work of Freeman (1984) in his book titled *Strategic Management: A Stakeholder Approach*. In this book, Freeman argues that entities must consider the interests and contributions of various stakeholders in the decision-making process. Donaldson & Preston (1995) expanded the definition of stakeholders to include debtors, creditors, suppliers, investors, consumers, society, government, and various other interested parties. Theoretically, stakeholder groups within a company, including shareholders and executives, have differing preferences regarding the extent to which the company engages in tax avoidance (Khan et al., 2022). Some may be more inclined to support actions that reduce tax payments, while others may prefer stricter compliance with tax obligations. Therefore, companies that successfully promote these preferences are dependent on the power granted to corporate governance institutions (Abdelmoula et al., 2022). Consequently, corporate governance is generally expected to have a strong impact on tax avoidance (Jarboui et al., 2020). Within this framework, the author applies stakeholder theory, which posits that a company can be viewed as a set of interdependent relationships among stakeholders, encompassing not only investors or shareholders but also all groups or individuals affecting or being affected by the company's activities.

This study is grounded in Stakeholder Theory, as it helps explain how different stakeholder groups affect corporate tax behavior in the context of ESG performance. By considering the expectations of various stakeholders, companies may adjust their tax practices to balance fiscal efficiency with social responsibility. The inclusion of tax incentives as a moderating variable allows the model to further capture how stakeholder pressures and external rewards jointly shape corporate decisions regarding tax avoidance. Together, this framework provides a strong empirical and theoretical rationale for the application of both Legitimacy and Stakeholder Theories in this study.

ESG and Tax Avoidance

Tax avoidance is a legal and justifiable action as it does not violate the law. The purpose of tax avoidance is to reduce or minimize the amount of tax payable. Tax avoidance undertaken by taxpayers, particularly business entities, is considered legitimate and does not violate applicable laws or regulations, as it is regarded more as exploiting loopholes or gaps in tax laws and regulations. Tax avoidance is one of several business schemes playing a role in reducing tax burdens and increasing post-tax income (Dakhli, 2022). However, the actions of those engaging in it are often ethically questionable. Exploiting regulatory shortcomings for personal gain cannot be considered ethical business behavior, as such actions violate the prevailing legal norms.

In the current context of environmental degradation, companies face intensifying social pressure that requires them to enhance their environmental responsibility and contribute to mitigating environmental damage. Legitimacy theory posits that the operational activities of large companies are far more visible than those of smaller ones, leading to greater societal expectations and demands (Abdelmoula et al., 2022). Therefore, large companies tend to be more responsive to environmental issues as part of their corporate responsibility.

Harnesk (2019) found that a company's environmental index is positively related to tax avoidance. This indicates that companies aiming to maintain a positive image tend to comply well with environmental norms. To offset the high costs associated with environmental performance, they seek strategies to manage or reduce their tax burden through tax avoidance practices (Lee & Kim, 2021). However, this statement contrasts with the findings of Laguir et al. (2015), arguing that tax-compliant companies also aim to act responsibly toward the environment, a key stakeholder. Their findings indicate that higher tax payments do not directly affect the level of sustainability recognition as measured by ESG scores. Furthermore, increased tax payments are not perceived to enhance legitimacy, as such actions do not automatically improve positive perceptions or support for the company in terms of corporate responsibility (Laguir et al., 2015). Based on this review of the literature, the researcher formulates the following hypothesis.

H_1: *Environmental performance has a negative effect on tax avoidance*

The emphasis on a company's social score in determining tax avoidance practices is closely related to the importance of social reputation in shaping corporate policies. If tax avoidance behavior is exposed to the public, a company's social reputation may be damaged due to loss of management personnel, political pressure, potential fines, and consumer boycotts (Yoon et al., 2021). Furthermore, a study by Harnesk (2019) states that corporate social responsibility is considered a component of tax avoidance.

Several studies argue that companies utilize the positive image gained from their social activities to mask criticism and minimize the negative impact of their tax avoidance practices (Abid & Dammak, 2022; Alsaadi, 2020; Dewi & Gunawan, 2019; Khan et al., 2022; Liu & Lee, 2019; Pratiwi & Siregar, 2019). Thus, this statement contradicts findings by Lanis & Richardson (2015) and Putri & Suryarini (2017), revealing that a higher level of corporate involvement in social responsibility correlates with a lower tendency of companies to engage in tax avoidance. This is because tax avoidance can reduce tax revenues, thereby negatively impacting social welfare. This view is further supported by Laguir et al. (2015) and Yoon et al. (2021), revealing that greater corporate involvement in social responsibility activities is associated with a lower likelihood of engaging in tax avoidance practices. Therefore, following a review of the relevant literature, the researcher formulates the following hypothesis.

H_2: *Social performance has a negative effect on tax avoidance*

Corporate governance aims to implement Good Corporate Governance effectively and efficiently, as well as to prevent fraudulent actions by company management (Raharjo & Daljono, 2014). Furthermore, it is argued that the main initiative for corporate tax disclosure, guided by stakeholder theory, is an inherent element of tax planning, as corporate accountability and disclosure result from a responsibility process designed to meet the demands of all stakeholders.

Studies by Gallemore & Labro (2015) and Huseynov et al. (2017) suggest that an improvement in corporate governance correlates with a higher likelihood of tax avoidance. Consequently, companies engaging in tax protection activities with good governance performance tend to demonstrate more favorable outcomes than companies with poor corporate governance (Wilson et al., 2009). However, this statement contradicts the findings of Armstrong et al. (2015), revealing that governance mechanisms can reduce agency problems related to extreme tax avoidance practices, as a robust governance system can minimize the potential for abuse in initiatives to avoid excessive or unreasonable tax payments. This assertion is further supported by Abdelmoula et al. (2022), indicating that companies with strong governance structures are more likely to comply with tax regulations and maintain transparent tax policies, thereby reducing the motivation or opportunity to engage in tax avoidance.

H_3: *Governance performance has a negative effect on tax avoidance*

Tax incentive, ESG, and tax avoidance

Tax incentive is a facility provided by the government, typically in the form of tax relief or a reduced tax burden, to encourage or support specific economic activities or sectors (Fletcher, 2002). Within the theoretical framework of legitimacy theory, tax incentives are instruments companies can use to enhance their public image and legitimacy by demonstrating higher compliance with ESG principles (Faruq, 2021). Thus, companies utilizing tax incentives can construct a positive narrative regarding their commitment to social and environmental responsibility, which may, in turn, reduce their motivation to engage in tax avoidance practices (Armstrong et al., 2015).

A study by Kacem et al. (2022) suggests that tax incentives are often accessible to ethically responsible businesses. These incentives help companies minimize risks related to tax sanctions or legal controversies that may arise from aggressive tax avoidance practices (Septiani & Tjaraka, 2022). Fletcher (2002) further argues that companies that comply with the requirements of incentives can avoid potential legal problems, adhere to the law, and maintain their reputation as socially and environmentally responsible companies. Thus, by prioritizing ESG aspects, companies acknowledge and respond to stakeholder expectations, including those of the public, consumers, and the environment. Therefore, in this context, tax incentives serve as additional mechanisms that strengthen a company's commitment to improved tax compliance, thereby fostering harmony with the expectations and interests of its diverse stakeholders (Lestari & Solikhah, 2019). Based on a review of the relevant literature, the researcher concludes that tax incentives can moderate the relationship between Environmental, Social, and Governance (ESG) aspects and tax avoidanc*e*. Therefore, the following hypotheses are formulated:

H_{4a}: Tax incentive moderates the relationship between environmental performance and tax avoidance

H_{4b}: Tax incentive moderates the relationship between social performance and tax avoidance

H_{4c}: Tax incentive moderates the relationship between governance performance and tax avoidance

3. Research Method

This study employs an explanatory research design with a descriptive quantitative approach. The population in this study comprises all companies listed on the Indonesia Stock Exchange (IDX) for the period 2018–2022. The sample was selected from the population based on a non-probability sampling approach using purposive sampling, according to predetermined criteria. The sample criteria used in this study include companies with Thomson Reuters Asset4 ESG scores during the 2018–2022 period, companies with Thomson Reuters Asset4 ESG scores for at least one year, and companies that did not incur losses during the 2018-2022 research period. The determination of the research sample using the purposive sampling technique is presented in Table 1.

Table 1. Sample Selection

No	Criteria	Amount
1.	Companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022	864
2.	Companies lacking a Thomson Reuters Asset4 ESG score for at least 1 year	(783)
3.	Companies that incurred losses during the research period	(1)
	Number of sample companies	80
	Total observations	263

Based on a population of 783 companies, only 80 companies met the sampling criteria. Over a 5-year observation period, a total of 263 observations were obtained. Thus, the panel data used in this study constitutes an unbalanced sample, referring to data where cross-sectional units have different numbers of time series observations.

This study employs five research variables, comprising one dependent variable, three independent variables, and one moderating variable. Tax avoidance serves as the dependent variable (the variable being influenced), while environmental, social, and governance performance serve as the independent variables (the variables exerting influence). Tax incentive serves as the moderating variable (a variable posited to either strengthen or weaken the relationship between the dependent and independent variables). The measurement of each variable is presented in Table 2.

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Table 2. Variables Measurement

Variables	Indicators	Descriptions	Research Sources
Tax Avoidance	$ETR = \frac{Tax\ Expense}{Profit\ Before\ Tax}$	Measures the level of corporate tax avoidance based on the effective tax rate	(Abid & Dammak, 2022; Arianti, 2022; Awaliah et al., 2022; Bimo et al., 2019; Dakhli, 2022; Malik et al., 2022; Rakia et al., 2023; Tirto.id, 2017)
Environmental, Social, and Governance (ESG)	Thomson Reuters Asset4 ESG Scores	ESG score, demonstrating environmental practices, corporate social responsibility, and corporate governance quality	(Carolina et al., 2023; Constantinescu & Lungu, 2021; Melinda & Wardhani, 2020; Qoyum et al., 2022)
Tax Incentive	$Tax\ Plan = \frac{Tax\ Rate * (TI - CTE)}{TA}$ Tax Plan: Proxy for Tax Incentives TI: Taxable Income CTE: Current Tax Expense TA: Total Assets	Measures the magnitude of tax incentives received by companies	(Ayu et al., 2022; Hamijaya, 2015; Pradnyani et al., 2022; Verawaty et al., 2015)

This study employs panel data covering the period from 2018 to 2022. The analyses employed are multiple regression analysis and moderated regression analysis (MRA). The software used for this analysis is Eviews 12, as Eviews is considered more robust for processing panel data (Sunarsih et al., 2019). The testing procedure consists of stages of panel data regression analysis, followed by testing the feasibility of the regression model or hypothesis testing.

Panel data regression analysis in this study aims to determine how the independent variables influence the dependent variable. The following are the specifications of the panel data regression model in this study.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \quad \text{...} \quad (1)$$

Description:

Y	: Tax Avoidance
α	: Constant
β_1- β_3	: Regression Coefficients
X_1	: Environmental Performance
X_2	: Social Performance
X_3	: Governance Performance
e	: Error

The interaction moderation test is used to examine whether the moderating variable (tax incentive) is able to moderate the relationship between the independent variables (environmental, social, and governance performance) and the dependent variable (tax avoidance). The analysis used is moderated regression analysis (MRA). The following is the multiple linear regression equation with interaction moderation.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_1 X_1 Z + \beta_2 X_2 Z + \beta_3 X_3 Z + e \quad \text{.....................................} (2)$$

Description:

Y	: Tax Avoidance
α	: Constant
β_1- β_3	: Regression Coefficients
X_1	: Environmental Performance
X_2	: Social Performance
X_3	: Governance Performance
Z	: Tax Incentive
e	: Error

4. Results and Discussion

The object of this study is companies listed on the Indonesia Stock Exchange that published sustainability reports and were registered in Thomson Reuters Asset4 for the period 2018-2022. The sample in this study comprises companies with data available for at least one year. Thus, the panel data used in this study employs an unbalanced sample, defined as a dataset where cross-sectional units have different numbers of time series observations. The descriptive statistics for this analysis are presented in Table 1.

Table 3. Descriptive Statistics

Variables	Mean	Median	Max.	Min.	Std. Dev	Obs.
Tax Avoidance (Y)	0.229954	0.225606	1.060345	0.000276	0.129675	263
Environmental Performance (X1)	39.28657	36.171.38	87.28268	0.11788	23.95575	263
Social Performance (X2)	54.98199	55.54796	95.74625	0.736292	22.72103	263
Governance Performance (X3)	51.10286	51.43081	94.01335	2.836879	22.81343	263
Tax Incentive (Z)	0.073774	0.013153	3.733001	-0.110656	0.406803	263

The descriptive analysis presented in Table 3 provides an overview of the characteristics of the research data, consisting of 263 observations. The dependent variable, Tax Avoidance (Y), has a mean value of 0.229954, with a minimum of 0.000276 and a maximum of 1.060345. This mean value indicates that, on average, companies in the sample have a relatively moderate level of tax avoidance, with an average effective tax payment of 77% of the expected tax expense. The relatively high maximum value suggests that some companies pay taxes at a very low proportion of their profit before tax, potentially indicating aggressive tax behavior. Meanwhile, a standard deviation of 0.129675 indicates a moderate variation in tax avoidance practices across companies.

For the independent variables, Environmental Performance (X1) has a mean of 39.29, ranging from 0.12 to 87.28, with a standard deviation of 23.96. Based on the ESG scoring scale (0.333333 < score ≤ 0.416666), this mean falls into category C, indicating that, on average, companies' environmental commitment is relatively low to moderate. The considerable variation indicates significant differences in environmental practice implementation across companies, where some firms perform well in environmental management, while others pay minimal attention to this aspect. Social Performance (X2) has a mean of 54.98 with a standard deviation of 22.72. This value falls into category B- (0.500000 < score ≤ 0.583333), indicating that, on average, companies perform adequately in social responsibility, including employee welfare, protection of workers' rights, and engagement with surrounding communities. The relatively smaller variation compared to the environmental aspect suggests that social dimensions are more consistently applied among the companies in the sample. Governance Performance (X3) has a mean of 51.10 with a standard deviation of 22.81, also falling into category B-. This indicates that, in general, companies have implemented good governance principles, such as transparency, board independence, and accountability, despite some firms not having fully optimized their implementation.

Meanwhile, the moderating variable Tax Incentive (Z) has a mean value of 0.073774, with a minimum of –0.110656 and a maximum of 3.733001. This indicates that, on average, companies in the sample receive relatively small tax incentives, despite some firms benefiting from substantial tax facilities. A standard deviation of 0.406803 indicates considerable variation in the receipt or utilization of tax incentives across companies. This may be due to differences in industry sectors, fiscal policies, or the financial characteristics of respective entities.

Overall, these descriptive statistics indicate that companies in the sample exhibit varying levels of tax avoidance, moderate ESG implementation, and uneven utilization of tax incentives. This situation provides a basis for further analysis to determine whether ESG performance and tax incentives have a significant effect on corporate tax avoidance behavior.

Table 4. Model Selection Test Results

Test Type	Probability Value	Decision Criteria	Test Result	Selected Model
Chow Test (Common Effect vs Fixed Effect)	0.0000	Prob. < 0.05 → Reject H0	The model follows a fixed effect	Fixed Effect Model (FEM)
Hausman Test (Fixed Effect vs Random Effect)	0.0218	Prob. < 0.05 → Reject H0	The model follows a fixed effect	Fixed Effect Model (FEM)

Based on the results of the Chow and Hausman tests presented in Table 4, both tests indicate a probability value < 0.05, indicating that H0 is rejected. Therefore, the most appropriate model to be used in this study is the Fixed Effects Model (FEM).

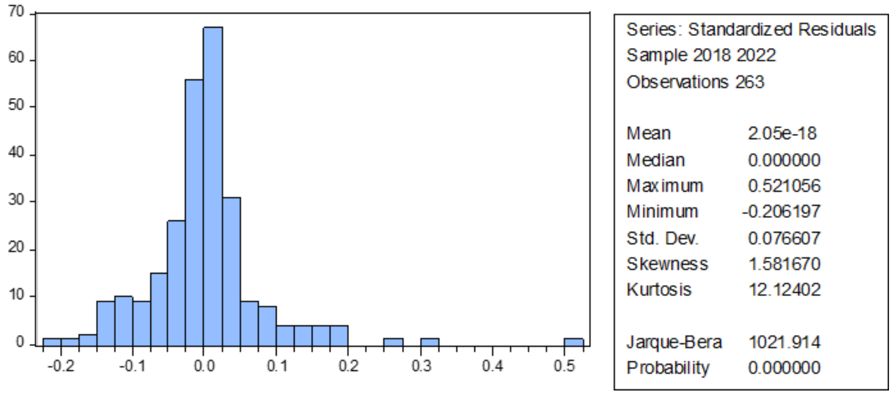

Figure 1. Normality Test

Based on Figure 1, the results of the Normality Test indicate a probability value of 0.0000 < 0.05. This means that the data in this study are not normally distributed. However, the normality test is only required when the number of observations is less than 30. The normality test serves as an instrument to determine whether the error term approximates a normal distribution. If the number of observations exceeds 30, the normality test is unnecessary and can be disregarded, as the sampling distribution of the error term is assumed to approximate normality.

Table 5. Results of the Heteroscedasticity Test

Dependent Variable (Y): Tax Avoidance	Probability
Environmental Performance (X1)	0.3483
Social Performance (X2)	0.1328
Governance Performance (X3)	0.6212
Tax Incentive (Z)	0.1624

Based on Table 5, the results of the Heteroscedasticity Test indicate that, using the Glejser test by regressing the independent variables on the absolute residuals, all probability values are > 0.05. It can be concluded that there is no heteroscedasticity problem in this study.

Table 6. Multicollinearity Test

Dependent Variable (Y): Tax Avoidance	VIF
Environmental Performance (X1)	1.833957
Social Performance (X2)	2.350760
Governance Performance (X3)	1.700663
Tax Incentive (Z)	1.031787

Based on Table 6, the results of the Multicollinearity Test indicate that all variables are free from multicollinearity, as indicated by VIF values < 10. This means that there are no multicollinearity issues among the variables.

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Table 7. Regression and Moderated Regression Analysis

Dependent Variable: Tax Avoidance	Coefficient	t-statistic	Probability
Regression Analysis			
Environmental Performance (X1)	0.0004	0.47756	0.6335
Social Performance (X2)	-0.0018	-1.9218	0.0562*
Governance Performance (X3)	-0.0007	-1.1251	0.2620
F-statistic	4.0281		0.0000
Adjusted R^2	0.4865		
Moderated Regression Analysis (Tax Incentive – Z)			
Constant	0.4055	-	0.0000
Environmental Performance (X1)	0.0007	-	0.4243
Social Performance (X2)	-0.0026	-	0.0102***
Governance Performance (X3)	-0.0007	-	0.2694
Tax Incentive (Z)	-1.8104	-	0.0339**
Environmental Performance * Tax Incentive (X1*Z)	0.0105	-	0.0387**
Social Performance * Tax Incentive (X2*Z)	0.0312	-	0.0273**
Governance Performance * Tax Incentive (X3*Z)	0.0013	-	0.5190
Adjusted R^2 (Moderation Model)	0.5124		

**Significant at $\alpha = 0.05$

Based on the output results of the panel data regression analysis employing the Fixed Effect Model (FEM), it is evident that environmental performance (X1) has a probability value of 0.6335 > 0.05. This signifies that environmental performance does not affect tax avoidance. The first hypothesis, positing that environmental performance has a negative effect on tax avoidance, is rejected. While environmental performance does not have a significant relationship with tax avoidance, the coefficient indicates a positive relationship within the sample. Since no negative relationship between environmental performance and tax avoidance was found, legitimacy theory is difficult to uphold as an explanatory framework for this relationship. This suggests that increased tax payments do not enhance the level of sustainable recognition measured by the ESG score, thus not significantly contributing to increasing corporate legitimacy (Harnesk, 2019). Conversely, this result can be explained by stakeholder theory. The absence of a significant relationship between environmental performance and tax avoidance indicates that companies do not use environmental scores as an instrument to reduce corporate taxes (Harnesk, 2019). Therefore, it can be concluded that companies demonstrate concern for the environment, a key stakeholder in maintaining the company's longevity (Laguir et al., 2015). The basis for this result is supported by the study conducted by Anggraini & Wahyudi (2022), which found that ESG performance simultaneously has no effect on tax avoidance. This is because, despite companies having commitments to robust environmental, social, and governance practices, this does not always lead to a reduction in tax avoidance practices. Therefore, compliance with ESG standards is often more focused on transparency, sustainability, and social responsibility, while tax avoidance may be considered an inherent component of business strategy.

Furthermore, social performance (X2) has a probability value of 0.0562 > 0.05. This means that social performance partially has an effect on tax avoidance. The second hypothesis, positing that social performance has a negative effect on tax avoidance, is accepted. Legitimacy and stakeholder theories play crucial roles in explaining the relationship between a company's social performance and tax avoidance practices. Alareeni & Hamdan (2020) found that companies with high levels of social responsibility can gain good ratings, secure community support, and meet stakeholder expectations. Therefore, social performance serves as a tool to assess a company's performance based on the connection between corporate interests and societal expectations (Dervi et al., 2022). Thus, socially empathetic companies not only bring benefits to the community and the environment but also strengthen their competitive advantage and ensure long-term sustainability for the company (Ghazali & Zulmaita, 2020). The results of this study align with the findings of Laguir et al. (2015) and Yoon et al. (2021) that companies with strong social programs tend to have lower levels of tax avoidance. Therefore, companies with robust social performance tend to avoid tax avoidance practices considered contrary to the values of social responsibility (Putri & Suryarini, 2017). This study demonstrates that the ESG disclosure score in the social performance dimension has a negative effect on tax avoidance practices. Factors within social performance, such as environmental policies, sustainability programs, and community engagement, can significantly affect positive assessments from stakeholders. Thus, these factors in social performance play a crucial role in shaping stakeholder perceptions of a company's integrity and positive contributions in social and tax aspects.

The variable of governance performance (X3) has a probability value of 0.2620 > 0.05. This means that governance performance does not affect tax avoidance. The third hypothesis, positing that governance performance has a negative effect on tax avoidance, is rejected. Despite the lack of a significant relationship between governance performance and tax avoidance, the coefficient indicates a negative relationship within the sample. Within the framework of stakeholder theory, companies have various stakeholders with differing interests in the company (Abdelmoula et al., 2022). In this context, companies often manage relationships with these stakeholders by considering a range of factors, including corporate reputation, relations with the government, and impact on society (Barman, 2018). The focus on governance performance, not directly related to tax practices, can be explained as an effort to optimize relationships with non-shareholder stakeholders and to prioritize corporate social or ethical responsibilities over tax practices. This test result is consistent with the findings of Sunarsih et al. (2019) that governance, measured by independent commissioners and audit committees, does not affect tax avoidance. Furthermore, Harnesk (2019) also found similar results, indicating that the ESG disclosure score for governance performance has no significant effect on tax avoidance. The basis for these findings can be explained by the balance between the interests of shareholders and other stakeholders, which may result in governance performance not being directly related to tax avoidance practices. Thus, governance performance assessed from this perspective may not fully demonstrate the level of tax avoidance, as it has a broader focus on transparency regarding sustainability and social responsibility.

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Based on the interaction moderation output in the panel data regression analysis, the interaction between the environmental performance variable and tax incentive has a t-statistic value of -2.0833 with a probability value of 0.0387 < 0.05. Therefore, it can be concluded that tax incentives weaken the effect of environmental performance on tax avoidance. This result suggests that tax incentives provided by the government to companies with good environmental performance can create the impression that these companies have fulfilled their social responsibility toward the environment. This may lead to a lack of motivation for companies to make further improvements or enhance their environmental practices, as they may believe they have already been "paid" through tax incentives. Similarly, Kacem et al. (2022) found that companies receiving fiscal incentives for economic, social, and environmental activities tend not to engage in real changes within their organizations to achieve more positive social or environmental impacts. Instead, these companies tend to choose symbolic actions such as CSR communication to gain legitimacy. Thus, tax incentives, intended to encourage genuine environmental and social activities, are instead manipulated by companies as tools to maintain a positive corporate image without engaging in significant changes or improvements in their organizational practices (Kacem et al., 2022).

The provision of tax incentives to companies can create regulatory loopholes, enabling companies to manipulate or optimize their tax structures to minimize their tax liabilities (Mahfud, 2023). Therefore, despite the purpose of providing tax incentives being to encourage companies to adopt more environmentally sustainable practices, they can also create opportunities for tax avoidance that are not aligned with a company's genuine environmental practices. This phenomenon demonstrates that tax incentives weaken the relationship between environmental performance and tax avoidance.

The interaction between social performance and tax incentive has a t-statistic value of 2.2257 with a probability value of 0.0273 < 0.05. Therefore, it can be concluded that tax incentives strengthen the effect of social performance on tax avoidance. This result indicates that government-provided tax incentives serve as a reward for good social performance, thereby creating a reciprocal relationship between social responsibility and economic benefits. With increasing ethical demands and corporate social responsibility in the business world, companies committed to good social performance may view tax avoidance practices as counterproductive to their efforts to maintain a positive image. Legitimacy theory posits that tax incentives are regarded as instruments companies can use to enhance their image and legitimacy by complying with higher ESG principles (Faruq, 2021). Thus, companies are motivated to meet high social standards, leading them to adopt more transparent and fair tax practices to align with sustainability values. Consequently, tax incentives are not merely financial instruments but also catalysts for companies to integrate social values into their tax strategies. This phenomenon suggests that tax incentives can strengthen the negative relationship between social performance and tax avoidance.

Furthermore, the interaction between the governance performance variable and tax incentive variable has a t-statistic value of 0.6462 with a p-value of 0.5190 > 0.05. Therefore, it can be concluded that tax incentive does not moderate the effect of governance performance on tax avoidance. The fourth hypothesis, positing that tax incentive moderates the effect of governance performance on tax avoidance, is rejected. The government-provided tax incentives are often material and economic in nature, focusing on the provision of financial incentives to companies to drive investment or economic growth (Hasibuan, 2016), and thus prioritize outcomes directly measurable in the financial sector. Meanwhile, the governance performance metric in this study is derived from the governance score data provided by Thomson Reuters Asset4. This score assesses governance based on a management score, a shareholders' score, and a corporate responsibility score (Thomson, 2018). Therefore, this distinction highlights the challenge in achieving a balance between short-term financial gains and sustainable governance practices.

Stakeholder theory emphasizes that a company's success is not solely measured by its financial performance but must also consider the interests and contributions of various stakeholders (Freeman, 1984). Therefore, if tax incentives are not aligned with the values and norms of good governance, companies may still engage in tax avoidance practices that benefit only themselves. This phenomenon explains why tax incentives are often less effective in improving good governance and motivating companies to reduce tax avoidance practices. Consequently, tax incentives are unable to moderate the relationship between governance performance and tax avoidance.

To ensure the reliability and consistency of the empirical findings, a robustness test was conducted. This procedure aims to verify whether the main results remain stable under alternative model specifications, measurement methods, or sample variations. By performing a robustness check, the study strengthens the credibility of the conclusions regarding the relationship between ESG performance, tax incentives, and corporate tax avoidance, thereby ensuring that the observed effects are not sensitive to specific assumptions or analytical choices.

Table 8. Results of Robustness Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.208464	0.020019	10.41339	0.0000
X1	0.001610	0.000382	4.212570	0.0000
X2	-0.000919	0.000438	-2.096373	0.0360
X3	-5.23E-05	0.000362	-0.144492	0.8851
Z	-0.034134	0.347151	-0.098326	0.9217
X1_Z	-0.003895	0.006207	-0.627529	0.5303
X2_Z	0.002435	0.006125	0.397513	0.6910
X3_Z	0.000398	0.002041	0.194778	0.8456
Robust Statistics				
R-squared	0.052185	Adjusted R-squared	0.026166	
Rw-squared	0.110669	Adjusted Rw-squared	0.110669	
Akaike information criterion	418.3447	Schwarz criterion	446.5058	
Deviance	2.180642	Scale	0.073658	
Rn-squared statistic	20.11654	Prob (Rn-squared stat.)	0.005323	
Non-robust Statistics				
Mean dependent var	0.229954	S.D. dependent var	0.129675	
S.E. of regression	0.127727	Sum squared resid	4.160098	

Based on the results of the robustness test presented in Table 8, the Rn-squared value is 20.116 with a p-value of 0.0053, indicating that the model is statistically significant and suitable for use. Partially, the Environmental Performance variable (X1) has a coefficient of 0.001610 with a p-value of 0.0000, meaning it has a positive and significant effect on tax avoidance. This indicates that the higher a company's environmental performance, the greater its tendency to engage in tax avoidance, despite the effect being relatively small. Meanwhile, Social Performance (X2) indicates a coefficient of -0.000919 with a p-value of 0.0360, meaning that it has a negative and significant effect on tax avoidance. In other words, the better the company's social performance, the lower the level of tax avoidance. Governance Performance (X3) has a p-value of 0.8851 and has no significant effect on tax avoidance, suggesting that the governance dimension does not have a strong direct impact on tax avoidance behavior.

The tax incentive variable (Z) and the interactions between each ESG dimension and tax incentive (X1_Z, X2_Z, and X3_Z) also indicate no significant effects. This indicates that tax incentives neither strengthen nor weaken the relationship between ESG performance and tax avoidance. The Adjusted R^2 value of 0.026 indicates that only 2.6% of the variation in tax avoidance can be explained by the independent variables in the model, while the remainder is explained by other factors outside this study's model.

Overall, the results of this robustness test reinforce the findings of the main model, indicating that the relationship between ESG dimensions and tax avoidance is stable and consistent, particularly for the social dimension, indicating a significant negative effect. Therefore, it can be concluded that the findings of this study are robust and reliable, as they remain consistent in direction and significance even when tested using an estimation method resistant to outliers.

5. Conclusion, Implications, and Limitations

This study provides empirical evidence that there is no significant relationship between ESG scores, particularly the E-score (environmental performance) and G-score (governance performance), and tax avoidance practices. This insignificant relationship may be due to the complexity of measuring and implementing ESG practices across different companies, as well as the rapid changes in the business environment. However, there is a significant negative relationship between the S-score (social performance) and tax avoidance. Tax incentives provided by the government are able to moderate the relationship between the E-score and S-score with tax avoidance. Specifically, tax incentives weaken the relationship between environmental performance and tax avoidance, suggesting that companies may prioritize financial considerations over environmental practices. Conversely, tax incentives strengthen the relationship between social performance and tax avoidance, indicating that companies may pursue tax incentives to enhance social performance.

Moreover, there is no significant moderation effect on the relationship between G-score (governance performance) and tax avoidance, as improvements in governance require bigger structural changes that are not significantly affected by tax incentives. The research findings indicate that social responsibility is more closely linked to responsible tax behavior and that tax incentives can play a role in shaping corporate priorities between social and environmental initiatives. Companies with stronger social performance tend to engage in lower tax avoidance, underscoring the significance of integrating social responsibility into corporate strategies.

The implications of this study are threefold. First, for policymakers, the findings suggest the need for stricter oversight of companies reporting tax obligations, particularly those benefiting from government incentives. Regulations should ensure that ESG disclosures are accurate and not merely "greenwashing" intended to appease stakeholders. Second, for companies, the results emphasize the importance of effective resource management, ethical tax planning, and responsible business practices that avoid opportunistic or self-serving actions. Lastly, the study provides a framework for investors and other stakeholders to assess corporate ESG performance in relation to tax behavior.

The limitations of this study include the relatively small sample of Indonesian companies reporting ESG activities in the Thomson Reuters Asset4 database, which may not fully represent all firms listed on the Indonesia Stock Exchange. This restricts the generalizability of the findings. Additionally, the study does not fully explore the specific types of most effective tax incentives in motivating companies to improve sustainable development without engaging in fraudulent actions. For future studies, larger samples with broader geographical coverage are recommended to enhance representativeness. Further studies should also investigate the types of tax incentives that genuinely encourage companies to improve social and environmental sustainability while maintaining ethical tax practices. Moreover, future studies could explore additional factors, such as corporate culture, industry characteristics, and regulatory frameworks, that may affect the relationship between ESG performance and tax avoidance.

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