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**THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) AND THIN CAPITALIZATION ON TAX AVOIDANCE**

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**ABSTRACT**

*This research aims to determine and prove the effect of Environmental, Social, And Governance (ESG) and Thin Capitalization on Tax avoidance in companies listed in the Kompas 100 stock market index consecutively during the period 2019 to 2023. The sample used in this research was 6 companies listed on the Kompas 100 stock market index for the period 2019 to 2023 using purposive sampling technique. The data used in this research is secondary data in the form of financial reports from each company that has been sampled. The variables used in this research are Environmental Social And Governance (X1), Thin Capitalization (X2), and Tax avoidance (Y). Analysis of the results of this study using the help of Eviews 12 Student Version Lite software by analyzing descriptive statistics, model estimation tests, classical assumption tests, panel data regression analysis, T statistical tests, F statistical tests, and determination coefficient tests.. The results showed that partially Environmental Social And Governance has no effect on Tax Avoidance and Thin Capitalization affects Tax Avoidance. As for together (simultaneously) Environmental, Social And Governance and Thin Capitalization affect Tax Avoidance.*

*Keywords: Environmental Social And Governance (ESG); Thin Capitalization; Tax avoidance*

**ABSTRAK**

Penelitian ini bertujuan untuk mengetahui dan membuktikan pengaruh Environmental, Social, And Governance (ESG) dan Thin Capitalization terhadap Tax Avoidance pada perusahaan yang terdaftar di indeks pasar saham Kompas 100 secara berturut-turut selama periode 2019 sampai dengan 2023. Sampel yang digunakan dalam penelitian ini sebanyak 6 perusahaan yang terdaftar di indeks pasar saham Kompas 100 periode 2019 sampai dengan 2023 dengan menggunakan teknik purposive sampling. Data yang digunakan dalam penelitian ini adalah data sekunder berupa laporan keuangan dari masing-masing perusahaan yang telah dijadikan sampel. Variabel yang digunakan dalam penelitian ini adalah Environmental Social And Governance (X1), Thin Capitalization (X2), dan Tax Avoidance (Y). Analisis hasil penelitian ini menggunakan bantuan software Eviews 12 Student Version Lite dengan menganalisis statistik deskriptif, uji estimasi model, uji asumsi klasik, analisis regresi data panel, uji statistik T, uji statistik F, dan uji koefisien determinasi. Hasil penelitian menunjukkan bahwa secara parsial Environmental Social And



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Governance tidak berpengaruh terhadap Tax Avoidance dan Thin Capitalization berpengaruh terhadap Tax Avoidance. Adapun secara bersama-sama (simultan) Lingkungan, Sosial Dan Tata Kelola dan Kapitalisasi Tipis berpengaruh terhadap Penghindaran Pajak.

Kata Kunci: Lingkungan Sosial dan Tata Kelola (ESG); Kapitalisasi Tipis; Penghindaran Pajak

## **1. INTRODUCTION**

Tax revenue is one of the main sources of state revenue used to support various government activities and improve public welfare (Nirmalasari & Susilowati, 2021). Tax is a mandatory contribution imposed on every taxpayer, both individuals and business entities, as a form of contribution to national development. However, in its implementation, tax collection faces various challenges that can hinder the optimization of state revenue.

One of the significant challenges in tax collection is the practice of tax avoidance. Tax avoidance is an effort by taxpayers to minimize the tax burden in ways that are still within the legal corridor (Nurlaelly & Dewi, 2023). Although technically it does not violate tax provisions, this practice can have a negative impact on state revenue because it reduces the amount of tax that should be paid (Khairatuzzahra, 2023). The phenomenon of tax avoidance has become a serious concern for tax authorities in various countries, including Indonesia.

Tax avoidance practices can be found at various company scales, especially in large companies. A real example of this practice is the case of PT Indofood Sukses Makmur (INDF) which transferred its tax obligations to a newly established subsidiary (Agustina & Sanulika, 2024). This strategy allows companies to significantly reduce their tax burden, but has the potential to harm the state in terms of tax revenue.

Various factors can influence a company's decision to engage in tax avoidance. In today's era, the Environmental, Social, and Governance (ESG) aspect is one of the important considerations in corporate decision-making, including in tax policy. Companies with high ESG commitments tend to have greater social responsibility, which may correlate with better tax compliance. On the other hand, the company's capital structure reflected in Thin Capitalization can also be a factor influencing tax avoidance practices, where companies with a high debt-to-equity ratio have a greater potential to exploit tax loopholes.

Based on this background, this study aims to analyze the influence of Environmental, Social, and Governance (ESG) and Thin Capitalization on tax avoidance practices in companies in Indonesia. This research is expected to provide a deeper understanding of the factors that influence corporate decisions in conducting tax avoidance, as well as being a reference for stakeholders in formulating more effective tax policies.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESIS**

For literature related to this research, the author uses literature as a basis for literature as a basis for understanding the use of modeling in the research method to be used. One of them was conducted by (Adila & Susilowati, 2021) [1], (Darma, 2022) [2]. The two researchers conducted research related to environmental, social, and governance (ESG) and



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thin capitalization in relation to tax avoidance. From the results of their research that, ESG variables affect tax avoidance and thin capitalization variables negatively affect tax avoidance.

**Legitimacy Theory**

Public legitimacy is a strategy carried out by management to develop the company in fostering public trust. This theory explains the social contact between companies and society and environmental social disclosure (Putri, 2022). The reason researchers chose legitimacy theory is the relationship between this theory and ESG. According to this theory, the survival of the company depends on the legitimacy of the surrounding community (Nurlaelly, Hikmahtul ; Dewi, 2023).

**Agency Theory**

Agency theory is closely related to tax avoidance practices, because agency theory explains the relationship between stakeholders and management where the parties work together to achieve business goals, namely profit. Stakeholders or shareholders are referred to as principals, while company management is referred to as agents in agency theory. Agency theory is a theory that explains the relationship between the agent as the party who manages the company and the principal as the owner, both of whom are bound in a cooperation contract (Putri & Lawita, 2019). Based on this, agency theory has a relationship to the company's tax avoidance actions. Where this situation is caused by differences in interests through information asymmetry between the principal and the agent. From this information asymmetry, management tries to improve governance for the better.

**Tax Avoidance**

According to (Nurlaelly, Hikmahtul ; Dewi, 2023) "Tax avoidance is a strategic method used by company management to optimize tax payments by using the expertise of tax professionals, namely by utilizing legal loopholes in tax regulations but not violating the rules, so this is a prospective strategy used by companies to reduce the amount of high tax payments". Tax avoidance or the practice of minimizing tax payments is a tax design activity, where the planning is legal. In the sense that these activities do not violate the restrictions in accordance with applicable tax provisions (Afifah & Prastiwi, 2019). Measurement of Tax Avoidance can be done with three methods, namely: First, using CETR is the tax paid divided by profit before tax. The second way is to use ETR by dividing the tax expense by profit before tax. The third way, namely through the Book Tax Difference (BTD) by measuring the difference between commercial profit and fiscal profit divided by the total assets (Nirmalasari & Susilowati, 2021). Effective tax rate (ETR) is used in this study as a measure to determine the company's tax avoidance practices. The smaller the ETR value indicates that the tax rate based on accounting profit is lower than the income tax rate based on tax regulations, thus indicating that the company carries out more aggressive tax avoidance activities (Rani, 2017). The ETR formula can be written as follows:

$$\text{ETR} = \text{Tax Expense} / \text{Income Before Tax}$$

**Environmental Social Governance (ESG)**

ESG is a series of activities carried out by companies related to ecology, social interaction, and internal control to achieve company goals and meet the needs of stakeholders (Nurlaelly, Hikmahtul ; Dewi, 2023). The three components of ESG include:



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1. Environmental (E): Examines the company's impact on the environment, such as waste management and sustainable practices.
2. Social (S): Evaluates the company's relationships with employees, clients, and communities, including diversity and inclusion.
3. Governance (G): Focuses on the internal governance of the company, such as transparency, board of directors, and ethical behavior.

According to the research by (Nurlaelly, Hikmahtul ; Dewi, 2023), ESG has a negative impact on tax avoidance. The higher the level of ESG disclosure of a company, the lower the company's tax avoidance practices. ESG disclosure is a measurement tool that continuously discloses information about the impact of a company's environmental, social, and governance practices. ESG Disclosure data is taken from the Bloomberg database downloaded from the Bloomberg laboratory at Diponegoro University, Faculty of Economics and Business. ESG Disclosure through Pamulang University Investment Gallery as measured by Bloomberg's annual ESG disclosure scores for year t (Siew; Balatbat; Carmichael, 2016). All values are calculated with a range of values from 0 to 100. Where a score of 1 indicates that the company discloses each item, while a score of 0 indicates that there is no disclosure of each item (Nurlaelly, Hikmahtul ; Dewi, 2023).

**Thin Capitalization**

According to (Nirmalasari & Susilowati, 2021) Thin Capitalization is a strategy that minimizes corporate tax liabilities by making its debt structure much larger than its equity. Thin capitalization arises by taking advantage of the difference in tax treatment of interest on debt and dividends on stock investments. Thin Capitalization prioritizes debt funding in the capital structure, resulting in tax benefits in the form of interest expense that can be treated as a deduction from taxable income. Whereas in capital investment, capital gains in the form of dividends will be taxed. This different treatment of interest and dividends can be a loophole for tax avoidance strategies. The higher the thin capitalization, the higher the interest expense that must be paid, which of course will reduce the company's profit and ultimately reduce the income tax payable (Jumailah, 2020). In the explanation of Article 18 paragraph (1) of the Income Tax Law, it is confirmed that the limit on the amount of borrowing costs that can be charged for tax purposes is determined through the method of determining a certain reasonable level of comparison regarding the ratio between debt and capital (debt to equity ratio), through a certain percentage of borrowing costs compared to operating income before deducting borrowing costs, taxes, depreciation and amortization (earnings before interest, taxes, depreciation, and amortization) or through other methods. The measurement of thin capitalization in this study uses the ratio of total debt divided by total capital (Nirmalasari & Susilowati, 2021). The following formula is used:

$$\text{Thin Capitalization} = \text{Debt} / \text{Capital}$$

**3. RESEARCH METHOD**

**Research Type**

In this study using associative quantitative methods. According to (Sugiyono, 2020) quantitative methods can be interpreted as research methods based on the philosophy of positivism, used to research on certain populations or samples, data



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collection using quantitative or statistical data analysis research instruments, with the aim of testing predetermined hypotheses.

This research refers to the formulation of associative problems, where this research asks about the relationship between two or more variables to other variables (Sugiyono, 2017). This study aims to test and provide empirical evidence regarding the effect of Environmental Social Governance (ESG) and Thin Capitalization as independent variables on Tax Avoidance as the dependent variable. The data used in this study are secondary data obtained from the website of each Kompas 100 index company listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period.

**Place and Time of Research**

This research was conducted at Kompas 100 Index companies with secondary sources from the website [www.idx.co.id](http://www.idx.co.id) and the websites of each company. The observed period is for five years from 2019 to 2023. This research time was carried out starting from the Proposal Seminar in November 2023 and finished in November 2024.

**Operational Research Variables**

According to (Sugiyono, 2016) Research variables are anything in the form of anything set by researchers to study so that information is obtained about it, then conclusions are drawn. The purpose of operational variables is to provide a description of researchers that is relevant to theory and consistent with quantitative research principles and research tools (Ani, 2022). The research variable consists of two variables, namely the dependent variable and the independent variable. The definition of each research variable is as follows:

**Population and Sample**

The population that is the object of this research is companies listed on the Kompas 100 stock market index on the Indonesia Stock Exchange (IDX) during the 2019-2023 period. The sampling method in this study was purposive sampling. The purposive sampling method is a sampling technique with certain considerations (Sugiyono, 2020). The following sample criteria will be selected:

1. Kompas 100 stock market index companies listed on the Indonesia Stock Exchange (IDX).
2. Kompas 100 stock market index companies listed on the Indonesia Stock Exchange (IDX) consecutively during the 2019-2023 period.
3. Companies that publish ESG scores in the Bloomberg database consecutively during the 2019-2023 period.
4. Companies that experienced 5 consecutive years of profit during the 2019-2023 period.

**Data Collection Technique**

Data collection techniques are the main step in research to meet the established data standards. The data used in this study are based on secondary sources. Secondary sources are sources that do not directly provide data to data collectors, for example through other people or documents (Sugiyono, 2020). The secondary sources used in this study are documents in the form of annual financial reports of the Kompas 100 Index companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period through the official websites of their respective companies and the IDX website [www.idx.co.id](http://www.idx.co.id).

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**Data Analysis Technique**

The analytical method used in this research is the panel data regression analysis method with the E-Views 12 statistical program, because the data used in this research is panel data which is a combination of time series data and cross section data. Panel data can be tested with the accuracy of the statistical test model.

**4. DATA ANALYSIS AND DISCUSSION**

Analysis of the results of this research will be in the form of outlines in table 1 to Table 14 :

**Descriptive Statistics Test****Table 1 : Descriptive Statistics Test**

Date: 10/29/24 Time: 17:28

Sample: 2019 2023

	Y	X1	X2
Mean	-0.782459	3764.333	9206.667
Median	-0.708686	3338.500	5248.500
Maximum	-0.553972	5642.000	28872.00
Minimum	-1.595131	1703.000	882.0000
Std. Dev.	0.252896	1050.994	8963.490
Skewness	-2.146527	0.161491	1.321933
Kurtosis	6.536198	1.980711	3.379929
Jarque-Bera	38.66876	1.429085	8.917965
Probability	0.000000	0.489416	0.011574
Sum	-23.47378	112930.0	276200.0
Sum Sq. Dev.	1.854730	32033093	2.33E+09
Observations	30	30	30

*Source : Self Proceed*

In table 1 above shows that this study consists of 6 companies and has 30 observation data. Based on the table above, it states that the average value of the dependent variable, namely tax avoidance (ETR), shows a result of -0.782459, a maximum value of -0.553972, and a minimum value of -1.595131. There are 2 independent variables in this study. The first variable, namely Environmental Social Governance (ESG), obtained an average value of 3764,333, a maximum value of 5642,000 and a minimum value of 1703,000. The second independent variable, namely Thin Capitalization, obtained an average value of 9206,667, a maximum value of 28872,00 and a minimum value of 882,0000.

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**Panel Data Regression Model Test  
Common Effect Model (CEM)****Table 2 : Common Effect Model (CEM)**

Dependent Variable: Y  
 Method: Panel Least Squares  
 Date: 10/29/24 Time: 17:23  
 Sample: 2019 2023  
 Periods included: 5  
 Cross-sections included: 6  
 Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.713838	0.123054	-5.801021	0.0000
X1	4.33E-05	3.77E-05	1.148187	0.2610
X2	-2.51E-05	4.42E-06	-5.690882	0.0000
R-squared	0.618027	Mean dependent var	-0.782459	
Adjusted R-squared	0.589733	S.D. dependent var	0.252896	
S.E. of regression	0.161985	Akaike info criterion	-0.707987	
Sum squared resid	0.708457	Schwarz criterion	-0.567867	
Log likelihood	13.61980	Hannan-Quinn criter.	-0.663161	
F-statistic	21.84281	Durbin-Watson stat	1.542488	
Prob(F-statistic)	0.000002			

*Source : Self Proceed*

Based on the regression results with the Common Effect Model (CEM), it shows that there is a constant value of -0.713838 with a probability of 0.0000. Has a positive regression value on the Environmental Social Governance variable of 4.326316 with a probability of 0.2610, a negative regression value on the Thin Capitalization variable of -2.514249 with a probability of 0.000.

**Fixed Effect Model (FEM)****Table 3 : Fixed Effect Model (FEM)**

Dependent Variable: Y  
 Method: Panel Least Squares  
 Date: 10/29/24 Time: 17:23  
 Sample: 2019 2023  
 Periods included: 5  
 Cross-sections included: 6  
 Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.886629	0.191707	-4.624906	0.0001
X1	2.22E-05	4.48E-05	0.494704	0.6257
X2	2.25E-06	1.18E-05	0.191711	0.8497

**Effects Specification****Cross-section fixed (dummy variables)**

R-squared	0.790904	Mean dependent var	-0.782459
Adjusted R-squared	0.724374	S.D. dependent var	0.252896
S.E. of regression	0.132770	Akaike info criterion	-0.977211
Sum squared resid	0.387816	Schwarz criterion	-0.603558
Log likelihood	22.65816	Hannan-Quinn criter.	-0.857676
F-statistic	11.88785	Durbin-Watson stat	2.256236
Prob(F-statistic)	0.000003		

*Source : Self Proceed*

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Based on the regression results with the Fixed Effect Model (FEM), it shows that there is a constant value of -0.886629 with a probability of 0.0001. Has a positive regression value on the Environmental Social Governance variable of 2.216243 with a probability of 0.6257, a positive regression value on the Thin Capitalization variable of 2.253038 with a probability of 0.8497.

**Random Effect Model (REM)****Table 4 : Random Effect Model (REM)**

Dependent Variable: Y				
Method: Panel EGLS (Cross-section random effects)				
Date: 10/29/24 Time: 17:24				
Sample: 2019 2023				
Periods included: 5				
Cross-sections included: 6				
Total panel (balanced) observations: 30				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.681611	0.139263	-4.894403	0.0000
X1	2.21E-05	3.92E-05	0.563642	0.5776
X2	-2.00E-05	5.72E-06	-3.493024	0.0017
Effects Specification				
		S.D.	Rho	
Cross-section random		0.100629	0.3649	
Idiosyncratic random		0.132770	0.6351	
Weighted Statistics				
R-squared	0.315246	Mean dependent var	-0.397635	
Adjusted R-squared	0.264523	S.D. dependent var	0.163016	
S.E. of regression	0.139802	Sum squared resid	0.527705	
F-statistic	6.215109	Durbin-Watson stat	1.925331	
Prob(F-statistic)	0.006022			
Unweighted Statistics				
R-squared	0.597804	Mean dependent var	-0.782459	
Sum squared resid	0.745964	Durbin-Watson stat	1.362006	

*Source : Self Proceed*

Based on the regression results with the Random Effect Model (REM), it shows that there is a constant value of -0.681611 with a probability of 0.0000. Has a positive regression value on the Environmental Social Governance variable of 2.209122 with a probability of 0.5776, a negative regression value on the Thin Capitalization variable of -1.998635 with a probability of 0.0017.

**Panel Data Equation Model Selection Test****Uji Chow****Table 5 : Uji Chow**

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.637853	(5,22)	0.0150
Cross-section Chi-square	18.076726	5	0.0029

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*Source : Self Proceed*

The results of the Chow Test show that the Cross Section F probability value is  $0.0150 < 0.05$ , so it can be concluded that  $H_0$  is rejected and  $H_1$  is accepted, so the most appropriate model used in estimating panel data regression is the Fixed Effect Model (FEM).

**Uji Hausman****Table 6 : Uji Hausman**

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.935623	2	0.0848

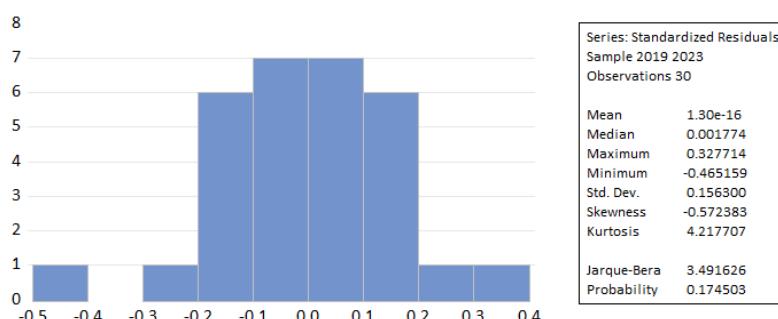
Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	0.000022	0.000022	0.000000	0.9974
X2	0.000002	-0.000020	0.000000	0.0303

*Source : Self Proceed*

The results of the Hausman Test show that the Cross Section Random probability value is  $0.0848 > 0.05$ , so it can be concluded that  $H_0$  is accepted and  $H_1$  is rejected, so the most appropriate model used in estimating panel data regression is the Random Effect Model (REM).

However, according to Nachrowi (2006: 318) in (Fathonah, 2018), if the panel data used has a smaller number of periods than the number of samples, it is recommended to use the Random Effect Model (REM) method, while the Fixed Effect Model (FEM) is more suitable for panel data that has a longer number of time periods than the number of samples. The conclusion is that this research model is more suitable for using the Random Effect Model (REM) because the number of samples is greater than the time period.

**Classic Assumption Test****Normality Test****Table 7 : Normality Test**

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*Source : Self Proceed*

It can be seen that the height of the histogram is not too far apart, but to ensure that the residual data is normally distributed, it can be seen from the probability value of  $0.174503 > 0.05$  with a value so that it can be concluded that the data is normally distributed, thus the assumption of normality is met.

**Multicollinearity Test****Table 8 : Multicollinearity Test**

	X1	X2
X1	1.000000	0.650421
X2	0.650421	1.000000

*Source : Self Proceed*

Based on the Multicollinearity test above, each independent variable, namely Environmental Social Governance and Thin Capitalization, produces a value smaller than 10 or  $< 10$ , it can be concluded that this study does not experience multicollinearity problems.

**Heteroscedasticity Test****Table 9 : Heteroscedasticity Test**

Heteroskedasticity Test: White  
Null hypothesis: Homoskedasticity

F-statistic	1.875842	Prob. F(5,24)	0.1362
Obs*R-squared	8.429688	Prob. Chi-Square(5)	0.1341
Scaled explained SS	10.98533	Prob. Chi-Square(5)	0.0517

*Source : Self Proceed*

In Table 9, it is known that the Prob.Chi-Square (5) value is  $0.1341 > 0.05$ , so it can be concluded that the linear regression equation model does not experience heteroscedasticity.

**Autocorrelation Test****Table 10 : Autocorrelation Test**

Breusch-Godfrey Serial Correlation LM Test:  
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1.025092	Prob. F(2,25)	0.3734
Obs*R-squared	2.273757	Prob. Chi-Square(2)	0.3208

*Source : Self Proceed*

Based on table 10 of the Autocorrelation Test, the Prob.Chi-Square value is  $0.3208 > 0.05$ , it can be concluded that there is no autocorrelation problem or passes the Autocorrelation Test.



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## Multiple Linear Regression Test

Table 11 : Multiple Linear Regression Test

Dependent Variable: Y  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 02/13/25 Time: 19:38  
 Sample: 2019 2023  
 Periods included: 5  
 Cross-sections included: 6  
 Total panel (balanced) observations: 30  
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.681611	0.139263	-4.894403	0.0000
X1	2.21E-05	3.92E-05	0.563642	0.5776
X2	-2.00E-05	5.72E-06	-3.493024	0.0017
Effects Specification				
		S.D.	Rho	
Cross-section random		0.100629	0.3649	
Idiosyncratic random		0.132770	0.6351	
Weighted Statistics				
R-squared	0.315246	Mean dependent var	-0.397635	
Adjusted R-squared	0.264523	S.D. dependent var	0.163016	
S.E. of regression	0.139802	Sum squared resid	0.527705	
F-statistic	6.215109	Durbin-Watson stat	1.925331	
Prob(F-statistic)	0.006022			

Source : Self Proceed

Based on the results of multiple linear data regression tests in Table 11, it can be seen that this study uses the Random Effect Model (REM), the results of the regression equation are as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

$$Y = \alpha - 0.681611 + 2.209122 (X_1) - 1.998635 (X_2) + e$$

Notes:

1. The constant value of -0.681611 indicates that if the Environmental Social Governance (ESG) (X1) and Thin Capitalization (X2) variables are 0, then the Tax Avoidance (Y) variable has a value of -0.681611.
2. The coefficient value of Environmental Social Governance (ESG) (X1) is 2.209122. If the Environmental Social Governance (ESG) variable increases by 1 unit, the Tax Avoidance value will increase by 2.209122, the positive sign indicates that there is a unidirectional relationship between X1 and Y. This shows that if X1 increases, the Y variable increases.
3. The coefficient value of Thin Capitalization (X2) is -1.998635. If the Thin Capitalization variable increases by 1 unit, the Tax Avoidance value will decrease by 1.998635, the negative sign indicates that there is an inverse relationship between X2 and Y. This indicates that if X2

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increases, the Y variable decreases, and vice versa if the X2 variable decreases, the Y variable increases.

**Hypothesis Test****T Statistical Test (T Test)****Table 12 : T Statistical Test (T Test)**

Dependent Variable: Y  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 02/13/25 Time: 19:38  
 Sample: 2019 2023  
 Periods included: 5  
 Cross-sections included: 6  
 Total panel (balanced) observations: 30  
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.681611	0.139263	-4.894403	0.0000
X1	2.21E-05	3.92E-05	0.563642	0.5776
X2	-2.00E-05	5.72E-06	-3.493024	0.0017

*Source : Self Proceed*

Based on the results of the T Statistical Test (T Test), the following explanation:

1. The Environmental Social Governance variable (X1) has a probability value of  $0.5776 > 0.05$ , it can be concluded that partially Environmental Social Governance has no significant effect on Tax Avoidance.
2. The Thin Capitalization variable (X2) has a probability value of  $0.0017 < 0.05$ , it can be concluded that partially Thin Capitalization has a significant and negative effect on Tax Avoidance.

**Statistical Test F (F Test)****Table 13 : Statistical Test F (F Test)**

R-squared	0.315246	Mean dependent var	-0.397635
Adjusted R-squared	0.264523	S.D. dependent var	0.163016
S.E. of regression	0.139802	Sum squared resid	0.527705
F-statistic	6.215109	Durbin-Watson stat	1.925331
Prob(F-statistic)	0.006022		

*Source : Self Proceed*

Based on the results of the F Statistical Test (F Test), the probability value of  $0.006022 < 0.05$  significant value, meaning that the independent variables together (simultaneously) have a significant effect on the dependent variable. It can be concluded that the variables of Environmental Social Governance (X1) and Thin Capitalization (X2) have an effect on Tax Avoidance (Y).

**Determination Coefficient Test (R2)****Table 14 : Determination Coefficient Test (R2)**



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R-squared	0.315246	Mean dependent var	-0.397635
Adjusted R-squared	0.264523	S.D. dependent var	0.163016
S.E. of regression	0.139802	Sum squared resid	0.527705
F-statistic	6.215109	Durbin-Watson stat	1.925331
Prob(F-statistic)	0.006022		

*Source : Self Proceed*

$$KD = \text{Adjusted R-Square} \times 100\% = 0,264523 \times 100\% = 26\%$$

In the Table above, the Adjusted R square value is 0.264523, which means that 26% of the variation in Tax Avoidance can be explained by variations in the Environmental Social Governance and Thin Capitalization variables. While the remaining amount (100% - 26% = 74%) is explained by other causes outside this regression model.

## 5. CONCLUSION & SUGGESTION

Based on the research findings presented in number 4, the following conclusions can be made:

- 1 Environmental, Social, and Governance (ESG) does not have a significant effect on Tax Avoidance in companies listed in the Kompas 100 Stock Index on the Indonesia Stock Exchange (IDX) for the period 2019 – 2023.
- 2 Thin Capitalization has a significant effect on Tax Avoidance in companies listed in the Kompas 100 Stock Index on the Indonesia Stock Exchange (IDX) for the period 2019 – 2023.
- 3 Environmental Social Governance and Thin Capitalization have a significant simultaneous effect on Tax Avoidance in companies listed in the Kompas 100 Stock Index on the Indonesia Stock Exchange (IDX) for the period 2019 – 2023.

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