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Environmental, Social, Governance (ESG) and Tax Avoidance: The Role of Earnings Management as a Moderator

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ABSTRACT

Environmental, Social, and Governance (ESG) is a practice carried out by companies to disclose non-financial information. This disclosure is expected to provide additional information to investors in making investment decisions. However, tax avoidance and earnings management practices are still carried out by company management, making the relationship between the three interesting to study. This study aims to examine the reciprocal influence between ESG and tax avoidance, and the moderation impact of earnings management. This study is quantitative in nature. The population used is companies in the energy sector, and the sample selection uses purposive sampling techniques. The analysis method using Panel data processing uses Stata version 17. The results obtained are that ESG does not affect tax avoidance, and tax avoidance does not affect ESG. The reciprocal effect between ESG and tax avoidance was not proven for mining sector companies in the 2021-2024 period. Earnings management can weaken the relationship between ESG and tax avoidance, but it cannot moderate the relationship between tax avoidance and ESG. Implications of this result are for regulators to strengthen tax governance and regulation of ESG implementation, and provides insights for knowledge about ESG relationships, tax avoidance, and earnings management.

Keywords: ESG; Tax Avoidance; Earnings Management; Reciprocal Impact; Energy Sector

ABSTRAK

Praktik Lingkungan, social, dan tata Kelola (ESG) merupakan praktik yang dilakukan oleh Perusahaan untuk mengungkapkan informasi nonkeuangan. Pengungkapan ini diharapkan dapat memberikan tambahan informasi kepada investor dalam pengambilan Keputusan investasi. Akan tetapi praktik penghindaran

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pajak dan manajemen laba juga masih menjadi praktik yang dilakukan oleh manajemen Perusahaan, sehingga hubungan ketiganya menarik untuk diteliti. Penelitian ini bertujuan untuk mengkaji pengaruh timbal balik antara ESG dan penghindaran pajak, dan dampak moderasi dari manajemen laba. Populasi yang digunakan adalah Perusahaan sektor energi, dan pemilihan sampel menggunakan teknik *purposive sampling*. Metode analisis yang digunakan adalah menggunakan data panel menggunakan stata versi 17. Hasil yang diperoleh adalah ESG tidak berpengaruh terhadap penghindaran pajak, begitupun sebaliknya penghindaran pajak tidak berpengaruh terhadap ESG. Pengaruh resiprokal antara ESG dan Penghindaran pajak tidak terbukti untuk perusahaan sektor pertambangan pada periode 2021-2024. Manajemen laba dapat memperlemah hubungan ESG dan penghindaran pajak, akan tetapi tidak dapat memoderasi hubungan penghindaran pajak dan ESG. Implikasi dari hasil ini adalah bagi regulator untuk memperkuat tata kelola pajak dan regulasi implementasi ESG, serta memberikan wawasan untuk pengetahuan tentang hubungan ESG, *tax avoidance*, dan *earnings management*.

Kata Kunci : ESG; *Tax Avoidance*; *Earnings Management*; Dampak Resiprokal; Sektor Energi

1. INTRODUCTION

Taxes are mandatory payments imposed by the government on individuals for the benefit of the general public (Hidayat & Zuhroh, 2023). Taxes are important in the state, especially in development, because they represent a large part of state revenues to fund all expenditures. According to data reported by the Directorate General of Taxes of the Ministry of Finance, the number of corporate taxpayers who submitted their Annual Income Tax Returns as of April 30, 2023 was still below one million, namely 939,948 or 48.77% of the total number of corporate taxpayers that were required to report. Data from the Directorate General of Taxes shows that the number of corporate taxpayers who filed their Annual Tax Returns increased by 4.13% compared to the same period last year, but did not reach 60%. Subsequently, the state annually received 13,178,812 or 67.78% of individual and corporate tax returns. This ratio has grown 1.61% over the last period. There is an increase in taxpayer compliance, but the achievement of formal taxpayer compliance is still below the target, namely 83% of the total required tax returns of 16.1 million (Putri, 2023). This has resulted in tax avoidance practice through corporate actions. It can result in losses to the state.

ESG is non-financial information covering environmental, social and corporate governance issues (Melinda & Wardhani, 2020). According to the Organisation for Economic Co-operation and Development (OECD), ESG is the process of incorporating environmental, social, and governance factors into Risk Decisions and asset allocation to generate sustainable long-term profits (Sofia, 2024). ESG performance is a key sustainability issue. It has received increasing interest from regulators and market participants (Eccles et al., 2011). Good ESG disclosure allows companies to communicate the efficiency and effectiveness of

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business strategies that will contribute to long-term financial performance and can build and maintain the Company's reputation and the trust of stakeholders (Cai et al., 2024). ESG practices are seldom linked to tax avoidance as they are considered irrelevant, but the social and economic impacts can have important consequences in different countries (Weisbach, 2002). In addition, the rise of ESG investment will be accompanied by an increase in scrutiny for companies engaging in aggressive tax avoidance practices (Nawaz et al., 2021). ESG affects not only tax avoidance but companies that engage in tax avoidance can use ESG disclosures to hide their actions, so there is a reciprocal influence between ESG and tax avoidance. Previous studies (Du & Li, 2023; Elgharbawy & Aladwey, 2025; Hidayat & Zuhroh, 2023) indicates that ESG negatively affects tax avoidance. Companies that implement ESG well focus on long-term goals, thereby avoiding tax avoidance. However, other studies Damayanty & Putri (2020) and Montenegro (2021) say that there is no influence between ESG and tax avoidance. K. Z. Lin et al., (2017) and Liu & Lee (2019) states that tax avoidance is positively associated with ESG. Companies that are involved in tax avoidance practices will try to implement good ESG disclosure to cover their tax avoidance practices. Meanwhile, research (Du & Li, 2023) says that tax avoidance has a negative effect on ESG.

There are differences in results gap based on previous studies, so it is necessary to do re-research. Earnings management is the effort by managers to make accounting choices that affect earnings to meet specific goals in the reported income statement (Scott, 2015). According to research Itan et al., (2024), tax avoidance is a mechanism for managers to manage profits to disguise activities intended to reduce the tax burden. Tax avoidance is seen as a transfer of value from the state to shareholders and also earnings management has an effect on the decline in the value of companies in Ghana (Yorke et al., 2016). Similar studies in developed countries show that companies that manipulate profits tend to take advantage of tax incentives and regulatory loopholes (Delgado et al., 2023). The decline in the value of the company will be impacted by how the two interact in total. It can be concluded from this that the earnings management can strengthen the tax avoidance practices through the profit manipulation, strong governance is needed to mitigate the risks to legitimacy. Research on Chinese listed companies shows that ESG has a negative effect on earnings management (Mao et al., 2024). High ESG disclosure rate results to the reduction of earnings management practices. Cui et al., (2025) also indicated that ESG disclosure will curb earnings management practices, increase transparency and reduce information asymmetry. These results suggest that earnings management is eroding ESG disclosures.

The relationship between ESG and tax avoidance has an urgency to be re-researched because it concerns 3 (three) crucial aspects, namely theory, practice, and policy. The relationship between ESG and tax avoidance is still debatable in theory because on the one hand companies with good ESG should have strong ethics and governance, but empirical evidence shows that companies with high ESG engage in tax avoidance practices to cover ESG costs (Yanto et al., 2025). On the other hand, companies that practice tax avoidance will increase ESG disclosure to reduce the impact of legitimacy risks (Yanto et al., 2025). Based on this

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explanation, this study aims to examine the reciprocal influence between ESG and tax avoidance, as well as the moderation impact of earnings management. The energy sector is the focus of this study. This is because the energy sector is the main spotlight in the implementation of ESG because its operations are at high risk to environmental management and social responsibility (Antonius & Ida, 2023; Nurafifah et al., 2025). This research is also motivated to conduct research in Indonesia because of the socioeconomic and policy differences from developed countries that have been extensively researched in previous research. This research contributes to providing new evidence on the relationship between ESG, tax avoidance, and earnings management. In addition, it offers practical implications for regulators to strengthen tax governance and regulation of ESG implementation, and provides insights for knowledge about ESG relationships, tax avoidance, and earnings management.

2. THEORETICAL FRAMEWORK AND DEVELOPMENT OF HYPOTHESES

2.1 Agency Theory

Agency theory is a concept that explains the relationship between agents (management) and principals (shareholders) in terms of their respective interests and efforts to maximize those interests (Jensen & Meckling, 1979). Agency theory explained that the bond that exists between the agent and the principal as a necessity related (Smulowitz et al., 2019). Management will act opportunistically by prioritizing their own interests over those of shareholders. The existence of different interests between agents and principals will give rise to a problem known as the agency problem.

Tax avoidance occurs because of the difference in interests between the Government as an agent and management as principal (Khamisan & Christina, 2020). The government wants the company to pay taxes according to the applicable regulations, while the management wants the lowest tax burden in order to increase the bonuses received (Yuliana et al., 2023). Management takes advantage of regulatory loopholes to reduce tax burdens, not for the sake of operational efficiency, but for personal gain or maintaining a seemingly positive financial performance. Management can allocate tax avoidance funds to substandard projects, causing overinvestment and underinvestment (Ajmal et al., 2025). Tax avoidance measures not only reduce the transparency of financial statements, but also increase legal risks and can negatively impact the company's value in the long term.

Earnings management is also in line with agency theory, where shareholders are agents and management are principals. Information asymmetry occurs when management has more and more accurate access to financial statement data than the owner (Johanes Simamora, 2019). Management uses the discretion granted by accounting standards to manipulate reported profits, thereby creating distortions in financial statements (Johanes Simamora, 2019). This behavior encourages management tends to maximize personal profits, while owners want to maximize the Company's value and shareholder prosperity (Gupta et al., 2025).

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2.2 Legitimacy Theory

Legitimacy theory states that organizations should operate in a manner consistent with the norms, values, and expectations of society in order to maintain legitimacy in their external environment. They pursue legitimacy for three main reasons: pragmatic (benefits for stakeholders), moral (societal approval), and cognitive (understanding and acceptance) (Suchman, 1995). The theory of legitimacy is based on the social contract, where each company operates in society through a social contract that underlies its survival and development (Choy, 2024). This social contract requires the company to provide socially desirable outcomes to society in general and to distribute economic, social, or political benefits to the groups that are the source of the company's power (Choy, 2024).

ESG reporting is based on the context of legitimacy theory, which is a strategic tool for the company to obtain and maintain social permits for the operational activities (Choy, 2024; Rahman & Alsayegh, 2021; Velte, 2023). The Company uses ESG disclosures to demonstrate alignment of its operations with the values and norms of the Society. In their research, Ching & Gerab (2017) show that the disclosure of the quality of sustainability reports is used to increase the legitimacy of Brazilian companies, especially in sectors sensitive to environmental issues. The results of the study on Asian companies found that company characteristics (economic performance, profitability, leverage, and company size) correlated with the disclosure of additional ESG information, and these findings are consistent with the legitimacy theory that companies provide higher quality ESG reporting to legitimize and justify the Company's continued existence (Rahman & Alsayegh, 2021).

2.3 ESG and Tax Avoidance

In the past, traditional corporate management methods focused on financial performance, but newer methods have developed in a more sustainable direction by addressing financial and non-financial performance focused on ESG (Chang & Lee, 2022). The implementation of ESG reflects a company's concern for the environment, resource consumption, and related emissions (C.-Y. Lin et al., 2022). Good ESG governance indicates a company's compliance with community relations. The relationship between ESG and tax avoidance has not been widely studied in Indonesia. Previous studies conducted by (Du & Li, 2023; Elgharbawy & Aladwey, 2025; Hidayat & Zuhroh, 2023; Yoon et al., 2021) state that ESG has a negative effect on tax avoidance. Similarly, the results of a study (Yoon et al., 2021) using data from companies in Korea from 2011 to 2017 state that ESG has a negative effect on tax avoidance. The more compliant a company is in improving its ESG performance, the lower application of tax avoidance within the company. This is in line with legitimacy theory, whereby through the application of ESG, companies fulfill social norms and expectations, making it impossible to engage in tax avoidance, which has a negative perception in society. Meanwhile, research Kovermann & Velte (2019) states that corporate governance also has the potential

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to increase tax avoidance. This is still in line with legitimacy theory, where governance will give a good assessment to the company, and this is used to carry out tax avoidance with lower risks than the benefits received by the company. Therefore, the hypothesis proposed is:

H_1: ESG has a negative effect on tax avoidance in energy sector companies

Tax avoidance is an action taken by taxpayers to avoid paying taxes using strategies that do not violate tax laws and regulations. These strategies usually involve exploiting loopholes or weaknesses in the law to minimize the amount of tax owed (Septanta, 2023). Management can allocate tax avoidance funds to substandard projects, causing overinvestment and underinvestment (Ajmal et al., 2025) or to increase the bonuses received (Yuliana et al., 2023). Companies that engage in tax avoidance practices will have a greater risk of being considered unethical and lacking good norms by the public. Therefore, companies will disclose ESG information to reduce this reputational risk and gain legitimacy from the public (Du & Li, 2023; Minor & Morgan, 2011). Some studies have identified a phenomenon in which companies use good ESG performance as a "smokescreen" or a distraction to cover up tax avoidance practices (Hien et al., 2025). In this practice, the company strategically increases sustainability activities simultaneously with tax avoidance practices, so that public and investor perception of the company remains positive despite aggressive practices in the taxation (Elamer et al., 2024). In their research, Siti Pratiwi & Djusman Djakman, 2017) stated that companies that engage in aggressive tax avoidance will use ESG to compensate for the reputational costs incurred in order to maintain good value for the company. A similar finding is stated in the research (Widyastuti et al., 2024), which states that tax avoidance has a positive effect on ESG disclosure. Ariff et al., (2024) conducted research in 49 countries and found that companies that practice tax avoidance actually have high ESG performance. This research provides evidence that the pressure to obtain internal funds through tax savings encourages companies to pursue ESG initiatives. Therefore, the hypothesis proposed is:

H_2: Tax avoidance has a positive effect on ESG

2.4 Earnings Management, ESG, and Tax Avoidance

Earnings management is an effort made by company management to maximize company profits for the benefit of management (Scott, 2015). This action is deliberately done to benefit one party by changing the values in financial reports provided to external users (Kartika et al., 2023). When earnings management practices occur, the quality of accounting information decreases, so that various oversight mechanisms, including those related to ESG, become less effective (Jiang et al., 2024). This is related to agency theory, whereby ESG information, which should be additional input for investors in making investment decisions, becomes invalid due to earnings management within the company. Earnings management creates information distortion that hinders the ESG control function against tax avoidance behavior (Delgado et al., 2023b). Earnings management reduces the quality of financial reports because it creates information that does not reflect the actual economic conditions (unfaithful representation). When financial reports are

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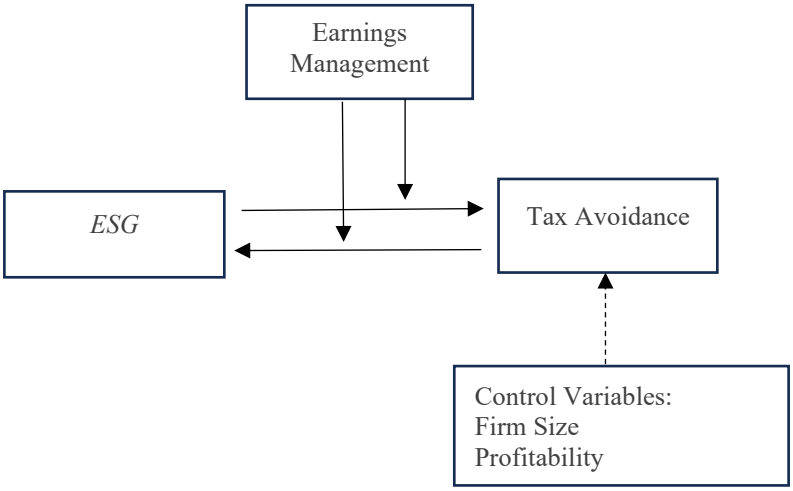
unreliable, all oversight mechanisms, including ESG governance, become less effective (Meyer & Dutzi, 2024). ESG practices are carried out to promote transparency and accountability, but the existence of earnings management practices has an impact on unreliable financial reports and management conceals aggressive behavior, thereby reducing the effectiveness of ESG in suppressing tax avoidance. Therefore, the hypothesis proposed is:

H_3: Earnings management would mitigate the influence of ESG on tax avoidance

Earnings management activities are related to agency theory, where there is information asymmetry between the agent, in this case company management, and the principal, namely the public/investors. The relationship between tax avoidance and ESG can be moderated by earnings management. Earnings management can strengthen the relationship between tax avoidance and ESG. In line with its goal of maximizing profits, earnings management will be carried out by companies through corporate accruals (Ningsih, 2015) or by reducing other costs, such as R&D costs that do not attract much political attention (Sofiya, 2019). With the implementation of earnings management by companies, ESG becomes a solution to reduce the risk of a bad reputation for companies (Pratiwi & Djakman, 2017). Therefore, the hypothesis proposed is:

H_4: Earnings management would strengthen the influence of tax avoidance on ESG

Based on the hypothesis development, the model of this research is as follows:



Source: Author Courtesy (2025)

Figure 1. Research Model

3. RESEARCH METHODS

The population in this study is Energy Sector Companies listed on the Indonesia Stock Exchange (BEI) from 2021 to 2024. The research sample was determined using purposive sampling with the following criteria: companies that publish audited annual reports, do not experience losses, and present information on ESG criteria, either through sustainability reports (SR) or annual reports (AR).

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The data in this study uses unbalanced panel data and is processed using Stata 17 software.

Tax avoidance is an action taken by taxpayers to minimize tax payments using strategies that do not violate tax laws (Oktavia et al., 2021). The tax avoidance variable is measured using the Current Effective Tax Rate (ETR) Model, which is formulated as follows (Hanlon & Heitzman, 2010):

$$\text{Current ETR} = \frac{\text{Current Tax Expense}}{\text{Total Pretax Income}}$$

Explanation:
Pretax Income = Net income before taxes

ESG is a method used by the management of companies that are developing in a more sustainable direction by presenting financial and non-financial performance information (Chang & Lee, 2022). ESG variables are measured using Global Reporting Initiative (GRI) indicators, using the formula:

$$\text{ESG} = \frac{\text{Items Disclosed}}{\text{Total Items}}$$

Earnings management is an effort by managers to make decisions about accounting practices that affect earnings in order to meet predetermined targets in reported earnings (Scott, 2015). Earnings management variables are measured using an accrual earnings management approach measured by the Modified Jones model, with the following formula:

$$TAC_{it} = NI_{it} - CFO_{it}$$

$$\frac{TAC_1}{TA_{it-1}} = b_1\left(\frac{1}{TA_{t-1}}\right) + b_2\left(\frac{\Delta REV_t}{TA_{t-1}}\right) + b_3\left(\frac{PPE_t}{TA_{t-1}}\right) + e$$

$$NDA_{it} = b_1\left(\frac{1}{TA_{t-1}}\right) + b_2\left(\frac{\Delta REV_{it} - \Delta REC_t}{TA_{t-1}}\right) + b_3\left(\frac{PPE_t}{TA_{t-1}}\right)$$

$$DA_{it} = \left(\frac{TAC_{it}}{TA_{it-1}}\right) - NDA_{it}$$

Explanation:
DA = Discretionary accruals
NDA = Non-discretionary accruals
TAC = Total accruals
TA = Total assets for the period
NI = Net Income
CFO = Total cash flow from operating activities
ΔREV = Change in revenue
ΔREC = Change in accounts receivable
PPE = Property, Plant, and Equipment
B = Regression coefficient
i = Company

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t = Year

Company size is a perspective on the size of a company that can be reflected through several aspects such as total assets, sales, equity, and employees (Hashmi et al., 2020). In this study, the company size control variable was calculated using the following formula:

$$\text{FS} = \text{Ln (Total Assets)}$$

Profitability is a company's ability to generate profits related to the sales process, assets, and capital owned by the company (Andrian et al., 2025). The profitability control variable is calculated using the return on assets (ROA) ratio. The ROA ratio indicates a company's ability to utilize its assets to generate profits (Musa et al., 2019) with the following formula:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Analysis Method

This research is a quantitative research. Before analyzing the regression model, it is necessary to test descriptive statistical analysis, panel data analysis, classical assumption testing, and hypothesis testing. The multiple linear regression equation in this study is as follows:

The regression equation for model 1 is as follows:

$TA_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 FS_{it} + \beta_3 ROA_{it} + e_{it}$

The regression equation for model 2 is as follows:

$ESG_{it} = \alpha + \beta_1 TA_{it} + \beta_2 FS_{it} + \beta_3 ROA_{it} + e_{it}$

The regression equation for model 3 is as follows:

$TA_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 EM*ESG_{it} + \beta_3 FS_{it} + \beta_4 ROA_{it} + e_{it}$

The regression equation for model 4 is as follows:

$ESG_{it} = \alpha + \beta_1 TA_{it} + \beta_2 EM*TA_{it} + \beta_3 FS_{it} + \beta_4 ROA_{it} + e_{it}$

4. DATA ANALYSIS AND DISCUSSION

4.1 Data Analysis

Based on the purposive sampling criteria used in this study, a sample of 74 companies and 255 data points from 2021-2024 were obtained. The following table shows the number of data points per purposive sampling criterion:

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Table 1. Number of Data

Purposive Sampling Criteria	Number of Samples				
	2021	2022	2023	2024	Total
Energy sector companies officially listed on the IDX for the period 2021-2024	69	72	80	86	307
Energy sector companies that did not publish audited annual financial reports for the 2021-2023 period and fully disclose research variable information.	-1	-2	-3	-7	-13
Energy sector companies that incurred losses or had a current ETR of less than 0 or more than 1	-19	-14	-13	-	-58
Energy sector companies that do not publish SR	-	-3	-	-	-11
Number of research samples	35	45	55	53	225

Source: Author Courtesy (2025)

Descriptive statistics were analyzed to describe the observed variables based on the mean, minimum, maximum, and standard deviation calculations, as described below:

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
ESG	225	0.4146	0.2685	0	1
TA	225	0.2363	0.1656	0	0.8779
EM	225	-0.0225	0.1141	-0.3413	0.3184
ROA	225	0.1168	0.1249	0.0001	0.6163
FS	225	29.2154	1.7440	25.2257	32.7645

Note: TA = Tax Avoidance, EM = Earnings Management, ROA = Profitability, FS = Firm Size

Source: Processed Data, STATA v.17 (2025)

On Table 2, ESG is measured using GRI indicators disclosed by companies. The mean value obtained is 0.4146, which indicates that the mining sector companies sampled in the study disclose an average of 41.46% of the total 84 ESG indicators contained in the GRI. Tax avoidance has a mean value of 0.2363, indicating that on average companies pay 23.63% of their pre-tax profits in taxes. Earnings management has a mean value of -0.0225, it is indicates that companies in the research sample tend to implement earnings management by reducing the company's profit value, as reflected in the negative results. profitability variable has a mean value of 0.1168, indicating that on average, companies generate a profit of 11.68% on each use of assets. the Company size variable measured using Ln total assets has a mean value of 29.2154. The standard deviation of 1.7440 is smaller than the mean value, indicating that the data is homogeneous. The minimum value is 25.2257 and the maximum value is 32.7645. From these two values, it can be seen that there is a significant difference between the highest and lowest values, indicating that companies in the mining sector have varying asset values.

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Panel data testing is used in this study to combine time series data and cross-sectional data. In panel data, there are three regression models that can be applied, namely the Common Effect Model (CEM), Random Effect Model (REM), and Fixed Effect Model (FEM) to determine the most appropriate regression model. The Chow test serves to test the appropriate model between the common effect model and the fixed effect model. The following are the results obtained from the Chow test that has been observed:

Table 3. Chow Test Results

	Model 1	Model 2	Model 3	Model 4
Prob > F	0.0000	0.0000	0.0000	0.0000
A	0.05	0.05	0.05	0.05
Selected model	FE	FE	FE	FE

Source: Processed Data, STATA v.17 (2025)

In this test, the hypothesis tested was H0, which is the Common Effect Model (CEM), and H1, which is the Fixed Effect Model (FEM). Table 3 shows that the prop value for all four models is 0.0000, which is less than 0.05, indicating that H0 is rejected and H1 is accepted. Therefore, the model selected is the Fixed Effect Model (FEM).

The Hausman test is a type of advanced test that aims to determine which model is better between the fixed effect model and the random effect model. The following are the results of the Hausman test that was studied:

Table 4. Hausman Test Results

	Model 1	Model 2	Model 3	Model 4
Prob > chi2	0.2716	0.0060	0.0445	0.0138
A	0.05	0.05	0.05	0.05
Selected Model	RE	FE	FE	FE

Source: Processed Data, STATA v.17 (2025)

The hypothesis tested in this test is H0, which is the Random Effect Model (REM), and H1, which is the Fixed Effect Model (FEM). Based on Table 4, it can be seen that models 2, 3, and 4 have a probability value < 0.05, so the model chosen is the Fixed Effect Model (FEM). Meanwhile, model 1 has a probability value of 0.2716, which is greater than 0.05, so the model chosen is the Random Effect Model (REM).

The Lagrange Multiplier (LM) test aims to test the appropriate model between the common effect model and the random effect model. The following are the results of the Lagrange multiplier test that has been conducted:

Table 5. Hausman Test Results

	Model 1
Prob > chi2	0.000
A	0.05
Selected Model	RE

Source: Processed Data, STATA v.17 (2025)

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In this test, the hypothesis used is that H0 is the Common Effect Model (CEM) and H1 is the Random Effect Model (REM). Based on Table 5, the results show that the probability value of 0.0000 is less than 0.05, which indicates that H1 is accepted, and the model selected is the Random Effect Model (REM).

The classical assumption test was conducted with the aim of ensuring that there was no bias in the regression model. The normality test was conducted to determine whether the data was normally distributed or not.

Table 6. Normality Test Results

	Model 1	Model 2	Model 3	Model 4
Prob > chi2		0.1456	0.0621	0.1262
A		0.05	0.05	0.05
Description	No need for classical assumption testing	normal	normal Winsor 5%	normal Winsor 5%

Source: Processed Data, STATA v.17 (2025)

On Table 6, it can be concluded that for model 1, there is no need to conduct a classical assumption test because the selected model is REM. For model 2, the data is normally distributed without data treatment, while for models 3 and 4, the data is normally distributed after applying 5% winsor treatment. The variables that underwent winsor treatment were tax avoidance, earnings management moderation, and profitability.

The multicollinearity test is intended to examine the relationship between the variables in the previously determined regression model by looking at the Variance Inflation Factor (VIF) value. In a research model that is considered appropriate, the VIF value should be < 10 and the 1/VIF value should be > 0.10. Based on Table 7, it can be concluded that models 2, 3, and 4 have data that is free from multicollinearity.

Table 7. Multicollinearity Test Results

Var	Model 1	Model 2		Model 3		Model 4	
		VIF	1/VIF	VIF	1/VIF	VIF	1/VIF
ESG				4.13	0.2419		
TA		3.20	0.3124			4.10	0.2441
EM				1.17	0.8539	1.27	0.7872
ROA		1.99	0.5037	2.22	0.4508	2.21	0.4525
FS		4.62	0.2163	4.36	0.2292	5.40	0.1850
Mean VIF		3.27		2.97		3.24	
Note	No need for classical assumption testing						

Source: Processed Data, STATA v.17 (2025)

The autocorrelation test serves to determine whether there is a relationship or correlation between values in a time series and the previous time period.

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Table 8. Autocorrelation Test Results

	Model 1	Model 2	Model 3	Model 4
Rho_ar		0.3884	0.2567	0.3915
A		0.05	0.05	0.05
Description	No need for classical assumption testing	Free of autocorrelation	Free of autocorrelation	Free of autocorrelation

Source: Processed data, STATA v.17 (2025)

Based on Table 8, it can be seen that the rho_ar value is > 0.05 for models 2, 3, and 4, so the data is free from autocorrelation. The heteroscedasticity test was used to ensure that the residual variation between data in the regression model was not the same. For models 2, 3, and 4, they initially did not pass the heteroscedasticity test because the Prov > chi2 value was less than 0.05, so robust treatment was required to pass the heteroscedasticity test.

The Coefficient of Determination ($^{R^2}$) test aims to evaluate the extent to which the independent variables or model can explain the variation in the dependent variable.

Table 9. Results of the Coefficient of Determination Test

	Model 1	Model 2	Model 3	Model 4
Within	0.0147	0.1109	0.0561	0.1125
Between	0.0443	0.3263	0.0051	0.2428
Overall	0.0574	0.2872	0.0003	0.2611

Source: Processed Data, STATA v.17 (2025)

On Table 9, can be seen that in Model 1, the ESG variable only affects the tax avoidance variable by 5.74%, with the remainder being influenced by other factors. Meanwhile, in Model 3, when there is a earnings management moderation variable, the ESG variable only affects the tax avoidance variable by 0.3%. For model 2, it can be concluded that the tax avoidance variable influences the ESG variable by 28.72%, with the remainder influenced by other variables. Meanwhile, in model 4, when there is a earnings management moderation variable, the tax avoidance variable influences the ESG variable by 26.11%.

The t-test is performed by comparing the t-probability value with the predetermined significance threshold. If the independent variable has a partial effect on the dependent variable with a probability value less than the significance threshold of 5%, then the test results indicate that the independent variable has an effect on the dependent variable.

Table 10. Results of t-test

		Coefficient	z	P > |z|	Hypothesis	Conclusion
Model 1	Cons	0.0136	0.05	0.963		
	ESG	0.0219	0.24	0.809*	H_1: -	Rejected
	ROA	-0.2239	-2.27	0.023		
	FS	0.0083	0.80	0.425		

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Model 2	Cons	-4.5736	-3.59	0.00		
	TA	-0.0688	-0.63	0.527*	H_2: +	Rejected
	ROA	-0.2239	-1.58	0.115		
	FS	0.0083	3.95	0.000		
Model 3	Cons	0.6246	0.63	0.530		
	ESG	-0.0508	-0.83	0.409		
	EM*ESG	-0.3877	-2.29	0.024*	H_3: mitigate	Accepted
	ROA	-0.2457	-2.04	0.043		
Model 4	Cons	-4.6712	-3.61	0.00		
	TA	-0.0512	-0.45	0.654		
	EM*TA	0.2249	-0.50	0.616*	H_4: strengthen	Rejected
	ROA	-0.2425	-1.49	0.137		
	FS	0.1753	3.97	0.000		

Source: Processed Data, STATA v.17 (2025)

Table 10 shows the results of the hypothesis test H_1-H_4 that has been built and the results of the regression equations for models 1-4. The influence of ESG on tax avoidance has the value of P > |z| of 0.809 is greater than 0.05, so it can be concluded that ESG has no effect on tax avoidance and H_1 is rejected. This indicates that ESG performance does not has relationship with the tax avoidance practices carried out by the Company. The influence of tax avoidance on ESG has the P > |t| value of 0.527 is greater than 0.05, so it can be concluded that H_2 is rejected, and tax avoidance is not influenced by ESG. The role of earnings management moderation on the influence of ESG on tax avoidance has the P value > |t| of 0.024 is smaller than 0.05, so it can be concluded that H_3 is accepted. The role of earnings management moderation on the influence of tax avoidance in ESG has the value of P > |t| of 0.616 is greater than 0.05, so it can be concluded that H_4 is rejected.

4.2 Discussion

4.2.1 ESG and Tax Avoidance

Based on the test results, ESG has no effect on tax avoidance, and H_1 rejected. In Indonesia, ESG disclosure through sustainability reports is currently carried out primarily in response to legitimacy pressures. ESG is only symbolic and serves as a means of fulfilling obligations. ESG is only used as window dressing to make companies appear as if they care about the environment, their employees, and have good governance (Journeault et al., 2021). Based on descriptive analysis, the ESG indicator disclosure value is 41.46%, which can be indicated to be low because there is no regulation that provides clear punishment. The dominance of economic interests is more of a concern for company management. Tax avoidance decisions are heavily influenced by motives to increase profits, shareholder pressure, and the acquisition of incentives. Meanwhile, ESG commitments that do not impact managerial incentives and punishment for companies will override economic interests. Furthermore, if a country has weak tax enforcement, significant regulatory loopholes, and low tax transparency, it will provide companies with the opportunity

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to engage in tax avoidance without social pressure (Kovermann & Velte, 2021), so there is no need to align tax strategies with ESG disclosure commitments. In addition, ESG and taxation are often handled by different departments within the Company. The sustainability team is responsible for ESG reporting and creating a good public reputation, while the tax team is tasked with legally minimizing the tax burden. Because there is no coordination formed, good ESG performance can run in parallel with aggressive tax avoidance practices without affecting each other (Mustapha et al., 2023). The results of this study are consistent with previous research conducted by Arieftiara et al., (2025), Mustapha et al., (2023), and Sibuea & Afriani (2025) which states that ESG does not effect on tax avoidance.

Based on the test results, tax avoidance does not effect on ESG, and H_2 rejected. Many studies state that sustainability practices and tax strategies are "decoupled" or separate strategies (Velte, 2025). Tax avoidance is a reality of financial practice while ESG is a symbol of sustainability commitment, both of which run in parallel without substantially influencing each other. A study in the European Union from 2017-2022 with 2,076 observations found that CSR decoupling (the separation between claims and CSR practices) was positively associated with tax avoidance (Velte, 2025). ESG practices are driven more by the need to maintain legitimacy in the face of pressure from regulators, capital markets, and institutions (Carolina et al., 2021; Khairin & Firmansyah, 2025). In developing countries, such as Indonesia, tax issues are not yet integrated into the ESG disclosure agenda, so companies that engage in tax avoidance can continue to operate without social pressure, resulting in a lack of real commitment to improving ESG performance. In their exploratory study of tax and ESG practitioners, Mustapha et al., (2023) found no evidence to support corporate hypocrisy. This indicates that companies do not feel hypocritical or lose legitimacy when doing tax avoidance and good ESG disclosure at the same time. ESG and tax planning are considered two separate activities (Mustapha et al., 2023). Companies with good finances can easily do both, namely tax avoidance and building a good ESG image (Ariff et al., 2024).

4.2.2 The role of Earnings Management Moderation

Based on the test results, H_3 was accepted, earnings management mitigate the relationship between ESG and tax avoidance. When earnings management occurs, the quality of accounting information declines, rendering various oversight mechanisms, including those related to ESG, less effective (Jiang et al., 2024). This occurs because earnings management creates information distortions that hinder the ESG control function against tax avoidance behavior (Delgado et al., 2023b). Earnings management reduces the quality of financial statements because it creates information that does not reflect the actual economic conditions (unfaithful representation). When financial statements are unreliable, all oversight mechanisms, including governance in ESG, become less effective (Meyer & Dutzi, 2024). ESG practices are carried out to encourage transparency and accountability, but the existence of earnings management practices has an impact on unreliable financial reports and management concealing aggressive behavior, thereby

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reducing the effectiveness of ESG in suppressing tax avoidance. Yusnita (2023) found that when earnings management is carried out, the impact of CSR on tax avoidance becomes stronger. In other words, if management does earnings management, good ESG practices cannot cover the legitimacy risks of tax avoidance.

Based on the results, Earnings management could not moderate the relationship between tax avoidance and ESG, so H_4 was rejected. A clear functional separation between the domains of taxation, earnings management, and ESG practices prevents earnings management from reinforcing the influence of tax avoidance on ESG (Velte, 2025). Earnings Management does not moderate the relationship between tax avoidance and ESG because these two variables, tax avoidance and ESG, operate on different paths and have a relatively independent motivation from earnings management interventions so that they do not produce a strengthening or weakening effect. ESG is a construct that reflects a company's long-term commitment to sustainability, good governance, and social responsibility, whereas earnings management is a short-term accounting practice that involves the discretionary manipulation of profits through accruals or real activities to achieve certain targets. This earnings management cannot moderate ESG on corporate tax decisions (Firmansyah et al., 2026). From an agency theory perspective, managers engage in earnings management to maximize personal benefits such as income-based bonuses or avoid losing jobs due to missed targets, while tax avoidance aims to improve after-tax cash flow for shareholder value, and ESG for long-term reputation or access to green financing. This motivational misalignment prevents earnings management from acting as a moderator.

5. CONCLUSION

Based on the results of this study, it can be concluded that ESG does not affect tax avoidance, and tax avoidance does not affect ESG. The lack of disclosure of ESG indicators in energy sector companies in Indonesia indicates that there are no clear regulations related to punishment, so management is not motivated to disclose ESG in full. Weak tax regulations and significant regulatory loopholes continue to be used by companies to carry out tax avoidance. In addition, separate sustainability practices and tax strategies also cause ESG disclosure and tax avoidance to run in parallel without affecting each other. Earnings management can mitigasi the relationship between ESG and tax avoidance. The existence of earnings management practices has an impact on unreliable financial statements and management that hides aggressive behavior, thereby reducing the effectiveness of ESG in suppressing tax avoidance. However, earnings management does not moderate the relationship between tax avoidance and ESG. Earnings management does not moderate the relationship between tax avoidance and ESG because the two variables, tax avoidance and ESG, operate on different paths and have a relatively independent motivation from earnings management interventions so that they do not produce a strengthening or weakening effect

This research provides insight into the relationship between ESG, tax

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avoidance, and earnings management. In addition, this research also has implications for tax authorities and regulators in the capital market in Indonesia. Tax authorities need to strengthen tax regulations and supervise companies that receive tax incentives. Capital market regulators also need to tighten regulations on sustainability, especially related to ESG items that must be disclosed, rewards and punishments. It is hoped that ESG disclosure can be carried out evenly and uniformly.

The limitation of this study is that it uses an observation period starting in 2021 which is adjacent to post-covid 19, so that many companies suffer losses and are issued as research samples. For further research, researchers can conduct research on companies outside the energy sector or all sectors in Indonesia with a more updated observation period. Further research can use other variables that can affect ESG or tax avoidance, such as corporate governance.

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