ESG Performance and Corporate Tax Aggressiveness: Evidence from Indonesian Listed Firms

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Abstract

This study examines the relationship between Environmental, Social, and Governance (ESG) performance and corporate tax aggressiveness among Indonesian listed firms. Using panel data from non-financial companies that disclosed ESG scores during the 2021–2024 period, this research employs panel regression analysis with the effective tax rate (ETR) as a proxy for tax aggressiveness. The analysis controls for firm-specific characteristics, including firm size, leverage, firm age, liquidity, profitability, market valuation, and board size. Grounded in legitimacy theory, this study investigates whether ESG performance reflects firms' ethical commitment in tax practices or merely serves as symbolic compliance. The empirical findings indicate that ESG performance is positively associated with ETR, suggesting that firms with higher ESG scores tend to exhibit lower levels of tax aggressiveness. In contrast, profitability is found to be a significant driver of tax aggressiveness. These results provide evidence that ESG performance is relevant in shaping corporate tax behavior and offer insights into the effectiveness of mandatory sustainability reporting in Indonesia. The study contributes to the literature on ESG and taxation in emerging markets.

Keywords: ESG performance, tax aggressiveness, effective tax rate

Introduction

One of the primary objectives of firms is to maximize profit, and a commonly adopted strategy to enhance cost efficiency is tax minimization. This practice, widely referred to as tax aggressiveness, involves managerial actions aimed at reducing corporate tax liabilities through legal tax planning or by exploiting regulatory loopholes (Yoon et al., 2021). In Indonesia, the self-assessment tax system grants firms substantial discretion in calculating and reporting tax obligations, thereby increasing opportunities for aggressive tax behavior. Several high-profile cases, such as PT Indofood Sukses Makmur Tbk and PT Adaro Energy Tbk, illustrate how regulatory ambiguity and cross-border transactions can facilitate aggressive tax planning, potentially eroding state revenue and undermining public trust. This concern is further exacerbated by the persistent decline in Indonesia's tax-to-GDP ratio, which fell to 10.07% in 2024 (IKPI, 2025). Although tax aggressiveness

may be legally permissible it remains ethically controversial and poses reputational risks, particularly in an era where corporate accountability and sustainability have become central to stakeholder expectations.

Alongside these developments, the business landscape has experienced a paradigm shift from profit maximization toward sustainability-oriented strategies, reflected in the growing emphasis on Environmental, Social, and Governance (ESG) practices. ESG disclosure has become an important non-financial indicator for investors, regulators, and other stakeholders, particularly following the COVID-19 pandemic, which heightened expectations regarding corporate transparency and social responsibility (Chandrasena et al., 2024). In Indonesia, ESG implementation is institutionally reinforced through POJK No. 51/POJK.03/2017, which mandates sustainability reporting for publicly listed firms. ESG scores are increasingly used as a comprehensive proxy, it remains ethically controversial and poses reputational risks, particularly in an era where corporate accountability and sustainability have become central to stakeholder expectations.

Alongside these developments, the business landscape has experienced a paradigm shift from profit maximization toward sustainability-oriented strategies, reflected in the growing emphasis on Environmental, Social, and Governance (ESG) practices. ESG disclosure has become an important non-financial indicator for investors, regulators, and other stakeholders, particularly following the COVID-19 pandemic, which heightened expectations regarding corporate transparency and social responsibility (Chandrasena et al., 2024). In Indonesia, ESG implementation is institutionally reinforced through POJK No. 51/POJK.03/2017, which mandates sustainability reporting for publicly listed firms. ESG scores are increasingly used as a comprehensive proxy for corporate social responsibility (CSR), given the difficulty of measuring CSR activities quantitatively (Hidayat & Zuhroh, 2023). Consequently, the interaction between ESG performance and corporate tax behavior has emerged as a critical issue in assessing firms' long-term sustainability and legitimacy.

Prior empirical studies investigating the relationship between ESG (or CSR) and tax aggressiveness report mixed results. A substantial body of literature finds a negative association, suggesting that firms with strong ESG performance tend to avoid aggressive tax practices to preserve legitimacy, reputation, and stakeholder trust (Agustini, 2023; Chouaibi et al., 2021; Lee et al., 2021; Yoon et al., 2021). This perspective is largely supported by legitimacy theory, which posits that firms seek social approval by aligning their actions with societal norms, including responsible tax behavior. Conversely, other studies document a positive relationship, arguing that managers may engage in aggressive tax planning to maximize profits while simultaneously increasing ESG disclosures to mask opportunistic behavior—a phenomenon explained by agency theory and the "halo effect" (Davis et al., 2016; Lanis & Richardson, 2013; Mukhtaruddin et al., 2024). Additionally, several studies report no significant relationship, contending that ESG initiatives do not directly address tax policy and that ESG disclosure may function merely as symbolic compliance (Anggraini & Wahyudi, 2022; Wardani & Hidayati, 2025).
Despite the growing literature, two important research gaps remain. First, prior empirical studies examining the relationship between ESG performance and corporate tax aggressiveness report mixed and inconclusive findings, with evidence of positive, negative, and insignificant associations. These inconsistent results suggest that the ESG–tax aggressiveness nexus may be sensitive to model specification and the omission of

relevant firm-specific characteristics. Second, empirical evidence from emerging markets, particularly Indonesia, remains limited, despite the country's unique institutional context characterized by mandatory sustainability reporting under POJK 51/2017 with relatively limited enforcement.

Addressing these gaps is important because understanding whether ESG performance reflects a genuine ethical commitment or merely serves as a legitimizing or symbolic compliance mechanism has significant implications for regulators, investors, and policymakers. This study contributes to the literature by focusing exclusively on Indonesian listed firms and employing a single empirical model with an extensive set of firm-specific control variables to better isolate the relationship between ESG performance and tax aggressiveness, measured by the effective tax rate (ETR). By doing so, this research provides clearer evidence on the effectiveness of POJK 51/2017 and sheds light on whether ESG functions as a mechanism of social legitimacy or risks being reduced to symbolic compliance in the Indonesian context.

Grounded in legitimacy theory, this study posits that firms with higher ESG performance are more likely to align their tax practices with societal expectations and regulatory norms to maintain legitimacy and long-term sustainability. Accordingly, the central hypothesis of this research is that ESG performance is negatively associated with corporate tax aggressiveness. From the perspective of legitimacy theory, firms with high ESG scores are likely to be motivated to reduce tax aggressiveness, as aggressive tax behavior may be perceived as a violation of prevailing social norms.

In Indonesia, the commitment to ESG has been incorporated into several national policies, one of which is the Financial Services Authority Regulation No. 51/POJK.03/2017. This regulation increases institutional pressure on firms to demonstrate transparency in taxation as part of corporate governance responsibility. Thus, according to legitimacy theory, firms with high ESG performance tend to leverage this regulation to reinforce their commitment to social responsibility. This commitment is also reflected in more moderate and responsible tax practices.

This argument is supported by previous studies, which have found that firms that consistently implement ESG practices tend to be less aggressive in tax avoidance (Agustini, 2023; Aliyani & Hadiprajitno, 2023; Amarna et al., 2025; Asmoro et al., 2024; Chandrasena et al., 2024; Chouaibi et al., 2021; Hidayat & Zuhroh, 2023; Lee et al., 2021; Maas, 2022; Nurlaely & Dewi, 2023; Ortas & Alvarez, 2020; Sadjiarto et al., 2024; Son, 2024; Yoon et al., 2021).

H1: ESG has a negative effect on tax aggressiveness.

Research Method

The population of this study consists of all IDX-listed firms that disclose ESG scores during the 2021–2024 period. Based on data obtained from the Refinitiv Eikon database, the total population amounts to 321 firm-year observations.

Table 1. Population Size by Year

Year	2024	2023	2022	2021	2020	Total
Number of Companies	49	96	93	83	51	372

Source: Processed Data, 2025

Sample selection follows a non-probability purposive sampling method. Firms classified under the Financials sector are excluded due to their distinct financing

structures, leverage characteristics, and regulatory environments, which differ systematically from non-financial firms (Fama & French, 2001; Lundstrum, 2009). Firms in the Property and Real Estate sector are also excluded because their income tax treatment is subject to final taxation, as regulated under Government Regulation No. 9 of 2022, which differs from the general corporate income tax regime. These exclusions are intended to improve sample homogeneity and enhance the validity of the empirical analysis.

The study employs quantitative secondary data expressed in numerical form. The data include income tax expense, pre-tax income, net income, statutory tax rates, ESG scores, total assets, current assets, current liabilities, total debt, total equity, stock closing prices, total shares outstanding, board size, and year of initial public offering. All financial and ESG data are obtained from Refinitiv Eikon, which compiles audited annual reports and sustainability disclosures published by listed firms. Data collection is carried out through documentation and non-participant observation of publicly available corporate reports.

Tax aggressiveness is treated as the dependent variable and is measured using the Effective Tax Rate (ETR), calculated as income tax expense divided by pre-tax accounting income. Lower ETR values indicate higher levels of tax aggressiveness. ETR is measured using the following formula:

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Income taxes}}{\text{Net income before tax}} \quad \ldots\ldots(1)$$

The main independent variable is ESG performance, measured using a composite ESG score that reflects a firm's environmental, social, and governance practices. ESG scores are widely used in prior empirical studies as comprehensive proxies for corporate social responsibility. Data related to ESG scores are obtained from Refinitiv Eikon. Refinitiv's ESG scores are constructed based on ten categories that are grouped into three main pillars: Environmental, Social, and Governance. From these three pillars, an overall ESG score is calculated to reflect a firm's performance, commitment, and effectiveness in ESG practices, based on publicly available data. The score for each pillar is derived by aggregating weighted category scores. The weights assigned to the environmental and social pillars are adjusted according to industry characteristics, while the governance pillar uses fixed weights across all sectors. The final score for each pillar is then standardized on a scale ranging from 0 to 100.

Several firm-level characteristics are incorporated as control variables to mitigate omitted variable bias. These include firm size, leverage, firm age, liquidity, profitability measured by return on assets (ROA), market valuation measured by price-to-book value (PBV), and board size. These variables have been consistently documented in prior literature as determinants of corporate tax behavior. Control variables are measured using the following formula:

$$\text{SIZE} = \text{Ln (Total Asset)} \quad \ldots\ldots(2)$$

$$\text{LEV} = \frac{\text{Total Debt}}{\text{Total Asset}} \quad \ldots\ldots(3)$$

$$\text{AGE} = \text{year of observation} - \text{year of initial public offering (IPO)} \quad \ldots\ldots(4)$$

$$\text{LIQ} = \frac{\text{Total Current Asset}}{\text{Total Current Liabilities}} \quad \ldots\ldots(5)$$

$$ROA=\frac{\text{Net income}}{\text{Total Asset}} \quad \text{.....(6)}$$

$$PBV=\frac{\text{Price per share}}{\text{Book value of equity per share}} \quad \text{.....(7)}$$

BOARD= Total number of directors and commissioners.....(8)

Table 2. ESG Score Measurement Based on Refinitiv Eikon

		ESG Score
Environmental Score	Resource use	20
	Emissions	28
	Innovation	20
Social Score	Workforce	30
	Human rights	8
	Community	14
	Product responsibility	10
Governance Score	Management	35
	Shareholders	12
	CSR strategy	9

Source: Eikon Refinitiv, 2025

Data analysis is conducted using panel regression analysis to examine the relationship between ESG performance and corporate tax aggressiveness. A single regression model is employed in which ESG performance and tax aggressiveness are measured contemporaneously. This specification allows the analysis to focus on whether ESG performance is associated with firms' tax behavior within the same reporting period, while controlling for firm-specific characteristics.

Prior to regression estimation, classical assumption tests are conducted. Multicollinearity is assessed using the Variance Inflation Factor (VIF), with values below 10 indicating acceptable levels. Heteroskedasticity is examined using the Breusch–Pagan test, where a p-value greater than 0.05 suggests homoscedastic residuals. Autocorrelation is tested using the Wooldridge test for panel data. Normality testing is not performed, as the sample size exceeds 30 observations, consistent with the Central Limit Theorem. Descriptive statistics and correlation analysis are used to evaluate data characteristics and relationships among variables. Model feasibility is assessed using the F-test, explanatory power is evaluated through the coefficient of determination (R^2), and hypothesis testing is conducted using t-statistics with conventional significance thresholds. The regression model in this study is employed to test the relationship between ESG and ETR and is specified as follows:

$$ETR_{i,t} = \alpha + \beta_1 ESG_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 AGE_{i,t} + \beta_5 LIQ_{i,t} + \beta_6 ROA_{i,t} + \beta_7 PBV_{i,t} + \beta_8 BOARD_{i,t} + \varepsilon_{i,t} \quad \text{.....(9)}$$

Note:

$ETR_{i,t}$ = *Effective tax rate* firm i in year t
$ESG_{i,t}$ = ESG score firm i in year t
$ESG_{i,t-1}$ = ESG score firm i in year t
$SIZE_{i,t}$ = *Firm size firm i in year t*
$LEV_{i,t}$ = *Firm leverage* firm i in year t

$AGE_{i,t}$ = *Firm age* firm i in year t
$LIQ_{i,t}$ = *Firm liquidity* firm i in year t
$ROA_{i,t}$ = *Return on asset* firm i in year t
$PBV_{i,t}$ = *Price to book value* firm i in year t
$BOARD_{i,t}$ = Total directors and commissioners of firm i in year t
β1 to β9 = Regression coefficient of variable x
$\varepsilon_{i,t}$ = *Standard error*

Result and Discussion

Table 3 summarizes the sample selection process used in this study. The initial population consists of 321 firm-year observations with available ESG scores from 2021 to 2024. From this population, 107 observations were excluded because they did not meet the sample criteria. Specifically, 87 observations were from financial companies and 20 were from property and real estate companies. These sectors were excluded due to their unique financial structures and tax treatments, which could bias the analysis. Thus, the total number of samples meeting the criteria was 214.

Subsequently, further data cleaning was conducted to prepare the dataset for regression analysis. Twenty-six observations were removed due to missing BOARD data, an important control variable in the regression model. Additionally, 18 observations were identified as outliers and excluded based on the following conditions: 15 observations had Effective Tax Rate (ETR) values greater than 1 or less than 0; one observation had an unusually high Price-to-Book Value (PBV); one had negative equity reflected in PBV; and one had an exceptionally low Return on Assets (ROA).

Table 3. Sample Selection Process

Sample	Number
ESG Population (2021–2024)	321
Samples not meeting criteria	
- Financials Companies	87
- Property & Real Estate Companies	20
(a) Total samples meeting criteria	214
Incomplete regression samples	
- BOARD data unavailable	26
Outlier regression samples	
- ETR value > 1 or < 0	15
- PBV value (Too high)	1
- PBV value (Negative equity)	1
- ROA value (Too low)	1
(b) Total regression samples	170

After these exclusions, the final sample used for regression analysis consisted of 170 firm-year observations. This refined sample ensures the robustness and validity of the empirical results.

Table 4 presents the descriptive statistics for the main variables used in this study, based on 170 firm-year observations. The Effective Tax Rate (ETR) has an average value of 0.253 with a standard deviation of 0.134, ranging from 0.147 to 0.815, indicating moderate variation in corporate tax rates among the firms. The ESG score

averages 52.882, with a relatively wide spread as shown by a standard deviation of 17.756 and a range from 11.795 to 88.617, reflecting diverse environmental, social, and governance performance across the sample. Firm size, measured as the natural logarithm of total assets, has a mean of 31.349 and a low standard deviation of 1.059, showing that the sample mainly consists of large firms with some size variation. Leverage exhibits a mean of 0.236, with values between 0 and 0.714, indicating a range of capital structures within the sample. Firm age averages 22.071 years, ranging from newly listed companies to mature firms up to 42 years old. Liquidity, measured by the current ratio, has a mean of 2.283 and varies widely from 0.182 to 10.675, suggesting differences in short-term financial health. Profitability, represented by return on assets (ROA), averages 0.091 but ranges from -0.101 to 0.583, indicating some firms experience losses while others are highly profitable. The price-to-book value (PBV) shows substantial variability, with a mean of 3.406, a high standard deviation of 6.496, and a range from 0.104 to 44.857, demonstrating diverse market valuations. Lastly, board size, which includes directors and commissioners, averages 5.735 members with a range from 2 to 21, reflecting variation in corporate governance structures across the firms. These statistics collectively illustrate the diversity and characteristics of the sample analyzed in this study.

Table 4. Descriptive Statistics

Variable	Obs	Mean	Std Dev	Min	Max
ETR	170	0.253	0.134	0.147	0.815
ESG	170	52.882	17.756	11.795	88.617
SIZE	170	31.349	1.059	28.129	33.790
LEV	170	0.236	0.192	0.000	0.714
AGE	170	22.071	10.352	0.000	42.000
LIQ	170	2.283	1.987	0.182	10.675
ROA	170	0.091	0.085	-0.101	0.583
PBV	170	3.406	6.496	0.104	44.857
BOARD	170	5.735	2.619	2.000	21.000

Source: Processed Data, 2025

Table 5 presents the correlation matrix among effective tax rate (ETR), ESG performance, and firm-specific control variables. the correlation analysis indicates that the effective tax rate (ETR) is negatively and significantly associated with firm profitability (ROA), suggesting that more profitable firms tend to have lower effective tax rates. ETR is also negatively related to firm age, while its correlations with ESG performance, firm size, leverage, liquidity, market valuation, and board size are weak and statistically insignificant. ESG performance shows a positive and significant correlation with firm size, profitability (ROA), price-to-book value (PBV), and board size, indicating that larger, more profitable firms with higher market valuation and larger boards tend to exhibit stronger ESG performance. In contrast, ESG is negatively associated with leverage, implying that firms with better ESG performance rely less on debt financing. Firm size is positively correlated with leverage and firm age but negatively associated with liquidity, profitability, and market valuation. Leverage exhibits a strong negative relationship with profitability and liquidity, while profitability is positively and strongly correlated with market valuation (PBV). Overall, the correlation

coefficients in Table 5 are below the conventional threshold, suggesting that multicollinearity is unlikely to be a serious concern in the regression analysis.

Table 5. Correlation test

	ETR	ESG	SIZE	LEV	AGE	LIQ	ROA	PBV	BOARD
ETR	1.000								
ESG	0.048	1.000							
SIZE	0.002	0.3214***	1.000						
LEV	0.111	-0.195***	0.214***	1.000					
AGE	-0.132*	0.082	0.151*	-0.280***	1.000				
LIQ	-0.0292	0.016	-0.274***	-0.377***	-0.168**	1.000			
ROA	-0.245**	0.290***	-0.151**	-0.429***	0.097	0.051	1.000		
PBV	-0.064	0.190**	-0.197**	-0.082	0.160**	-0.178**	0.542***	1.000	
BOARD	-0.078	0.307***	0.423***	0,079167	0.188**	-0.078	-0.059	-0.010	1.000

Source: Processed Data, 2025

Prior to conducting the regression analysis, classical assumption tests were performed, including tests for multicollinearity, heteroskedasticity, and autocorrelation. The multicollinearity test was applied to the independent variables in the regression model. The results indicate that no multicollinearity problem is present, as evidenced by Variance Inflation Factor (VIF) values that do not exceed the commonly accepted threshold of 10. This suggests that each independent variable provides distinct information and does not excessively explain the variation of other variables in the model.

Furthermore, heteroskedasticity was tested using the Breusch–Pagan method to examine whether the residuals exhibit non-constant variance. The test results show significance levels below 0.05, indicating the presence of heteroskedasticity in the regression models. Finally, autocorrelation was examined using the Wooldridge test, which reveals significance values at the 0.05 threshold, suggesting potential autocorrelation among the residuals.

Based on the classical assumption test results, the regression model exhibits heteroskedasticity and autocorrelation. According to Gujarati & Porter (2009), such violations are common in panel data models due to the combination of time-series and cross-sectional dimensions. In addition, Baltagi (2005) argues that panel regression models can still produce consistent estimators in the presence of heteroskedasticity or mild autocorrelation, particularly when the research objective is to examine relationships among variables rather than to generate long-term predictions. Therefore, the regression analysis is continued despite these violations.

Table 6 presents the regression results examining the effect of ESG performance and firm-specific characteristics on the effective tax rate. The regression results indicate that ESG performance has a positive and statistically significant effect on ETR (coefficient = 0.001; p-value = 0.039). This finding suggests that firms with higher ESG scores tend to pay higher effective tax rates. In other words, companies with stronger sustainability performance are less likely to engage in aggressive tax avoidance practices. This result is consistent with legitimacy theory, which argues that firms seeking to maintain their social and environmental legitimacy are more inclined to adopt ethical tax behavior and comply with tax obligations in order to preserve their public reputation.

With respect to the control variables, firm size (SIZE), leverage (LEV), firm age (AGE), liquidity (LIQ), price-to-book value (PBV), and board size (BOARD) do not exhibit statistically significant effects on ETR. These results suggest that, in this model, firm characteristics and governance structure do not play a decisive role in explaining variations in effective tax rates. In contrast, profitability (ROA) is found to have a negative and highly significant impact on ETR (coefficient = –0.576; p-value = 0.000), indicating that more profitable firms tend to pay lower effective tax rates. This finding implies that highly profitable firms may have greater incentives and capabilities to engage in tax planning strategies that reduce their tax burden.

The model shows moderate explanatory power, with an R-squared value of 0.114, indicating that 11.4% of the variation in ETR can be explained by the variables included in the model. Furthermore, the F-statistic is significant at the 1% level (p-value = 0.011), confirming that the model is statistically valid and appropriate for examining the relationship between ESG performance and effective tax rates.

Table 6. Regression Analysis Result

Variable	ETR t		
	Coef	t-stat	Sig
ESG	0.001	2.080	0.039**
SIZE	-0.004	-0.320	0.752
LEV	-0.021	-0.300	0.766
AGE	-0.002	-1.360	0.176
LIQ	-0.003	-0.500	0.615
ROA	-0.576	-3.580	0.000***
PBV	0.002	1.020	0.310
BOARD	-0.006	-1.410	0.161
C	0.424	1.170	0.242
R2	0.114		
Adj R^2	0.070		
F	2.600		0.011**

Source: Processed Data, 2025

The regression results indicate that ESG performance has a positive and significant relationship with the effective tax rate (ETR), suggesting that firms with stronger ESG commitments tend to pay higher taxes and are less inclined to engage in aggressive tax avoidance practices. This finding implies that ESG-oriented firms demonstrate greater tax compliance as part of their broader commitment to ethical and sustainable business conduct. The result is consistent with a growing body of empirical literature documenting that firms with high ESG performance are less aggressive in minimizing their tax burdens (Agustini, 2023; Aliyani & Hadiprajitno, 2023; Amarna et al., 2025; Asmoro et al., 2024; Chandrasena et al., 2024; Chouaibi et al., 2021; Hidayat & Zuhroh, 2023; Lee et al., 2021; Maas, 2022; Nurlaely & Dewi, 2023; Ortas & Alvarez, 2020; Sadjiarto et al., 2024; Son, 2024; Yoon et al., 2021).

From a theoretical perspective, this result supports legitimacy theory, which posits that firms seek to align their operations with societal norms and expectations in order to secure social approval and maintain organizational legitimacy (Dowling & Pfeffer, 1975; Suchman, 1995). In this context, ESG disclosure serves not merely as an informational tool but also as a symbolic mechanism signaling ethical responsibility.

Paying higher effective tax rates can thus be interpreted as part of a broader legitimacy strategy, whereby firms demonstrate compliance with fiscal obligations to reinforce their social and environmental credibility.

Regarding the control variables, the results show that profitability (ROA) has a significant relationship with tax aggressiveness across all panels, indicating that more profitable firms tend to exhibit higher levels of tax aggressiveness, reflected in lower ETR or higher book-tax differences. This finding aligns with prior studies suggesting that firms with higher profitability possess stronger incentives and greater resources to engage in tax planning strategies aimed at reducing tax liabilities (Santini & Indrayani, 2020). High profitability often reflects extensive operational activities, which provide firms with more opportunities to exploit regulatory loopholes and implement sophisticated tax planning mechanisms.

Furthermore, profitable firms are typically better positioned to utilize various tax incentives, exemptions, and relief facilities provided by tax regulations, thereby lowering their effective tax burden (Ann & Manurung, 2019). This condition creates a contrasting dynamic in which profitability encourages tax aggressiveness, while strong ESG performance constrains such behavior. The coexistence of these effects highlights the tension between profit-maximization motives and reputational considerations in corporate tax decision-making.

In contrast, other control variables, including firm size (SIZE), leverage (LEV), firm age (AGE), liquidity (LIQ), market valuation (PBV), and board size (BOARD), do not exhibit statistically significant effects on ETR. This suggests that, within the context of this study, firm sustainability orientation and profitability play a more dominant role in shaping corporate tax behavior than structural firm characteristics or governance attributes.

Overall, the findings suggest that ESG performance functions as a moderating ethical force that discourages aggressive tax behavior, supporting the argument that sustainability-oriented firms prioritize long-term legitimacy and stakeholder trust over short-term tax savings. At the same time, profitability remains a key driver of tax aggressiveness, underscoring the importance of balancing economic performance with ethical considerations in corporate tax practices.

Conclusion

This study aims to examine the relationship between ESG performance and corporate tax behavior as measured by the effective tax rate. Based on the empirical analysis, the research objective is achieved, providing evidence that ESG performance is associated with corporate tax outcomes, thereby supporting the proposed hypothesis that sustainability orientation is relevant to firms' fiscal behavior. The findings contribute to the growing literature on ESG and taxation by reinforcing the view that corporate sustainability is not limited to environmental and social dimensions but is also reflected in ethical financial practices. However, the explanatory power of the model remains limited, indicating that corporate tax behavior is influenced by a broader set of factors beyond those included in this study. In addition, the use of a single proxy for tax behavior and the reliance on publicly available ESG scores may restrict the comprehensiveness of the analysis, suggesting that the results should be interpreted with caution and should not be generalized beyond the observed sample and period.

The findings of this study are expected to provide insights for key stakeholders, including investors, corporate management, and regulators. For investors, ESG performance may serve as an initial signal in assessing the risk of corporate tax aggressiveness; however, it should be complemented by a deeper evaluation of the consistency between ESG disclosures and firms' actual tax behavior. For corporate management, this study highlights the importance of embedding ESG into core business strategies, not merely as a reputational tool, but as a means to mitigate legitimacy and reputational risks. For regulators, the results underscore the need to strengthen transparency requirements and standardization of ESG reporting, enabling ESG to function as an effective indirect monitoring mechanism over aggressive corporate tax practices.

Future research is encouraged to address these limitations by employing alternative measures of tax aggressiveness, such as book-tax differences or cash effective tax rates, and by incorporating additional firm-specific, institutional, or governance-related variables that may better capture variations in corporate tax behavior. Extending the observation period and expanding the sample to include firms from different industries or countries may also enhance the robustness and generalizability of the findings. Furthermore, future studies may explore potential moderating or mediating mechanisms, such as corporate governance quality or regulatory environments, to provide deeper insights into how and under what conditions ESG performance influences corporate tax decisions.

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