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Corporate Sustainability Behavior and Tax Avoidance: Investigating ESG Disclosure, ESG Controversies, and Profitability Interaction

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ABSTRACT

This study aims to examine the effects of ESG disclosure, ESG controversies, and capital intensity on tax avoidance, with profitability as a moderating variable. Tax avoidance remains a critical issue affecting tax performance in Indonesia, while the increasing adoption of Environmental, Social, and Governance (ESG) practices raises questions regarding corporate tax behavior. Therefore, this study is important for examining the effects of these factors. The study utilizes secondary data from 362 firm-year observations of non-financial companies listed on the Indonesia Stock Exchange during the 2015–2024 period, sourced from Refinitiv Eikon. The analysis was conducted using Moderated Regression Analysis (MRA) with a Fixed Effects Model (FEM) approach in EViews 12. The results indicate that ESG disclosure and capital intensity have a negative effect on tax avoidance, while ESG controversies has no significant effect. Furthermore, profitability weakens the negative effects of ESG disclosure and capital intensity on tax avoidance and moderates the effect of ESG controversies on tax avoidance. These findings indicate that companies with high profitability tend to engage in tax avoidance even with good ESG disclosure, yet reduce tax avoidance when ESG controversies arise. Therefore, adaptive oversight and strengthened corporate governance are necessary.

Keywords: *Capital Intensity; ESG Controversies; ESG Disclosure; Profitability; Tax Avoidance*

INTRODUCTION

Taxes play an important role in Indonesia's state revenue, contributing more than 80% of total government revenue from 2020 to 2024 (Badan Pusat Statistik, 2024). Despite this significant contribution, conflicts of interest between the government and companies remain (Wang *et al*., 2025). The government seeks to optimize tax revenue, while companies, as taxpayers, tend to minimize their tax payments. In Indonesia, the self-assessment system requires taxpayers to calculate, pay, and report their own tax obligations (Zahra, 2025). However, this trust is often called into question when a large number of taxpayers deliberately seek legal loopholes to minimize the amount of tax they must pay, which in turn places considerable pressure on the country's fiscal revenue (Pandapotan, 2023).

Despite the vital role of taxes, Indonesia's tax performance still has significant challenges. Indonesia's tax revenue as a percentage of Gross Domestic Product (GDP) remains among the lowest in the world (Hossain *et al*., 2024) and falls below the 15% standard for developing countries set by the World Bank. According to OECD (2025), at 12% of GDP in 2023, Indonesia's tax collection rate lags behind the Asia-Pacific average of 19.6% and remains well below the 33.9% benchmark common among OECD

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countries. This situation has limited the government's fiscal space to fund essential public services, such as health care, education, and infrastructure development. With a low tax-to-GDP ratio, the government struggles to cover the financing needs of these programs, which are intended to support public welfare and long-term economic growth. If this situation persists, reliance on debt will increase, which could potentially weaken the country's long-term economic stability (Sèna Kimm Gnangnon, 2021). One factor contributing to this gap is the prevalence of tax avoidance practices in both the formal and informal sectors (Chandrasari, 2023).

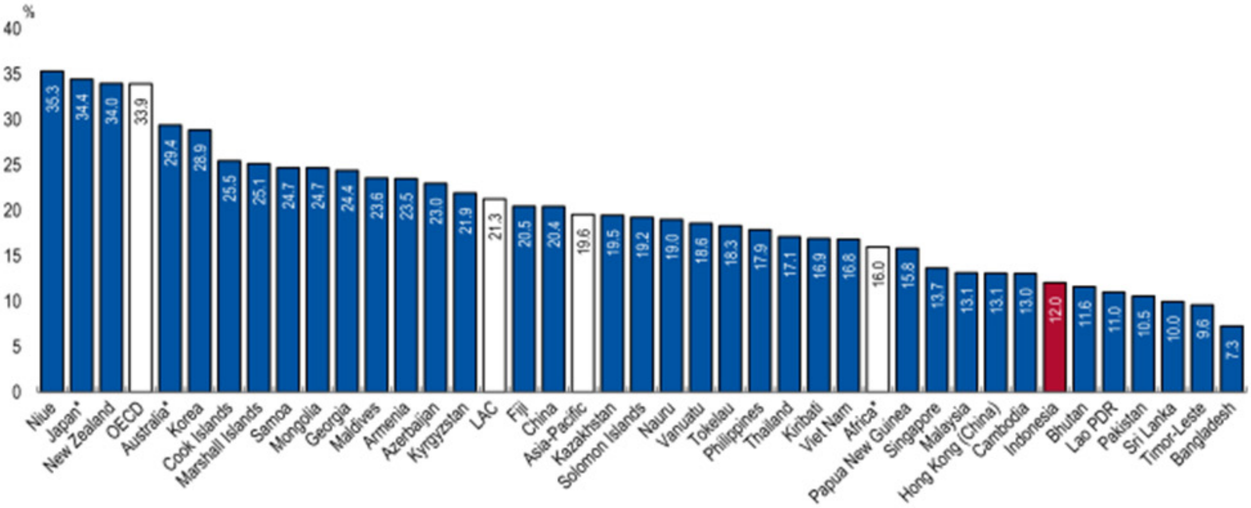

Figure 1. Tax-to-GDP Ratio Asia Pasifik
Source: OECD Publishing (2025*)*

Tax avoidance refers to strategies that are legally permitted and ethically justifiable under certain circumstances (Zahra, 2025). Nevertheless, tax avoidance has come under negative attention because it is considered to have negative impacts. This can reduce government revenue (Fitri and Hakim, 2024). Many taxpayers in Indonesia engage in tax avoidance. One example of tax avoidance in the Indonesian context is PT. Adaro Energy Tbk, which is suspected of reducing its tax burden through transfer pricing practices (Handoyo, Wicaksono and Darmesti, 2022).

Several factors can influence corporate tax avoidance behavior, including the disclosure of Environmental, Social, and Governance (ESG) aspects, ESG-related controversies, and the extent to which a company relies on fixed-asset investments. ESG is a framework for sustainable development that emphasizes environmental, social, and governance aspects. Compared to CSR, ESG focuses more on the strategic and operational dimensions of corporate responsibility (Jiang, Hu and Jiang, 2024). Previous studies on how ESG disclosure affects tax avoidance have yielded inconsistent results. Based on research by Teja (2024) and Mukhtaruddin et al. (2024) a positive effect was found. Meanwhile, research by H. Jiang et al. (2024) showed a negative effect, and research by Shafanur & Ratnasari (2023) indicated that ESG disclosure does not appear to have a significant influence on corporate tax avoidance behavior.

Beyond ESG disclosures, companies may also face controversies related to ESG issues, which can influence their tax avoidance behavior. ESG controversies refer to negative incidents related to environmental, social, and governance issues. ESG controversies refer to negative incident related to environmental, social, and governance. Kim & Lee (2025) f found that ESG-related controversies push companies to engage in aggressive tax avoidance, indicating a fundamental weakness in corporate legitimacy. However, Menicacci & Simoni (2024) state that ESG controversies are inversely related to tax avoidance behavior. Increased negative publicity surrounding ESG issues tends to encourage companies to reduce tax avoidance by fulfilling their tax obligations in an effort to restore their public reputation.

Beyond ESG factors, operational characteristics such as capital intensity also play a role in tax avoidance. Capital intensity, which measures a company's level of investment in fixed assets (Winarta *et al.*, 2024), can influence tax avoidance through depreciation and other tax benefits (Hendayana *et al.*, 2024). Previous studies by Sipayung et al. (2023) found that capital intensity has a positive effect on tax avoidance. However, a study by Suciarti et al. (2020) found the negative effect, while Hendayana et al. (2024) reported that capital intensity has no significant impact on tax avoidance.

This study employs profitability as a moderating variable, which can strengthen or weaken the effects of ESG disclosure, ESG controversies, and capital intensity on tax avoidance behavior (Oktari, Yantiana and Noviarty, 2024). The inclusion of profitability as a moderating factor stems from its ability to capture how effectively a company generates profits, which in turn influences the company's behavior regarding its tax obligations. A high profitability ratio reflects a company's strong ability to generate profits (Hendayana *et al.*, 2024). Furthermore, companies face higher tax burdens, so profitability is directly related to corporate tax planning strategies. Previous research by Hendayana et al. (2024) indicates that profitability positively contributes to a company's engagement in tax avoidance behavior. However, research by Fahmi & Naibaho (2025) found that profitability actually negatively influences tax avoidance.

Although ESG practices are getting more attention in Indonesia, research on ESG controversies, particularly in non-financial companies, remains limited. Furthermore, previous studies have shown inconsistent findings regarding ESG disclosure, ESG controversies, and capital intensity influence tax avoidance behavior. Therefore, this study aims to investigate how ESG disclosure, ESG controversies, and the level of fixed asset investment influence tax avoidance, with profitability as a moderating variable.

This study enriches existing knowledge by analyzing ESG disclosures and ESG controversies simultaneously to capture both the positive and negative dimensions of corporate ESG practices. Additionally, this study explores the moderating role of profitability across all tested relationships, thereby providing insight into how a company's financial condition can influence its tax behavior. Capital intensity is also included to extend the scope of the analysis regarding operational factors that influence tax avoidance.

Furthermore, the use of up-to-date data from 2015 to 2024 enables a more current analysis that reflects recent developments in ESG regulations and tax reforms in Indonesia. By utilizing contemporary data, this study can capture dynamic changes in corporate practices and companies' responses to government policies, while offering practical implications for regulators, market participants, and other stakeholders. The evidence generated by this research is expected to provide guidance for companies to improve the quality of ESG disclosures, manage reputational risks, and optimize tax compliance strategies, while offering clarity to policymakers in drafting effective regulations to promote corporate transparency and social responsibility.

This study uses legitimacy theory and agency theory as its theoretical foundations. Legitimacy theory refers to the efforts made by companies to establish alignment between organizational principles and the dominant societal expectations in their surrounding environment, as companies are part of the social system. Legitimacy theory explains the implicit social agreement between companies and society (Solikhah, Yulianto and Suryarini, 2020). According to legitimacy theory, companies must align their activities with socially accepted principles and the behavioral standards of the communities in which they operate (Shafanur and Ratnasari, 2023). In this regard, companies tend to disclose non-financial information as a legitimation strategy to demonstrate that their activities align with societal expectations and regulations, as well as to maintain their reputation and operational sustainability.

Agency theory conceptualizes a contractual framework in which a principal entrusts an agent with specific responsibilities and decision-making authority to act on their behalf. In this paradigm, shareholders serve as the principal, while company managers act as agents (Apriatna and Oktris, 2022). There are often two distinct interests within a company, which can lead to conflicts of interest. Consequently, the agent may fail to consistently prioritize the principal's welfare and interests (Afrianti, Uzliawati and Noorida, 2022). Such conflicts between principals and agents can affect both corporate competence and the reliability of financial reporting, and can result in agency costs (Sipayung et al., 2023). In the context of tax avoidance, agency conflicts arise from differing interests between regulatory authorities as tax collection administrators and companies positioned as taxpayers (Ainniyya, Sumiati and Susanti, 2021). This occurs because the government aims to optimize tax revenue, while companies, as taxpayers, seek to minimize their tax expenditures.

Hypotheses Development

ESG Disclosure on Tax Avoidance

ESG disclosures reflect a company's commitment to governance, ethics, integrity, and transparency in order to strengthen its reputation and public image. ESG is based on the idea that companies are responsible corporate citizens who can be trusted to choose the best course of action in the interests of the environment, society, and shareholders (Teja, 2024). According to legitimacy theory, companies are expected to implement their ESG initiatives transparently to gain legitimacy in the eyes of the public (Mukhtaruddin *et al.*, 2024).

Companies who are committed to ESG practices will be motivated to act more responsibly in terms of taxation, as ESG is based on the values of sustainability, social responsibility, and effective governance (Khairin and Firmansyah, 2025). Companies with a strong public reputation are assumed to have acted in accordance with proper practices (Shafanur and Ratnasari, 2023). This situation encourages management to consider various strategic actions to maintain and enhance the company's public reputation. Tax avoidance practices are viewed as a reputational risk that threatens the company's legitimacy and future sustainability. Therefore, companies with a strong commitment to ESG tend to minimize such risks through compliance with tax laws and transparent financial reporting. Good ESG disclosure can make companies more accountable in their tax practices, regardless of their political connections. Companies with forward-looking strategies and good ESG disclosure can limit tax avoidance practices because they are more motivated to maintain a positive image by complying with tax regulations (Khairin and Firmansyah, 2025). ESG disclosure not only impacts environmental, social, and governance performance but also strengthens a company's integrity in its tax obligations.

The findings of Jiang et al. (2024) support this argument, revealing that ESG disclosure is inversely related to tax avoidance behavior. According to legitimacy theory and the preceding discussion, there is a reasonable basis to expect that ESG disclosure will reduce a company's involvement in tax avoidance behavior. Based on this rationale, the hypothesis proposed in this study is formulated as follows:

H_1: ESG disclosure is negatively associated with tax avoidance

ESG Controversies on Tax Avoidance

ESG controversies refers to negative events or issues involving environmental, social, and governance dimensions that have the potential to damage a company's reputation. According to legitimacy theory, when a company is involved in an ESG controversy, its credibility in the eyes of stakeholders is threatened (Ihza Mahendra *et al.*, 2025). Companies facing ESG controversies tend to adopt more transparent and responsible practices across their operations to restore stakeholder trust. By demonstrating compliance and ethical behavior, companies not only protect their reputation but also demonstrate their commitment to good governance, social responsibility, and sustainability. Corporate taxation, and tax avoidance in particular, is a controversial dimension of ESG. Corporate tax strategies are increasingly interpreted as an expression of social responsibility rather than mere compliance with regulations, which strengthens legitimacy among a broader range of stakeholders (Menicacci and Simoni, 2024).

This encourages management to view tax compliance as part of a larger strategy to maintain legitimacy and public trust, as well as to align corporate behavior with stakeholder expectations. Consequently, companies may view the reduction of tax avoidance practices as a tool for maintaining legitimacy in response to public concern over ESG issues (Menicacci and Simoni, 2024). Furthermore, to maintain legitimacy in the eyes of the public, companies must comply with tax laws and refrain from harmful tax avoidance practices (Aryatama and Raharja, 2021).

The finding of Menicacci & Simoni (2024) also support this argument, indicating that ESG controversies have a negative impact on tax avoidance. Based on legitimacy theory and the preceding discussion, there is a reasonable basis for predicting that ESG controversies will limit companies' propensity to engage in tax avoidance. On this basis, the following hypothesis is proposed:
H_2: ESG controversies is negatively associated with tax avoidance

Capital Intensity on Tax Avoidance

The concept of capital intensity relates to a company's allocation of resources to tangible fixed assets, reflecting strategic efforts to improve its financial performance (Sipayung et al., 2023). Capital intensity describes the extent to which a company allocates its resources to tangible fixed assets to support operational activities and improve profitability. Agency theory suggests that conflicting objectives between managers and shareholders create information asymmetry, which allows managers to make discretionary choices that can affect tax outcomes. This indicates that management, as agents, has the authority to set the company's investment policies (Afrianti, Uzliawati and Noorida, 2022). Managers can exploit this discretion to pursue their own interests by selecting investment strategies designed to reduce the company's overall tax burden.

The utilization of fixed assets provides companies with an opportunity to reduce their tax burden through annual depreciation (Hendayana *et al.*, 2024). This mechanism lowers a company's taxable income, thereby reducing its tax liability. Companies with a strong commitment to fixed asset investments tend to have greater capacity to implement tax minimization strategies (Aryatama and Raharja, 2021). Companies have greater flexibility in managing accounting policies related to fixed assets to maximize tax efficiency without violating applicable tax regulations. Thus, companies exhibiting higher capital intensity tend to provide management with the means to engage in tax minimization schemes. This finding aligns with the evidence reported by Sipayung et al. (2023), who found a positive effect on tax avoidance.
H_3: Capital intensity is positively associated with tax avoidance

The Moderating Effect of Profitability on the ESG Disclosure - Tax Avoidance

Profitability is a key indicator that reflects how well a company performs and its ability to generate profits efficiently (Fahmi and Naibaho, 2025). Companies with higher profitability face a greater tax burden, thereby creating a stronger incentive to engage in tax avoidance. Social and environmental reporting serves as a tool for stakeholder engagement and legitimacy, intended to strengthen a company's reputation (Safriani and Utomo, 2020). Highly profitable companies possess greater financial resources and managerial discretion to engage in tax avoidance while simultaneously fulfilling their ESG reporting obligations. Although ESG reporting typically reduces tax avoidance by increasing accountability, companies with strong profitability can continue tax planning while remaining compliant with their ESG obligations.

Agency theory suggests that conflicts arise due to differences in interests between agents and principals (Hermi and Petrawati, 2023). In this context, the company acts as the agent, while the government acts as the principal responsible for tax collection. Company management tends to optimize strategies that benefit themselves, including in tax management. In more profitable companies, management has greater capacity and leeway to design well-optimized tax planning approaches, while maintaining the company's legitimacy. This indicates that profitability determines the extent to which ESG disclosures influence tax avoidance, with an increasingly reduced effect on companies with stronger profits (Putri et al., 2022). Therefore, the hypothesis is:

H_4: Profitability weakens the negative effect of ESG disclosure on tax avoidance

The Moderating Effect of Profitability on the ESG Controversies - Tax Avoidance

A company may have many objectives, but the pursuit of profit is universally recognized as its primary goal. This attribute is referred to as profitability (Apriatna and Oktris, 2022). Profitability also serves as a key metric for corporate sustainability, as the fundamental objective of every commercial enterprise is to generate profits, which ensures the organization's long-term survival (Adi, Luayyi and Isnaniati, 2025). Highly profitable companies generally face greater tax liabilities, which encourages them to engage in tax planning and legally optimize tax payments, thereby balancing financial performance and compliance.

ESG controversies refer to environmental, social, or governance issues that have the potential to damage a company's reputation. How a company manages its tax affairs is no longer viewed merely as compliance with regulations, but rather as a reflection of its commitment to responsible behavior, which strengthens the company's legitimacy in the eyes of stakeholders (Menicacci and Simoni, 2024). Highly profitable companies have a greater incentive to reduce their tax burden and maintain profits for shareholders; therefore, even when faced with ESG controversies, their tendency to reduce their tax burden remains high (Zahra, 2025).

Based on agency theory, companies with greater financial capacity tend to optimize their strategies in the interests of shareholders, even at the expense of reputational risk. Consequently, the inverse relationship between ESG controversies and tax avoidance tends to weaken in highly profitable companies. Based on this, the following hypothesis is proposed:

H_5: Profitability weakens the negative effect of ESG controversies on tax avoidance

The Moderating Effect of Profitability on the Capital Intensity - Tax Avoidance

Profitability can moderate the relationship between fixed asset intensity and tax avoidance, as financially stronger firms have greater managerial discretion to optimize investment policies alongside tax strategies without disrupting their operational activities. Capital intensity, represented by investments in fixed assets, has significant tax implications, particularly through depreciation (Sipayung et al., 2023).

According to agency theory, companies with strong financial performance tend to utilize available resources to pursue strategies that enhance shareholder value, including efficient tax planning. Companies with substantial fixed asset burdens tend to allocate funds to fixed assets to reduce tax liabilities (Sipayung et al., 2023). Therefore, companies with stronger earnings tend to exhibit a clearer positive relationship between fixed asset intensity and tax avoidance (Putri et al., 2022). Thus, the hypothesis is:

H_6: Profitability strengthens the positive effect of capital intensity on tax avoidance

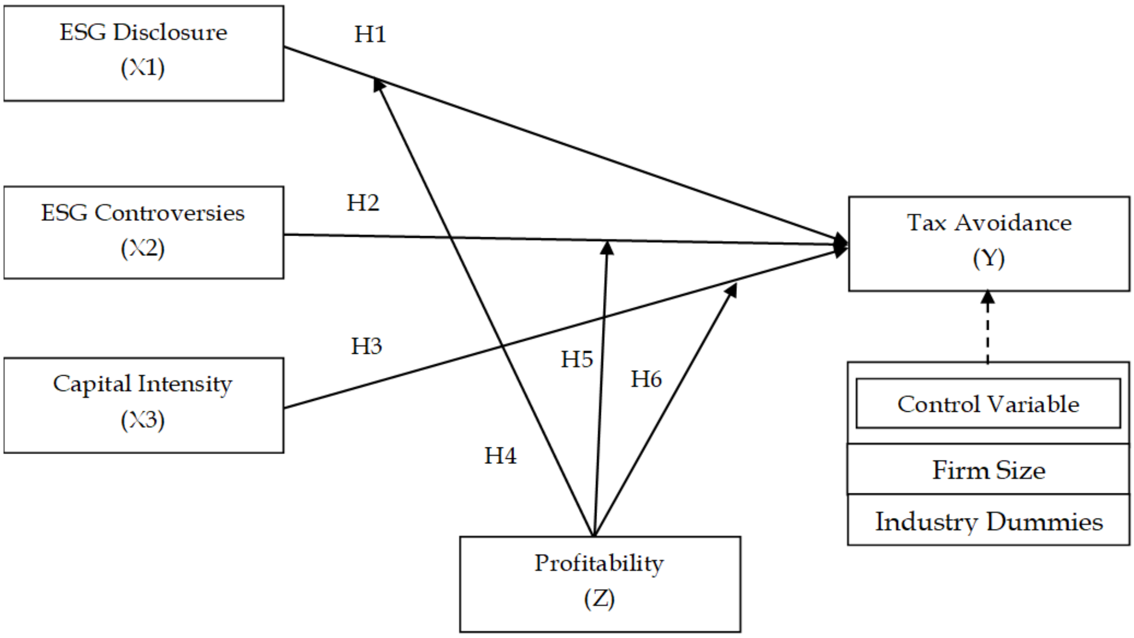

Figure 2. Conceptual Model

METHOD, DATA, AND ANALYSIS

The sample of this study is companies listed on the Indonesia Stock Exchange (IDX). Financial companies were excluded from the sample due to their significantly different operational and reporting characteristics. Furthermore, non-financial companies are more relevant for the application of the Environmental, Social, and Governance (ESG) framework, as their operational activities have a more tangible impact on environmental and social dimensions. This study uses secondary data obtained from Refinitiv Eikon. The observation period includes 10 years, from 2015 to 2024. The sample was selected through purposive sampling, with selection criteria requiring non-financial companies that have ESG disclosure scores and ESG controversy scores for the 2015–2024 period. This study uses an unbalanced panel data, yielding 63 firms (362 observations). All variables, except industry dummies, are Winsorized at 1% and 99% to mitigate distortions arising from outliers and extreme observations (Solikhah and Weng, 2024).

Tax avoidance serves as the dependent variable. The independent variables examined in this study include ESG disclosure, ESG controversies, and capital intensity. Profitability serves as a moderator, while firm size and industry dummy variables are included to account for heterogeneity at the firm and sector levels that may influence tax avoidance. A Fixed Effect Model (FEM) with period fixed effects is adopted to address unobserved heterogeneity that varies over time. Industry dummy variables (manually coded as 0-1 based on specific sectors) are included to capture sector-specific effects. According to Basuki & Royani (2022), FEM operates under the assumption that cross-individual variation is captured through shifting intercepts.

Moderated Regression Analysis (MRA) is utilized to probe the conditioning function of profitability within the ESG controversies–tax avoidance nexus. This analysis is conducted through two sequential regression models. The first model is a baseline model that includes only the main independent variables to test their direct effects on the dependent variable, without including control variables or interaction terms. The second model is designed to evaluate the direct effects of explanatory variables and control variables on the outcome variable, including interaction terms for moderation. The regression equations applied in this study are presented below:

Model 1:
$$TaxAvoid = \alpha + \beta1*ESGD + \beta2*ESGC + \beta3*CAPIN + \varepsilon_{it}$$

Model 2:
$$TaxAvoid = \alpha + \beta1*ESGD + \beta2*ESGC + \beta3*CAPIN + \beta4*(ESGDxROA) + \beta5*(ESGCxROA) + \beta6*(CAPINxROA) + \beta7*SIZE + Industry\ Dummies + \varepsilon_{it}$$

TaxAvoid	=	Tax Avoidance
α	=	Constant
$\beta1$- $\beta7$	=	Regression Coefficients
ESGD	=	ESG Disclosure
ESGC	=	ESG Controversies
CAPIN	=	Capital Intensity
ROA	=	Return on Assets (Profitability)
SIZE	=	Firm Size
Industry Dummies	=	Dummy variable for industry sector
ε_{it}	=	Error term

Table 1. Research Variables

Symbol	Variable	Description	Measurement
Dependent Variable			
TaxAvoid	Tax Avoidance	Earning Tax Rate (ETR) represents the proportion of tax expenses to a company's pre-tax income (Handoyo, Wicaksono and Darmesti, 2022). A high ETR indicates low tax avoidance activity, while a low ETR indicates a higher level of tax avoidance (Pratama and Muhammad, 2025). Therefore, to ease interpretation of the results, tax avoidance is operationalized by multiplying the ETR value by -1, because tax avoidance has an inverse relationship with ETR (Annida and Firmansyah, 2022).	$ETR = \frac{\text{Tax Expense}}{\text{Income Before Tax}}$

Independent Variables			
ESGD	ESG Disclosure	ESG disclosure serves as a key mechanism for companies to communicate non-financial information related to environmental, social, and governance aspects, with its implementation varying depending on the company's size and level of complexity (Shafanur and Ratnasari, 2023).	ESG disclosure is measured based on an ESG score, which is on a scale of 0 to 100; the higher the score, the broader the scope of ESG disclosure and the better the company's ESG performance.
ESGC	ESG Controversies	Environmental, Social, and Governance (ESG) controversies refer to negative incidents related to a company's conduct in the environmental, social, and governance dimensions. One of the controversial issues related to ESG involves corporate taxation in general, and tax avoidance practices in particular (Menicacci and Simoni, 2024).	ESG controversies is measured using an ESG controversy score on a continuous scale from 0 to 100, where a higher score indicates fewer recorded negative ESG incidents (Treepongkaruna, Kyaw and Jiraporn, 2024).
CAPIN	Capital Intensity	Capital intensity represents the way companies allocate their capital into invesment activities (Sipayung et al., 2023).	$\text{CAPIN} = \frac{\text{Total Fixed Asset}}{\text{Total Asset}}$
Moderation Variable			
ROA	Profitability	Profitability refers to a financial ratio that evaluates how efficiently a companie operates and how effectively it generates profits (Fahmi and Naibaho, 2025).	$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Asset}}$
Control Variable			
SIZE	Firm Size	Firm size represents the scale or value of a company, assessable through proxies including total assets, market value, or the natural logarithm of total assets (Apriatna and Oktris, 2022).	SIZE = LN (Total Asset)
Industry Dummies	Industry Dummies	Industry dummy variables are introduced as control variables to absorb the confounding effect of unobserved industry-level characteristics that may affect corporate tax avoidance. The utilities industry (Industry 10) is designated as the baseline category to prevent multicollinearity.	Dummy variables for industrial sector, 1 = belongs to sector, 0 = otherwise.

Source: Data Processed (2026)

RESULTS AND DISCUSSION

Result

Table 2. Sample Distribution

Number	Industry	Frequency	Frequency %
1	Communication Service	56	15.47%
2	Consumer Discretionary	18	4.97%
3	Consumer Staples	81	22.38%
4	Energy	59	16.30%
5	Health Care	5	1.38%
6	Industrials	22	6.08%
7	Information Technology	4	1.10%
8	Materials	68	18.78%
9	Real Estate	35	9.67%
10	Utilities	14	3.87%
Total		362	100%

Source: Data Processed in EViews 12 (2026)

The sample distribution consisting of 63 companies listed on the Indonesia Stock Exchange (BEI), grouped into 10 industry sectors during the 2020-2024 observation period, yielding 362 total observations. Sample selection employed purposive sampling based on predetermined research criteria. The consumer staples sector dominated with 81 observations (22.38%), while information technology had the fewest with 4 observations (1.10%).

Table 3. Descriptive Statistical Analysis Report

Variables	Minimum	Maximum	Mean	Std. Dev
ETR	0.0025	2.7309	0.2723	0.2169
ESGD	10.0451	85.2767	46.8490	19.6961
ESGC	43.3927	100.0000	98.9040	6.8525
CAPIN	0.00001	0.9803	0.3926	0.3324
ROA	-0.6595	0.3898	0.0861	0.0950
SIZE	18.3277	31.7046	27.3645	4.6575
Observation	362			

Source: Data Processed in EViews 12 (2026)

The variables include tax avoidance measured by ETR, ESG disclosure (ESGD), ESG controversies (ESGC), capital intensity (CAPIN), profitability measure by ROA, and firm size (SIZE). On average, the sample shows that most observations have a relatively low ETR, which generally indicates higher levels of tax avoidance. The ETR ranges from 0.0025 to 2.7309, with a mean value of 0.2723 and a standard deviation of 0.2169. PT GoTo Gojek Tokopedia Tbk has the lowest ETR value, while PT Bumi Resources Tbk has the highest.

Maximum values greater than 1 may occur when firms report negative pre-tax income and negative tax expenses (tax benefits), which mechanically inflate the ETR ratio. The ESGD ranges from 10.0451 to 85.2767, with a mean value of 46.8490 and a standard deviation of 19.6961. Lower values indicate minimal ESG disclosure, while higher values suggest greater transparency or good ESG disclosure. On average, the level of ESG disclosure among the sample companies varies widely, with most showing moderate disclosure rather than high transparency. The range of ESG controversies is from 43.3927 to 100.0000, with a mean value of 98.9040 and a standard deviation of 6.8525. On average, the sample shows that companies have low exposure to ESG controversies, suggesting relatively minimal negative ESG issues within the sample. A value close to 100.000 indicates minimal issues within the company. Capital intensity ranges from 0.00001 to 0.9803, with a mean value of 0.3926 and a standard deviation of 0.3324. .

The sample indicates that most companies allocate a moderate proportion of their assets to fixed assets. Low values indicate that the proportion of fixed assets to total assets is very small. Return on Assets (ROA) ranges from -0.6595 to 0.3898, with a mean value of 0.0861 and a standard deviation of 0.0950. On average, most of the samples are profitable companies. High ROA values indicate that the company has high profits. Negative values indicate that the company experienced losses, reflecting variations in financial performance. Firm size ranges from 18.3277 to 31.7046, with a mean value of 27.3645 and a standard deviation of 4.6575. On average, the sample is dominated by medium to large-sized firms, with moderate variation across observations. Low firm size values indicate that the company has few assets.

Multicollinearity Test

The multicollinearity test is used to determine whether the independent variables in a regression model exhibit high or perfect correlation (Kusumawardhani, Ying and Yennisa, 2025). This can be evaluated by examining the correlation matrix. In a well-specified regression model, independent variables should not exhibit strong linear relationships with each other. Correlation coefficients among the variables below 0.9 are generally considered acceptable and indicate the absence of multicollinearity (Aliamsyah and Puspitasari, 2022). The correlation matrix presented below confirms that multicollinearity is not a concern in this study.

Table 4. Multicollinearity Test Result

	ESGD	ESGC	CAPIN	ROA	SIZE
ESGD	1.0000	0.0263	0.1610	0.1345	0.2253
ESGC	0.0263	1.0000	0.0434	0.0056	-0.0164
CAPIN	0.1610	0.0434	1.0000	-0.1416	0.8610
ROA	0.1345	0.0056	-0.1416	1.0000	-0.1663
SIZE	0.2253	-0.0164	0.8610	-0.1663	1.0000

Source: Data Processed in Eviews 12 (2026)

Hypothesis Testing

Table 5. Baseline Model

Variable	Model 1		
	Coefficient	t-Stat	P-Value
C	-0.1290	-0.7684	0.4428
ESGD	-0.0018***	-3.1142	0.0020
ESGC	1.0000	0.0069	0.9944
CAPIN	-0.1487***	-2.3537	0.0191
F stat		1.4400	
R-squared	0.0471		
Adj R-squared	0.0144		

Significant levels: *** at 1%, ** at 5%, and * at 10%
Source: Data Processed in EViews 12 (2026)

The model 1 analyze the effect of ESGD, ESGC, and capital intensity on tax avoidance. The coefficient of ESGD is -0.0018 with p-value of 0.0020 and there was negative significant. ESGC has a coefficient of 1.0000 with p-value of 0.9944 and there was no significant effect. Capital intensity has a coefficient value of -0.1487 with p-value of 0.0191 and there was negative significant.

Table 6. Summary of Hypothesis Testing

Variable	Model 2			
	Coefficient	t-Stat	P-Value	Conclusion
C	-0.1999	-0.4626	0.6439	
ESGD	-0.0034***	-3.6650	0.0003	Accepted
ESGC	0.0001	0.0636	0.9493	Rejected
CAPIN	-0.2147***	-2.9610	0.0033	Rejected
ESGD*ROA	0.0192***	3.1079	0.0020	Accepted
ESGC*ROA	-0.0076***	-2.1117	0.0354	Rejected
CAPIN*ROA	1.0215***	2.3508	0.0193	Rejected
SIZE	0.0053	0.3668	0.7139	
F stat		2.7772		
R-squared	0.1712			
Adj R-squared	0.1095			

Source: Data Processed in EViews 12 (2026)

All variables of model 2 are included in this regression; however, the results for industry dummies, as control variables are not reported for brevity. The model 2 shows that the first hypothesis has a coefficient of -0.0034 with a p-value of 0.0003 (< 0.05), so H1 is accepted. Meanwhile, the second hypothesis has a coefficient of 0.0001 with a p-value of 0.9493 (>0.05), so H2 is rejected. The third hypothesis has a coefficient of -0.2147 with a p-value of 0.0033 (<0.05). Although significant, the negative direction is contrary to the predicted positive effect. Therefore, H3 is rejected. The fourth hypothesis has a coefficient of 0.0192 with p-value of 0.0020 (<0.05), so H4 is accepted. The fifth hypothesis has a coefficient of -0.0076 with p-value of 0.0354 (<0.05), indicating that moderating effect is significant, but the negative direction does not support the expected direction. Thus, H5 is rejected. The sixth hypothesis has a coefficient of 1.0215 with p-value of 0.0193 (<0.05). The positive coefficient indicates that profitability actually weakens the negative effect of capital intensity on tax avoidance. This result is not consistent with the hypothesized direction of the relationship; therefore, H6 is rejected.

In addition, the R-squared value of 0.1712 indicates that the independent variables explain 17.12% of the variation in tax avoidance. Meanwhile, the adjusted R-squared value of 0.1095 shows that the model explains 10.95% of the variation in tax avoidance after adjusting for the predictors. Furthermore, the F-statistic value of 2.7772 with a probability of 0.0000 indicates that the regression model is jointly significant, meaning that all independent variables simultaneously have a significant effect on tax avoidance.

DISCUSSION

ESG Disclosure on Tax Avoidance

ESG disclosure has a negative effect on tax avoidance. Thus, H1 is accepted. These findings indicate that companies with high levels of ESG disclosure tend to exhibit lower levels of tax avoidance. This finding is supported by legitimacy theory, which states that companies try to gain and maintain their position in society through transparent and responsible business practices. Strong ESG disclosures reflect a company's commitment to being a good corporate citizen by upholding integrity, transparency, accountability, and social responsibility. Based on this assumption, tax avoidance is viewed as a reputation-damaging act that can harm a company's image and threaten its legitimacy. Therefore, companies will avoid such practices to maintain their legitimacy.

Companies are expected to implement their ESG initiatives transparently to gain legitimacy in the eyes of the public (Mukhtaruddin *et al.*, 2024). Transparency in ESG not only enhances a company's reputation but also reduce tax avoidance. ESG disclosure provides external stakeholders with additional non-financial insights into a company, which helps reduce information asymmetry (Jiang, Hu and Jiang, 2024). From a practical perspective, regulators can push companies to improve ESG transparency to strengthen tax compliance. Thus, companies build their reputation and legitimacy while indirectly reducing tax avoidance, providing a double benefit for both the company and its stakeholders.

These findings are consistent with research conducted by Jiang, Hu and Jiang (2024), which shows that higher ESG disclosure tends to reduce tax avoidance. Furthermore, companies active in ESG initiatives demonstrate their dedication to responsible and principled operational behavior, which can influence managerial decision-making regarding tax strategy. High ESG transparency generates social pressure, reduces incentives for aggressive tax avoidance, while also enhancing stakeholder trust and facilitating access to capital. Thus, beyond mere compliance, ESG disclosure serves as a strategic tool that aligns corporate behavior with societal expectations and mitigates tax-related risks.

ESG Controversies on Tax Avoidance

ESG controversies do not have a significant effect on tax avoidance. Thus, H2 is rejected. This means such controversies are not yet strong enough in Indonesia to motivate companies to change their tax behavior. Different from proactive ESG disclosures that can influence management decisions from the outset, ESG controversies are reactive, emerging only when issues arise. According to legitimacy theory, company involvement in ESG controversies threatens credibility in the eyes of stakeholders, thereby triggering legitimacy restoration efforts through reduced tax avoidance (Ihza Mahendra *et al.*, 2025). However, this finding indicates the existence of contextual boundary conditions of legitimacy theory in Indonesia, where reactive ESG controversies have not yet been able to create sufficiently strong legitimacy pressure to directly influence tax avoidance behavior. This occurs because changes in tax behavior have long-term impacts and cannot directly restore a company's reputation.

Therefore, the influence of ESG controversies on tax avoidance behavior is relatively limited. Furthermore, the context of emerging markets such as Indonesia shows that regulatory oversight and public awareness regarding ESG issues are still developing. Firms are more likely to prioritize short-term strategies to maintain their image and avoid social pressure, rather than implementing long-term adjustments in tax practices. This emphasizes that although ESG controversies can attract stakeholder attention, their impact on internal corporate decisions, particularly regarding tax, is still limited.

These results contrast with prior research conducted in other countries. Kim & Lee (2025) conducted a study using a sample of U.S. companies and reported a positive relationship between ESG controversies and tax avoidance, whereas Menicacci & Simoni (2024) focused on European companies and found a negative effect. Therefore, this study highlights the necessity of accounting for contextual factors, industry-specific conditions, and firm-level capacity when examining how ESG controversies bear on tax avoidance. Additionally, the results add to the growing body of knowledge by showing that firms' responses to ESG controversies in emerging markets are specific and unique, especially regarding long-term strategic decisions, such as tax management.

Capital Intensity on Tax Avoidance

Capital intensity has a negative effect on tax avoidance. This finding contradicts the hypothesis that predicts a positive effect, so H3 is rejected**.** This indicates that higher capital intensity is associated with reduced tendency to engage in tax avoidance. Agency theory states that companies with high capital intensity tend to utilize fixed asset depreciation aggressively as a tax avoidance strategy. However, this finding is not in line with this theory. This occurs because **c**ompanies with high capital intensity often have stronger oversight, such as external auditors and active institutional shareholders (Nirwasita, Durya, dan Purwantoro, 2024). Companies with substantial assets bear greater responsibility toward various stakeholders, including the government, investors, and the public.

Companies with more intense oversight tend to avoid aggressive tax avoidance to protect their reputation and avoid potential fines. Strict oversight encourages managers to maintain tax compliance and avoid tax avoidance, in order to protect the company's reputation and avoid legal risks that could harm the company's value. Conversely, companies with low capital intensity may not have the same level of oversight, which allows managers to be more inclined to pursue tax avoidance strategies for short-term gains without considering long-term risks.

With stricter oversight, companies tend to avoid aggressive tax avoidance practices to minimize the potential for penalties or fines. Moreover, companies with strategic fixed assets tend to prioritize long-term business sustainability over short-term profits through tax avoidance practices. These results are consistent with the findings of Suciarti et al. (2020) and Hendrianto et al. (2022), who state that capital intensity can reduce tax avoidance practices. In practical terms, these findings have implications for regulators and companies. Regulators can increase oversight of companies with large fixed assets, while companies can recognize that long-term investment strategies and tax compliance are not mutually exclusive but can be pursued in harmony.

The Moderating Effect of Profitability on the ESG Disclosure - Tax Avoidance

Profitability weakens the negative effect of ESG disclosure on tax avoidance. Thus, H5 is accepted. This means that in companies with high profitability, the influence of ESG disclosure in reducing tax avoidance practices becomes smaller. This condition indicates that more profitable companies still have the leeway and incentive to engage in more efficient tax planning to optimize their tax burden, even though they also need to maintain their reputation and legitimacy through ESG disclosure. In other words, ESG disclosure alone is not always sufficient to fully limit tax avoidance practices when a company has strong financial capacity. This condition indicates that more profitable companies still have the flexibility and incentive to engage in efficient tax planning to optimize their tax burden, even though on the other hand they still need to maintain their reputation and legitimacy through ESG disclosure.

According to agency theory, management, as the agent, holds decision-making authority within the company and tends to seek to maximize its own interests, including through efficient tax planning strategies. In highly profitable firms, the drive to enhance corporate value and meet shareholder expectations may motivate management to continue tax planning even if the company has already disclosed ESG disclosure effectively. In line with research conducted by Prasetya and Muid (2022), companies with high profitability are more likely to engage in tax avoidance. This occurs because profitable companies generate high profits, which in turn result in high tax expense. Companies with strong profitability ultimately face two pressures: the need to maintain legitimacy through transparent ESG disclosure and the obligation to improve financial performance through tax-efficient strategies. Moreover, the interaction between ESG disclosure and profitability highlights the complexity of corporate decision-making in emerging markets. Profitable companies tend to adopt strategic approaches that balance reputational considerations with financial optimization, reflecting a complex trade-off in achieving legitimacy and economic objectives.

The Moderating Effect of Profitability on the ESG Controversies - Tax Avoidance

ESG controversies do not have a significant effect on tax avoidance. However, after including the profitability moderation variable, the interaction between ESG controversies and profitability shows a significant negative effect. This finding does not support the fifth hypothesis, so H5 is rejected. These findings indicate that the impact of ESG controversies on tax avoidance is conditional, depending on the level of company profitability. For highly profitable companies, ESG controversies actually encourage a reduction in tax avoidance practices.

Agency theory explains this phenomenon through the principal–agent conflict. Differences in interests between agents and principals can trigger conflicts of interest and information asymmetry. This conflict is often reflected in strategic decision-making by managers, including in tax avoidance practices (Gumono, 2021). Although high profitability encourages managers to maximize shareholder value through tax avoidance practices, agency costs in the form of reputational risk and potential legal consequences become more dominant when ESG controversies arise. In this condition, managers tend to avoid aggressive tax strategies. Legitimacy theory complements this explanation by showing that ESG controversies can create a legitimacy gap between the company and its stakeholders. This condition becomes more crucial for companies with high profitability because they have greater visibility and are under stricter public scrutiny. To maintain legitimacy and stakeholder trust, companies tend to engage in recovery efforts, one of which is through more conservative tax policies. The integration of these two theories shows the existence of a boundary condition, where legitimacy pressure reinforces agency costs, thus outweighing the drive to maximize profits through tax avoidance.

Consistent with the research by (Hendayana *et al.*, 2024), companies with higher profits may engage less in tax avoidance due to more optimal effective tax planning without having to resort to aggressive tax avoidance. More profitable companies are generally under stricter supervision, which encourages them to be more careful in making decisions that could damage their reputation. Additionally, more profitable companies generally have higher visibility and are subject to stricter scrutiny from stakeholders.

The Moderating Effect of Profitability on the Capital Intensity - Tax Avoidance

Profitability weakens the negative effect of capital intensity on tax avoiance. The findings do not support the hypothesis, so H6 is rejected. This indicate that companies with a high proportion of fixed assets generally face stricter tax supervision, promoting greater compliance and reducing tax avoidance. However, when companies are highly profitable, the restraining effect of capital intensity diminishes. According to agency theory, higher profitability increases management's incentive to optimize firm performance, including through tax planning strategies. These firms may hire professional tax consultants, establish internal tax teams, or design complex tax schemes, which are typically beyond the means of less profitable firms. Furthermore, more profitable firms have greater financial flexibility, enabling them to pursue more aggressive yet legally permissible tax planning strategies.

These findings are consistent with those of a study by Prasetya and Muid (2022), who state that higher profitability leads to increased tax avoidance. Therefore, although capital intensity initially constrains tax avoidance due to greater visibility and regulatory oversight, highly profitable firms are better able to offset these constraints. This explains why the negative effect of capital intensity on tax avoidance weakens at higher levels of profitability. These results underscore the pivotal role of profitability in shaping the impact of fixed asset intensity on corporate tax behavior.

CONCLUSION AND SUGGESTION

This study concludes that esg disclosure and capital intensity negatively affect tax avoidance, while ESG controversies do not have a significant effect. Furthermore, profitability weakens the negative effect of ESG disclosure and capital intensity on tax avoidance and significantly moderates the relationship between ESG controversies and tax avoidance. The findings of this study indicate that companies with higher levels of ESG disclosure and greater fixed asset ownership tend to engage in lower levels of tax avoidance. However, the presence of ESG controversies does not directly influence firms' tax avoidance behavior. The moderating role of profitability suggests that a firm's financial performance plays an important role in shaping how ESG-related factors influence corporate tax strategies. Therefore, firms are encouraged to improve the quality and transparency of their ESG disclosures and optimize asset management while considering their level of profitability when formulating tax and ESG-related strategies. Such efforts may help support sustainable business practices and promote more responsible corporate tax behavior.

The findings of this study offer important theoretical and practical contributions. Theoretically, the results indicate that esg disclosure not only plays a role in maintaining company reputation but also helps reduce tax avoidance. Furthermore, the moderating role of profitability suggests the existence of opportunistic tendencies, as explained in agency theory, where companies with high profitability have greater incentives to engage in tax planning. However, in the context of esg controversies, profitability actually motivates companies to seek legitimacy by reducing tax avoidance practices. These findings suggest that the influence of profitability on tax avoidance is contextual, depending on the reputational pressures faced by the company. Practically, companies are advised to enhance the transparency of esg disclosures and manage fixed assets efficiently to reduce tax avoidance practices and strengthen corporate reputation. For the government as a policy maker, these research results underscore the importance of pushing for more transparent and accountable esg disclosures. Meanwhile, tax practitioners need to consider esg aspects and profitability levels when designing more ethical and sustainable tax planning strategies.

Several limitations are acknowledged in this study. First, the limited availability of esg data reduces the number of companies that can be included in the sample. Future research is therefore encouraged to expand the sample size, include companies from different sectors or countries, and apply multiple proxies of tax avoidance. In addition, future studies may incorporate other moderating or control variables, such as corporate governance characteristics or firm risk, and perform robustness tests to improve the validity and reliability of the findings.

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