Studi Akuntansi, Keuangan, dan Manajemen (SAKMAN)
ISSN 2798-0251 , Vol 5, No1, 2025, 243-255 https://doi.org/10.35912/sakman.v5i1.4440

The Role of ESG in Moderating Corporate Tax Avoidance and Firm Value

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Article History:
Received on 10 June 2025
1st Revision 17 June 2025
2nd Revision 22 June 2025
3rd Revision 30 June 2025
Accepted on 20 July 2025

Abstract
Purpose: This study intends to examine how tax avoidance correlates with firm value, considering ESG factors as variables that influence the relationship.
Methodology/approach: This study uses Ordinary Least Squares (OLS) Regression based on a sample of 47 companies traded on the IDX covering 2018 to 2023, by starting the analysis in 2017. The sampling method used is purposive sampling. To measure tax avoidance, this study uses CETR (Cash Effective Tax Rate), GETR (GAAP Effective Tax Rate), and BTD (Book-Tax Difference), while the evaluation of firm value is done through Tobin's Q. ESG rating is used to assess ESG performance.
Results/findings: Tax avoidance with CETR has no significant effect on firm value, while GETR has a significant negative impact. In contrast, BTD shows a positive correlation. ESG as a moderator has no significant effect on CETR and BTD, but strengthens the negative impact of GETR on firm value.
Conclusions: The impact of tax avoidance on firm value depends on the measurement method. ESG does not consistently weaken the relationship between tax avoidance and firm value.
Limitations: The limitations of this study include research methods that do not fully address the statistical problems of autocorrelation and heteroscedasticity.
Contribution: This study adds insight into the role of ESG in the relationship between tax avoidance and firm value. The results can serve as a guide for managers, investors, and regulators in evaluating tax strategies, sustainability, and firm valuation.

Keywords: *ESG, Firm Value, Tax Avoidance.*
How to Cite: Kriswanti, M., Indriani, R. (2025), The Role of ESG in Moderating Corporate Tax Avoidance and Firm Value. *Studi Akuntansi, Keuangan, dan Manajemen* (5) 1 243-255.

1. Introduction

ESG (Environmental, Social, and Governance) is an important framework for assessing the social, sustainability, and corporate governance impacts of a company's investmentsAs a result, ESG can assist organizations in handling risks, enhancing their brand reputation, and contributing positively to both society and the environment. Thus, ESG is regarded as highly significant in the corporate world, particularly within the investment field (IEC, 2023) . In recent years, investor interest in companies has grown drastically in relation to environmental, social and governance-related issues. This is because ESG demonstrates a company's commitment to sustainability, social responsibility, and good governance practices-elements that investors consider important when assessing a company's performance (Sugiarto, Puspani, & Fathia, 2023). Strong ESG implementation not only contributes to improving the company's reputation in the eyes of investors and society, but also has the potential to increase firm value (Kong, Akbar, & Poulova, 2023; Zhou, Liu, & Luo, 2022) .

Companies use tax avoidance as a tactic to legitimately lower their tax liability, even though stakeholders often consider it immoral (Lokanan, 2023; Merkusiwati & Eka Damayanthi, 2019). Poorly managed tax avoidance practices can damage market perceptions of corporate ethics and transparency,

which in turn can affect firm value. Tax avoidance tactics have been shown in several studies to adversely affect firm value (Chukwudi, Okegbe, & Ezejiofor, 2020; Minh Ha, Tuan Anh, Yue, & Hoang Phi Nam, 2021; Rezki, Achsani, & Sasongko, 2020; Seifzadeh, 2022) . Firm value is often considered a measure of success in creating value for shareholders and can even be a special attraction for the company (Raharja, 2021) . As a result, how the market views a company's overall business practices - including its dedication to sustainability, governance, and social responsibility - has a significant impact on the value of the company. In addition, a number of studies show that businesses that adopt ESG principles can increase their firm value (Jung & Kim, 2022; Lunawat & Lunawat, 2022; R. Aprilyani Dewi, Sudana, Badera, & Rasmini, 2021; Yu & Xiao, 2022). Although tax avoidance is seen to increase corporate profitability by reducing the tax burden on the company, this practice has the potential to pose a reputational risk and investor confidence (Siburian, 2023) .

Basically, tax avoidance contradicts the principles of social responsibility contained in the ESG framework, thus creating a dilemma for companies that want to maintain an image of sustainability and good governance. When tax avoidance is revealed, stakeholders may doubt the company's commitment to environmental, social and governance goals, which may affect the market's assessment of firm value. Therefore, successfully incorporating ESG elements can greatly affect the relationship between tax avoidance and firm value. This approach can mitigate the negative effects of this relationship by increasing the focus on sustainability and social responsibility (Elamer, Boulhaga, & Ibrahim, 2024). In addition, good ESG implementation is seen to increase corporate transparency and accountability, thereby reducing the potential for excessive abuse of tax strategies. Stronger governance structures, typically seen in businesses with high ESG performance, ensure that actions related to tax avoidance remain within moral boundaries and do not jeopardize the long-term interests of the company (Oktiani & Sanulika, 2024) . Furthermore, those with high ESG ratings are considered more attractive to institutional investors, who place greater emphasis on sustainable investment, which helps maintain the stability of corporate value even when tax avoidance tactics are used (Elamer et al., 2024) . Furthermore, stakeholders' perceptions of the organization are significantly shaped by ESG. Prioritizing social responsibility, environmental sustainability and good governance is expected to send a good message to stakeholders that the business is aimed at generating sustainable value in the long term, not just short-term profits (IEC, 2023).

As a result, the application of ESG principles can demonstrate an organization's commitment to creating sustainable long-term value while minimizing the negative consequences associated with strategies aimed at tax avoidance. This conclusion is consistent with the results of a study conducted by (Elamer et al., 2024), which indicated that the implementation of ESG guidelines can effectively reduce the detrimental impact of tax avoidance on firm value. Although the ESG framework has become a significant topic of discussion related to sustainability and governance, there is limited research that directly examines its role as a mediator in the relationship between tax avoidance and firm value, especially in the Indonesian context. One of the main questions in this study is whether ESG can dampen the negative perceptions arising from tax avoidance practices and maintain or even increase firm value. This creates a research gap that needs to be filled, given the growing attention to responsible and transparent business practices (Dwi Sakti, 2024) .In this case, ESG can act as a risk reduction strategy, helping businesses overcome the sometimes unfavorable opinions associated with tax avoidance (Elamer et al., 2024) As stakeholders tend to perceive firms with high ESG ratings as more responsible, tax avoidance strategies may be perceived as more “acceptable” if implemented by firms that have a strong commitment to sustainability. Thus, this research intends to elucidate the function of ESG as a moderating factor in contentious business activities by investigating how ESG reduces the effects of tax avoidance on the value of companies, especially in Indonesian enterprises.

2. Literature Review and Hypothesis Development

2.1 The Impact Of Tax Avoidance On The Value Of A Company

Companies that conduct tax avoidance will certainly conduct an in-depth analysis to balance the advantages and disadvantages. So that the benefits of tax planning strategies can be potential savings in tax burden, reduction in corporate tax burden, and increase flexibility in the utilization of funds, which in turn can increase firm value (Nebie & Cheng, 2023) . There are various diverse results in previous

studies to understand tax avoidance, especially in an effort to influence firm value. While tax avoidance is often thought to increase firm value, under certain conditions, it can have the opposite effect. So companies that practice tax avoidance must be careful because poor management can reduce market perceptions of corporate ethics and transparency, which in turn can have an impact on firm value. Although tax avoidance can provide short-term benefits, such as savings in tax burden and increased profitability (Maitriyadewi & Noviari, 2020), this practice is often viewed negatively by the market, especially if done in a non-transparent or unethical manner. Avoidance can send bad signals to investors, who see it as a symptom of poor corporate governance and a significant reputational risk, according to the concept of signaling theory. The market may view companies that engage in tax avoidance as less transparent or not committed to tax compliance, which in turn may weaken investor confidence and lower the company's market value. Numerous factors can influence a company's worth, such as poor corporate governance and ineffective leadership. Studies also indicate that minimizing tax liabilities can lead to a decrease in a company's value (Chen, Hu, Wang, & Tang, 2014; Chukwudi et al., 2020; Minh Ha et al., 2021; Rezki et al., 2020; Seifzadeh, 2022; Siew Yee, Sharoja Sapiei, & Abdullah, 2018). The following is the first hypothesis that can be proposed based on this description:
H1: Tax Avoidance has a negative impact on Firm Value

2.2 ESG Moderates The Relationship Between Tax Avoidance And Firm Value

The concept of sustainability reporting has the potential to reduce the negative impact associated with the relationship between tax avoidance and firm value.This is achieved by showcasing the organization's robust ethical standards and dedication to sustainable methods, despite the fact that preparing such reports demands a significant allocation of resources(Elamer et al., 2024). In addition, signaling theory suggests that sustainability reports can serve as a positive signal for stakeholders, suggesting that companies are not only focused on financial gain, but also care about social and environmental responsibility (Meiryani et al., 2023).

Conversely, tax avoidance is often viewed as an ethical concern, as it can diminish government tax revenues that are essential for enhancing public welfare (Suardana, 2014). Thus, companies that voluntarily report sustainability activities are expected to reduce negative perceptions related to their tax avoidance activities. This sustainability report reflects ethical values and social care that can offset negative views of tax avoidance practices, and serves as a signal that the company is committed to operating with integrity. A number of research findings suggest that outside influences, such as ESG ratings and corporate responsibility, have a considerable impact on how tax avoidance relates to firm value. Corporate Social Responsibility acts as a balancing factor that can help minimize the negative impact of tax avoidance on business success. This suggests that companies that prioritize social responsibility tend to avoid tax avoidance practices. Research conducted by(Elamer et al., 2024) highlights that ESG ratings have a role in dampening the relationship. Overall, investors tend to favor strong ESG performance, but when a corporation engages in tax avoidance strategies, it can erode investor trust, which diminishes the beneficial effects of ESG on company value. Hence, the formulation of the research hypothesis can be outlined in this manner:
H2: ESG negatively moderates the relationship between tax avoidance and firm value, so that the negative impact of tax avoidance on firm value is weaker in companies with high ESG scores.
The research framework used in this study is shown in Figure 1, which also illustrates the relationship between the variables.

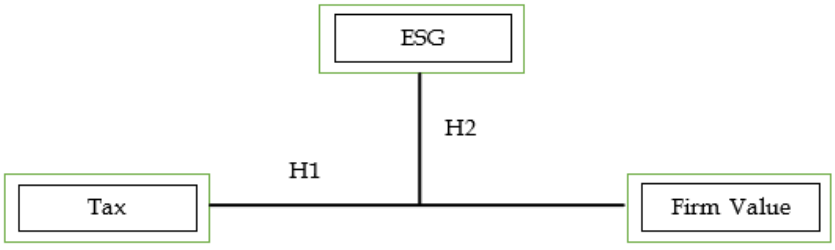

Figure 1. Research Outline

3. Research Methodology

This study uses quantitative methods to examine the relationship between tax avoidance, firm value, and the moderating effect of Environmental, Social, and Governance (ESG) elements, using the Least Squares Regression (OLS) method. The sample of this study consists of 47 companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023, with 2017 as the starting point of analysis.The sample selection was carried out based on the following criteria: (1) not a company engaged in the financial industry sector, (2) has an ESG score available in the global database and IDX, (3) and has complete financial statement data in accordance with the needs of the analysis. The secondary sources used in collecting research data come from the ESGI dataset and the company's official website or www.idx.com.id to obtain year reports and sustainability reports. Several previous research studies are cited in this paper when assessing variables. To assess the dependent variable, this study refers to previous studies that use Tobin's Q as a surrogate for firm value (Elamer et al., 2024; Rudyanto & Pirzada, 2020).

In research that has been conducted by (Elamer et al., 2024; Hasan, Lobo, & Qiu, 2021; Huang, Lobo, Wang, & Xie, 2016) One of the matrices used is the cash effective tax rate (CETR), which is calculated by dividing the total income tax paid in cash by profit before tax. This approach has been applied in several previous studies, including by (Elamer et al., 2024; Hasan et al., 2021; Metwally, Elsharkawy, & Salem, 2024; Rudyanto & Pirzada, 2020) . After calculating the CETR value, classification is again carried out using a nominal scale by giving a code of 1 for companies that do tax avoidance and 0 for those that do not. A company is categorized as engaging in tax avoidance if the CETR value is lower than the Corporate Income Tax rate in the fiscal year concerned. Conversely, if the CETR is higher than the Corporate Income Tax rate, the company is considered not to engage in tax avoidance practices. Based on applicable regulations, the Corporate Income Tax rate for the 2018-2019 sample is set at 25%, while for the 2020-2023 period, the rate is reduced to 22% (DJP, 2020; Puspitasari & Dilla, 2022; Rahayu & Subadriyah, 2021; Sandy, 2019).

Another approach employed in this research is the GAAP Effective Tax Rate (GETR), determined by taking the ratio of income tax expense to profit before tax based on financial disclosures, as utilized in studies conducted by (Cen, Maydew, Zhang, & Zuo, 2017; Elamer et al., 2024; Hasan et al., 2021). The third metric is the Book-to-Tax Difference (BTD), which is found by dividing the variation between accounting profit and taxable profit by total assets from the previous year, as noted in studies by (Elamer et al., 2024; Kim, Li, & Zhang, 2011).

For moderating variables, previous studies by (Elamer et al., 2024; Samy El-Deeb, Ismail, & El Banna, 2023) used ESG scores as a proxy for ESG. In addition, this study also uses several control variables as done in the study (Elamer et al., 2024), namely company size proxied by FSIZE, profitability measured by ROA, and leverage calculated by dividing total debt by total assets. Calculating the ratio of current assets to current liabilities to assess liquidity (LIQDT) involves evaluating current assets to current liabilities. This study also assesses the age of the firm (AGE) by applying a logarithmic function to its year of incorporation. In addition, this study also includes control variables such as board size (BOA_SIZE), independent board members (BOA_IND), and CEO duality (CEO_DUAL) to ensure a strong corporate governance structure. In Table 1, a detailed overview of how the variables in this study are quantified is presented.

Table 1. Variable measurements

Variables	**Proxy**	**Measurement**
Dependent Variable		
Firm Value	Tobin's Q	Tobin's Q (Market value + preferred stock + Long-term debt) / Total assets (Elamer et al., 2024) .
Independent Variable		
Tax Avoidance	*Cash effective tax rate* (CETR)	Cash income tax paid / book income before tax (Elamer et al., 2024) . Then CETR is grouped using a nominal scale, namely 1 doing tax avoidance and 0 not doing

		tax avoidance (Puspitasari & Dilla, 2022; Rahayu & Subadriyah, 2021) .
	GAAP *effective tax rate* (GETR)	Income tax / pre-tax income (Elamer et al., 2024) .
	Book-to-tax difference (BTD)	Difference between book value of income and taxable income / total assets t-1 (Elamer et al., 2024) .
Moderating Variable		
Environmental, Social, and Governance	ESG	ESG score (Elamer et al., 2024; Samy El-Deeb et al., 2023) .
Variable Control		
Firm Size	Fsize	*Logarithm of total assets* (Elamer et al., 2024; Samy El-Deeb et al., 2023)
Leverage	LEV	*Total* Liabilities/Total *Assets* (Elamer et al., 2024; Samy El-Deeb et al., 2023)
Return on Asset	ROA	$ROA = \frac{Net\ income}{Total\ Asset}$ (Elamer et al., 2024)
Growth	GROWRH	[(Revenue $_{t}$) - (Revenue $_{(t-1)}$))] /total revenue (Elamer et al., 2024)
Liquidity	LIQDT	Current assets/Current liabilities (Elamer et al., 2024)
Age	AGE	Length of establishment of the company (Elamer et al., 2024)
Board size	BOA_SIZE	Number of directors (Elamer et al., 2024)
Board independence	BOA_IND	Independent director on the board of directors (Elamer et al., 2024)
CEO duality	CEO_DIAL	The indicator variable is 1 if the chairman and CEO are the same, 0 otherwise (Elamer et al., 2024)
Sustainability committee	Sust_Com	The presence or absence of a CSR sustainability committee or team (Elamer et al., 2024)

To investigate the effects of tax avoidance (TAX), environmental, social, and governance (ESG) performance, and their interactions on firm value as measured by Tobin's Q, the following multivariate regression model is used:

Tobin's Qit = β0 + β1TAX(it) + β2ESG(it) + β3TAX(it)*ESG(it) + β4FSIZE(it) + β5ROA(it)+
β6LEV(it) + β7LIQDT(it) + β8GROWTH(it) + β9AGE(it) + β10BOA_SIZE(it) +
β11BOA_IND(it) + β12CEO_DUAL(it) + β(13)Sust_Comit(it) + e(it)

Where:

- Tobin Qit represents the dependent variable, i.e. firm value.
- TAX_{it} represents the independent variables, namely Cash Effective Tax Rate (CETR), GAAP Effective Tax Rate (GETR), and Book-to-Tax Difference (BTD).
- ESG indicates the ESG performance score.
- TAX{it}*ESG is an interaction term to test the moderating role of ESG.
- The model includes several control variables related to firm characteristics and corporate governance, such as firm size (FSIZE), profitability (ROA), leverage (LEV), liquidity (LIQDT), growth (GROWTH), firm age (AGE), board size (BOA_SIZE), proportion of independent board (BOA_IND), and whether the CEO also serves as board chair (CEO_DUAL). In addition, the Sust_Comit variable measures the presence of a sustainability committee within the company, which can affect firm value.

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistics

The results of descriptive statistical analysis show that this study uses financial statement data from 270 companies. With an average CETR of 0.419, it can be concluded that in general the companies in the sample are still involved in tax avoidance, although not at an extreme level. That is, the average company only pays about 41.9% of the total tax liability that should be paid. Corporate tax effectiveness is reflected in its standard deviation of 0.494, which ranges from 0 for companies not involved in tax evasion to 1 for companies involved.

The overall average GETR of 0.042 indicates that companies included in the sample typically contribute only 4.2% of pre-tax profits in taxes, suggesting considerable tax avoidance. This interpretation is supported by the lowest GETR of 0.000, which highlights that some companies have no tax liability due to financial losses. In contrast, the highest GETR of 0.674 indicates that some companies are liable for significantly more tax compared to pre-tax income.The average Book-To-Tax Difference (BTD) of 0.739 indicates that the selected companies reported higher accounting profits compared to their taxable profits, which could highlight differences in the application of accounting principles and tax laws or strategies to minimize the tax burden. The lowest recorded value of 0.43 indicates that every company faces favorable differences, while the highest value of 2.178 indicates that certain companies show significant differences, potentially indicating a more aggressive approach to tax avoidance.

Average Tobin's Q value of 1.739 indicates that most companies have a market value greater than their book value, reflecting investor optimism towards the company. The maximum value of 15.631 indicates the presence of companies with very high market appreciation, while the minimum value of 0.186 indicates the presence of undervalued companies. The average ESG score of 32.865 indicates that companies generally show a moderate level of compliance with sustainability practices. However, the high variability (minimum of 14.830 and maximum of 63.250) indicates significant differences in ESG implementation among companies..

Table 2. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ToibinsQ	270	.186	15.631	1.739	1.909
ESG	270	14.830	63.250	32.865	9.962
CETR_D	270	.000	1.000	.419	.494
GETR	270	.000	.674	.042	.051
BTD	270	.043	2.178	.739	.526
LEV	270	.049	.887	.436	.203
Fsize	270	28.836	33.731	31.278	.989
ROA	270	-.094	1.198	.089	.102
GROWTH	270	-.913	5.077	.113	.430
LIQDT	270	.182	10.074	2.359	1.697
AGE	270	7.000	91.000	42.219	15.990
BOA_SIZE	270	3.000	15.000	6.763	2.081
BOA_IND	270	1.000	5.000	2.430	.909
CEO_DUAL	270	.000	1.000	.930	.256
Sust_Com	270	.000	1.000	.389	.488

Source : Data processing using spss, 2025

4.1.2 Correlation matrix

In the realm of statistical evaluation, a correlation matrix serves to assess the linear connections among various factors. The correlation coefficient presented in this matrix reveals both the strength and orientation of the association between these factors. One can observe the outcomes of the correlation examination in Table 3.

Table 3. Pearson's correlation

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ToibinsQ	1														
CETR_D	-.037	1													
GETR	.087	-.098	1												
BTD	.399**	-.226**	-.121*	1											
ESG	-.212**	-.068	.080	.066	1										
LEV	-.113	.025	-.080	-.145*	-.050	1									
Fsize	-.396**	-.037	.010	-.199**	.124*	.456**	1								
ROA	.421**	-.065	.246**	.414**	-.045	-.264**	-.263**	1							
GROWTH	-.076	.029	.073	.075	.058	.060	.061	.078	1						
LIQDT	.134*	.056	.027	-.001	-.050	-.731**	-.528**	.136*	-.107	1					
AGE	.072	-.015	-.187**	.214**	.100	.214**	.370**	-.025	-.049	-.166**	1				
BOA_SIZE	.068	.035	-.134*	.020	-.151*	.207**	.407**	-.117	-.029	-.222**	.167**	1			
BOA_IND	.225**	.095	-.075	-.009	-.095	.291**	.319**	.034	-.022	-.275**	.367**	.435**	1		
CEO_DUAL	.145*	.116	-.112	-.003	-.128*	-.095	-.017	.125*	-.016	.092	.042	.052	.226**	1	
Sust_Com	-.093	.047	.209**	-.028	.039	-.115	-.073	-.003	-.038	.098	.120*	-.066	.007	-.137*	1

Note: Significant relationship at 5%, and 1% threshold
Source: Data processing using spss, 2025

The findings of the correlation test show that BTD and Tobin's Q have a substantial positive relationship. This means that businesses with a large difference between fiscal and accounting earnings usually have a higher market valuation. However, Tobin's Q does not show a substantial relationship with CETR or GETR, which suggests that investors do not consider the amount of taxes paid when assessing the value of the firm.

4.1.3 Multivariate Analyses

To ensure the validity of the regression model used, this study first conducted a classical assumption test before conducting OLS (Ordinary Least Squares) regression analysis. Centering is the initial stage in this procedure, which is achieved by dividing each observation value of the independent variable by the average value of the variable. This is done to minimize the possibility of multicollinearity. In addition, the Variance Inflation Factor (VIF) is used to detect multicollinearity. When the VIF value of the regression model is below 10, it indicates that multicollinearity is not a major concern. In overcoming autocorrelation, the Durbin Two-Step Method test is conducted for regression models with tax avoidance measurements using BTD and GETR, while for measurements with CETR the Cochrane-Orcutt method is used. Both methods are developments of the Durbin Watson (DW) test, which is specifically designed to detect residual autocorrelation, especially first-order autocorrelation. Meanwhile, to address heteroscedasticity, the Park test was conducted to identify whether there is non-constant variability in the residuals. Although efforts have been made to address autocorrelation and heteroscedasticity, the test results show that these problems have not been completely eliminated in the regression model used.

Table 4 presents the OLS regression results to examine the effect of tax avoidance (TAX), environmental, social, and governance (ESG) performance, and their interaction on firm value as measured by Tobin's Q. The dependent variable in this model is Tobin's Q, while the independent variable TAX is measured through three approaches: Cash Effective Tax Rate (CETR), GAAP Effective Tax Rate (GETR), and Book-to-Tax Differences (BTD). ESG reflects the firm's sustainability performance score, and the interaction variable TAX*ESG is used to test the moderating role of ESG. The model also controls for firm characteristics and governance through variables such as firm size

(FSIZE), profitability (ROA), leverage (LEV), liquidity (LIQDT), growth (GROWTH), age (AGE), board size (BOA_SIZE), proportion of independent boards (BOA_IND), dual leadership (CEO_DUAL), as well as the presence of a sustainability committee (Sust_Comit) that are considered to have an effect on firm value.

Table 4. OLS Regression Results

Tobin's Qit = β0 + β1TAX(it) + β2ESG(it) + β3TAX(it)*ESG(it) + β4FSIZE(it) + β5ROA(it)+ β6LEV(it) + β7LIQDT(it) + β8GROWTH(it) + β9AGE(it) + β10BOA_SIZE(it) + β11BOA_IND(it) + β12CEO_DUAL(it) + β(13)Sust_Comit(it) + e(it)						
Variabel	**Cash Effective Tax Rate (CETR)**		**GAAP Efective Tax Rate (GETR)**		**Book-to-Tax Differences (BTD)**	
	1	**2**	**1**	**2**	**1**	**2**
TAX	(-0.226)	(-0.216)	(-1.515)*	(-9.796)**	(0.256)**	(0.230)**
	(-1.560)	(-1.489)	(-2.483)	(-4.459)	4.372	3.790
ESG	-	(-0.023)*	-	(-0.249)	-	(-0.137)
	-	(-2.062)		(-1.745)		(-0.971)
ESG*CETR	-	(-0.000273)	-	(2.109)**	-	(-0.916)
	-	(-0.019)		3.763		(-1.658)
FSIZE	(-1.353)**	(-1.344)**	(-5.238)**	(-13.814)**	(-12.113)**	(-11.801)**
	(-9.988)	(-9.777)	(-3.628)	(-6.716)	(-5.833)	(-5.674)
ROA	(2.696)**	(2.772)**	(-0.025)	(-0.824)	(-0.871)	(-0.828)
	3.610	3.656	(-0.067)	(-1.510)	(-1.636)	(-1.562)
LEV	0.779	0.552	(0.182)*	0.147	0.069	0.068
	1.091	0.771	2.540	1.398	0.666	0.66
LIQDT	(-0.072)	(-0.095)	(0.139)*	0.063	0.011	0.02
	(-0.956)	(-1.252)	2.433	0.759	0.133	0.241
GROWTH	(-0.001)	-0.997	(-0.087)	(-0.016)	0.252	0.258
	(-0.006)	0.026	(-0.628)	(-0.076)	1.225	1.255
AGE	(0.03)**	(0.034)**	0.001	0.121	(-0.095)	(-0.078)
	3.676	4.071	0.014	0.919	0.113	(-0.573)
BOA_SIZE	0.247	0.225	0.231	0.465	0.411	0.378
	(5.046)**	(4.547)**	(2.156)*	(2.951)**	(2.674)**	(2.422)*
BOA_IND	0.363	0.327	(-0.087)	0.233	0.266	0.256
	(3.194)**	(2.852)**	(-1.150)	(2.105)*	(2.424)*	(2.332)*
CEO_DUAL	0.931	0.932	(-0.051)	0.566	0.571	0.58
	(2.055)*	(2.073)*	(-0.348)	(2.709)**	(2.706)**	(2.755)**
Sust_Com	(-0.471)	(-0.494)	(-0.096)	(-0.254)	(-0.132)	(-0.144)
	(-2.421)*	(-2.550)*	(-1.549)	(-2.812)**	(-1.472)	(-1.606)
N	270	270	270	270	270	270
R-sq	0.178	0.431	0.124	0.327	0.322	0.322
Adj.R-sq	0.178	0.402	0.086	0.292	0.293	0.298

Note: Significant relationship at 5%, and 1% threshold.

Source: Data processing using spss, 2025

Based on the regression results, it is found that the effect of independent variables on the three measures of tax effectiveness (CETR, GETR, and BTD) shows different patterns.

Cash Effective Tax Rate (CETR)

TAX variable negatively affects CETR, but it is not statistically significant in both Model 1 (-0.226) and Model 2 (-0.216). This indicates that directly, tax avoidance does not have a large effect on cash-

based tax effectiveness. The interaction between TAX and ESG (TAX*ESG) is also insignificant (-0.000273), indicating that ESG does not moderate the relationship between TAX and CETR. Firm size (FSIZE) has a significant negative effect on CETR, which means that larger firms tend to pay lower effective cash taxes. In terms of governance, board size (BOA_SIZE) and the proportion of independent boards (BOA_IND) have a significant positive effect on CETR, while CEO duality (CEO_DUAL) increases CETR and the presence of a sustainability committee (Sust_Comit) decreases it.

GAAP Effective Tax Rate (GETR)
TAX shows a highly significant negative effect on GETR (-9.796**), indicating that companies with higher tax avoidance tend to have lower GAAP-based tax rates. In contrast to CETR, the TAX*ESG interaction has a positive and significant effect (2.109**), suggesting that corporate sustainability strengthens the relationship between tax avoidance and GAAP effective tax rates. Firm size (FSIZE) also has a significant negative effect on GETR. Governance, such as board size (BOA_SIZE) and CEO duality (CEO_DUAL), increases the GAAP effective tax rate, while the presence of a sustainability committee decreases GETR.

Book-to-Tax Differences (BTD)
TAX has a significant positive effect on BTD (0.230**), indicating that firms with higher tax avoidance have larger accounting and fiscal differences. However, the TAX*ESG interaction is not significant (-0.916), so ESG does not moderate the relationship between TAX and BTD. Firm size has a significant negative effect on BTD, while the proportion of independent board (BOA_IND) and CEO duality increase BTD.
Model performance measured by Adjusted R^2 shows improvement after including ESG interactions:
- CETR: Adjusted R^2 increased from 0.178 to 0.402.
- GETR: Adjusted R^2 increased to 0.292.
- BTD: Adjusted R^2 stabilized around 0.298.

4.2 Discussion
4.2.1 The impact of Tax Avoidance on the Firm's Value
The findings from the regression analysis show that the measure of tax avoidance using CETR (corporate effective tax rate) does not significantly affect firm value in either model 1 or 2, making it difficult to argue that tax avoidance can cause a decrease in firm value in this sample. As a result, the relationship between tax avoidance and firm value is not strong enough, and the overall information regarding tax contributions has no influence on how the market perceives the company.This finding indicates that investors do not always view tax avoidance as a harmful action, or there are other variables that are more dominant in influencing the assessment of firm value. The results of this study contradict a number of previous studies which show that tax avoidance as measured by CETR has a significant negative impact on firm value, as it is considered unethical and risky (Elamer et al., 2024; Siew Yee et al., 2018).

According to the assessment of the Global Effective Tax Rate (GETR), a lower tax percentage relative to pre-tax earnings suggests an increased tendency for a company to pursue aggressive strategies for tax avoidance. So this can signify that excessive levels of tax avoidance can damage the company's reputation and reduce stakeholder confidence, which in turn will reduce the overall value of the company. Thus, the lower the tax payments made by the company, the lower the value of the company in the eyes of investors and stakeholders. Aggressive tax avoidance practices can provide negative signals that have the potential to damage the company's reputation. If stakeholder trust decreases, then the company value is also at risk of decreasing. Based on the signal theory perspective, a low GETR value can provide a negative signal to investors and stakeholders. This suggests that the company may be engaging in aggressive tax avoidance, which may raise concerns about transparency, legal risk, and corporate reputation. According to research (Elamer et al., 2024), tax avoidance, as measured by GETR, has a significant negative impact on firm value. These findings support the idea that aggressive tax avoidance practices can be detrimental to firms in the long run through a negative impact on market research perceptions. This is because investors and stakeholders may interpret these strategies as risky

and unethical, which may lead to a decrease in investor confidence in the firm and a decrease in firm value.

BTD (book difference) valuation shows a significant positive correlation between tax avoidance and firm value. This suggests that as the gap between accounting profit and taxable profit widens, firm value tends to increase. This difference may arise from accounting practices that allow companies to present inflated earnings on financial statements relative to taxable earnings, thereby offering financial benefits and improving perceptions among corporate investors.Companies with high BTD may use this difference to manipulate tax liabilities and even take advantage of legitimate tax avoidance opportunities, which are perceived to benefit the company in the short term. This positive BTD may signal that the company has tax flexibility that can increase reported earnings, potentially attracting investor interest and providing short-term benefits, despite potential negative impacts related to transparency and ethics in the future. It can be concluded from the regression analysis that the effect of tax avoidance on firm value varies based on the measurement technique used. It is evident that when using the CETR method, there is no direct relationship between tax avoidance and firm value. In contrast, the GETR approach shows a significant negative correlation between firm value and tax avoidance activities. In comparison, the BTD measurement shows a strong positive relationship between tax avoidance and firm value.

4.2.2 The Moderating Effect of ESG on the and Relationship Between Tax Avoidance Firm Value

According to the findings from the regression analysis, ESG does not significantly influence the connection between a company's value and its tax avoidance as indicated by CETR. This conclusion is supported by a t statistic of -0.019, a B coefficient of -0.000273, and a p-value of 0.985, which is above the 5% significance level. Consequently, the findings of this research suggest that ESG considerations do not enhance or diminish the association between tax avoidance and corporate value. A comparable finding emerges in the ESG moderation framework regarding the relationship between BTD, which reflects tax avoidance, and firm value. The B coefficient of -0.916, accompanied by a t-statistic of -1.658 and a p-value of 0.098, indicates that ESG moderation does not reach significance at the set threshold. In this framework, ESG does not show a meaningful relationship. The lack of significance associated with ESG further supports the idea that sustainability initiatives and corporate social responsibility efforts do not significantly alter market views on tax avoidance.

This discovery challenges the work of (Elamer et al., 2024), which suggests that ESG has a considerable effect on the link between tax avoidance and company value. The findings from this examination reveal that the market does not view ESG as a powerful indicator to shift attitudes regarding tax avoidance. Put differently, having a high ESG rating for a corporation fails to counteract the adverse effects of tax avoidance, as indicated by CETR, on company value or enhance the favorable views of tax avoidance represented by BTD. Nonetheless, this discovery contrasts with studies utilizing the GETR metric regarding tax avoidance, which indicates a notable inverse correlation between tax avoidance and corporate worthBasically, an increase in tax avoidance leads to a decrease in firm value. Interestingly, when ESG elements are included as influencing factors, the relationship between tax avoidance and firm value becomes stronger and has a significant positive effect (p-value 0.00021, coefficient B=2.110, and t-statistic 3.763).

From a signaling theory perspective, these results indicate that ESG can act as a signal that clarifies the negative impact of tax avoidance, but is not strong enough to directly increase firm value. If companies with high ESG scores continue to engage in tax avoidance, the market may pick up on the signal that ESG is just an image without a real commitment to transparency and sustainability. As a result, in addition to tax avoidance harming firm value, the inconsistency between ESG practices and tax policy also further worsens investor perceptions. Therefore, for ESG to truly enhance firm value, companies need to ensure that their ESG strategies do not conflict with other business practices, especially in terms of tax compliance. Overall, the results of this study indicate that ESG is not effectively reliable as a moderating element linking tax avoidance with firm value. This conclusion is evident from the evaluation of tax avoidance through CETR and BTD, where the combination of ESG shows no

moderating influence in this relationship. In contrast, on the GETR metric, the interaction of ESG with GETR magnifies the negative relationship between tax avoidance and firm value.

5. Conclusion

This study concludes that the effect of tax avoidance on firm value is largely determined by the measurement method used. When tax avoidance is measured using the Cash Effective Tax Rate (CETR), no significant effect on firm value is found. In contrast, the use of GAAP Effective Tax Rate (GETR) shows a significant negative relationship, which indicates that the market responds negatively to tax avoidance practices that are explicitly reflected in accrual-based financial statements. Meanwhile, measurement using Book-Tax Differences (BTD) shows a strong positive relationship with firm value, which can be interpreted as a form of fiscal reporting flexibility that is valued positively by investors in the short term, despite the potential reputational risk. In the context of the role of Environmental, Social, and Governance (ESG), the results show that ESG does not consistently moderate the relationship between tax avoidance and firm value. ESG has no significant effect on the relationship between CETR and BTD on firm value, but instead strengthens the negative effect of GETR on firm value. This implies that ESG may not necessarily serve as an effective legitimization mechanism in changing market perceptions of corporate tax avoidance practices.

In addition, this study found that firm size is consistently negatively correlated with effective tax rate and BTD, reflecting the capacity of large firms to undertake more complex tax planning. Meanwhile, corporate governance aspects show a non-linear effect, where the size and independence of the board of commissioners correlate with higher tax rates, but also with larger accounting-fiscal differences. This suggests that tax avoidance strategies are still being implemented despite being in a better governance structure. On the other hand, the role of ESG is only significant in the context of GETR, which reinforces the notion that ESG only has an impact when tax avoidance practices are explicit and directly identifiable by investors. Based on these findings, important implications can be drawn for stakeholders. Investors are advised to not only assess corporate tax policy based on the amount of tax rate paid, but also pay attention to the measurement method and integration of ESG in the company's overall strategy. For regulators, these results emphasize the importance of increasing tax transparency, especially for large companies, while maintaining economic efficiency. Meanwhile, for corporations, the integration of ESG principles into financial reporting practices and tax policies needs to be done substantively in order to build sustainable corporate value and maintain investor confidence in the long run.

Limitations and Future Studies

In this study, the method used still has limitations in handling statistical problems such as autocorrelation and heteroscedasticity, which can affect the validity of the results. Although several diagnostic tests and efforts have been made to overcome this problem, it has not been fully addressed. Thus, there is still a possibility that disturbances in the data can affect the accuracy of the model. Therefore, it is recommended that future studies use more reliable estimation methods to better address autocorrelation and heteroscedasticity issues. Future research that explores the relationship between tax avoidance, firm value, and ESG is expected to provide greater results.

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