

## **Reconciling Environmental, Social, and Governance Commitments with Corporate Tax Strategies in Indonesia: A Systematic Review**

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### **ABSTRACT**

#### **Main Objectives:**

This study examines sustainable taxation practices among ESG-indexed companies in Indonesia, highlighting the paradox between declared ESG commitments and corporate tax aggressiveness.

**Background Problems:** ESG adoption is increasingly visible among publicly listed firms, partly driven by sustainability indices and voluntary disclosure frameworks. However, a paradox emerges while ESG should theoretically promote transparency and ethical conduct, empirical evidence indicates that some ESG-oriented firms engage in aggressive tax strategies, potentially undermining their sustainability claims. This contradiction raises critical questions about the role of ESG in emerging markets with less stringent enforcement mechanisms. Addressing this paradox is vital for policymakers, investors, and scholars seeking to align sustainability goals with genuine corporate accountability.

**Novelty:** Sustainable taxation refers to tax policies that support ESG goals. Although ESG companies are often seen as more committed to sustainability, their tax practices and contributions to these goals remain under-explored.

**Research Methods:** A systematic literature review and thematic synthesis were conducted, supported by bibliometric mapping to identify prevailing patterns and contradictions. The review draws on peer-reviewed articles published between 2019 and 2025, focusing on ESG governance, and fiscal policy incentives within the Indonesian context.

**Findings/Results:** Although ESG reporting promotes transparency and enhances reputational capital, it can also serve as a legitimizing tool for earnings management and aggressive tax behavior particularly in firms under financial pressure.

**Conclusion:** ESG strategies may function dually as instruments for sustainability and as reputational shields. Aligning tax behavior with authentic ESG objectives requires stronger corporate governance structures, clearer regulatory frameworks, and more consistent enforcement mechanisms.

**Implementation Potential:** In Indonesia, weak regulatory enforcement and fragmented fiscal frameworks further hinder the development of genuinely sustainable tax practices.

## **I. INTRODUCTION**

Environmental, Social, and Governance (ESG) commitments have become a benchmark for responsible corporate conduct, shaping investor expectations and influencing regulatory frameworks globally. In Indonesia, ESG adoption is increasingly visible among publicly listed firms, partly driven by sustainability indices and voluntary disclosure frameworks. However, a paradox emerges: while ESG should theoretically promote transparency and ethical conduct, empirical evidence indicates that some ESG-oriented firms engage in aggressive tax strategies, potentially undermining their sustainability claims. This contradiction raises critical questions about the role of ESG in emerging markets with less stringent enforcement mechanisms that suggests sustainability narratives may coexist with or even mask reputationally damaging fiscal behaviors. Addressing this paradox is vital for policymakers, investors, and scholars seeking to align sustainability goals with genuine corporate accountability.

Companies with strong ESG ratings often exhibit ethical reporting practices; however, they also demonstrate tendencies toward strategic tax avoidance, especially in response to the financial pressures to sustain ESG initiatives (Ekawati, 2025). ESG concerns sustainability; it helps identify companies that are more sustainable, and therefore better positioned for long-term success, because they manage their environmental impact, engage positively with communities, and implement strong governance practices. On at least one level, taxes represent one of the most visible representations of ESG actions. Essentially, taxes are contributions made by citizens to the government of a country in return for the security, transportation, healthcare, education, and other social benefits that the state provides to those citizens.

Taxes are seen as a reward paid under a social contract in which people collectively agree to give up a portion of their personal income and profits to the state in recognition that their combined contributions can provide more goods than individual payments could. A similar analogy can be applied to business when the taxes that companies pay on their profits are the price of access to, and the opportunity to operate in the markets that are provided by the state. In regulating the imposition of a carbon tax, the government issued Law No. 7/2021 concerning the Harmonization of Tax Regulations (UU HPP) that states a carbon tax is imposed on the purchase of goods containing carbon or on activities that produce carbon emissions (Law of the Republic of Indonesia, 2021). The imposition of a carbon tax aims to change the behavior of society and industry to switch to green economic operations that are low in carbon emissions as a manifestation of the government's concern to achieve net zero emissions by 2050 (Law of the Republic of Indonesia, 2016).

The corporate approach to taxation is no longer a matter of compliance. Environmental, social, and governance (ESG) is a strong indicator of how a company views its role and commitment in society. This is an important element of a company's social contribution as a social aspect of its ESG persona. There are benefits to tax reporting through an ESG lens that can potentially provide a holistic and relevant picture of the business purpose, thereby building public trust. For instance, a commitment to net-zero emissions, which can take years to document and achieve, a company's tax footprint is something that stakeholders are increasingly asking companies to report today. As a result, we are increasingly seeing investors looking at how businesses manage their tax affairs as an early indicator of how they manage other aspects of their ESG agenda. Therefore, building trust in tax reporting has the potential to build trust in other areas.

ESG presents new opportunities to transform tax reporting as a positive thing for business and no longer something to be avoided. It is part of a more meaningful movement to align business with the communities in which it operates and the communities it serves. ESG reporting also helps companies understand where they stand, relative to their peers and competitors. These factors can provide a framework for evaluating a business's performance beyond its financial profitability by assessing their impact on each of the three aspects mentioned above. Companies with strong ESG ratings often exhibit ethical reporting practices that also demonstrate the tendencies toward strategic tax avoidance, especially in response to the financial pressures to sustain ESG initiatives (Ekawati, 2025). ESG concerns sustainability as it helps identify companies that are more sustainable, and therefore better positioned for long-term success, because they manage their environmental impact, engage positively with communities, and implement strong governance practices. On at least one level, taxes represent one of the most visible representations of ESG actions.

Essentially, taxes are contributions made by citizens to the government of a country in return for the security, transportation, healthcare, education, and other social benefits that the state provides to those citizens. Taxes are seen as a reward paid under a social contract in which people collectively agree to give up a portion of their personal income and profits to the state in recognition that their combined contributions can provide more goods than individual payments could. A similar analogy can be applied to business: the taxes that companies pay on their profits are the price of access to, and the opportunity to operate in the markets that are provided by the state. A sustainable tax is a regular agenda item in the boardroom, as it is a matter of public and private reputational risk. It requires thorough internal procedures and thoughtful external presentations.

The sustainability of state revenues in the long term depends on sustainable taxation that create new costs, as well as new opportunities, for all businesses. Research on the relationship between ESG performance and tax aggressiveness has revealed complex and varied findings. Jiang et al. (2024) found that high ESG performance can reduce corporate tax avoidance by enhancing external supervision and improving internal control mechanisms. Conversely, Yanto (2025) identified a reciprocal relationship in which companies with high ESG scores engage in tax avoidance to offset ESG compliance costs, while tax-aggressive firms increase ESG engagement to mitigate reputational risks. Thus, research related to the carbon tax in Indonesia needs to be investigated further.

Developments in ESG taxation will require careful tracking and agile procedures that are able to quickly absorb liabilities and capitalize on opportunities based on significant research that has observed alignment between companies that committed to ESG and sustainable taxation case studies on the environment and regulations in Indonesia. Ekawati (2025) identifies a halo effect in which companies involved in real earnings management tend to report high ESG scores to mask unethical practices, including tax aggressiveness. In contrast, Binhadab (2025) showed that firms with strong sustainability management tend to adopt more stable and transparent tax strategies, suggesting that long-term sustainability is a primary driver of tax governance. However, Lee (2024) highlighted that not all ESG dimensions influence tax strategy equally, and that only the social and governance dimensions were found to be associated with tax avoidance in firms that have already well governed.

These findings suggest that the relationship between ESG and tax strategies is contextual, depending on managerial motives, quality of corporate governance, and regulatory pressures within each jurisdiction. This study conducts a systematic review of existing literature on the intersection between Environmental, Social, and Governance (ESG) commitments and corporate tax strategies, with a contextual emphasis on Indonesia as a leading emerging economy in ASEAN. Sustainable taxation refers to tax policies that support ESG goals. Although ESG companies are often seen as more committed to sustainability, their tax practices and contributions to these goals remain under-explored.

## II. LITERATURE REVIEW

### 2.1 Multi-Theory Synthesis

The contradictory relationship between ESG performance and tax strategy can be unpacked through a multi-theory lens, where each framework highlights different incentive structures and behavioral dynamics. *Legitimacy Theory* suggests that firms often deploy ESG disclosures as symbolic gestures to maintain societal approval, which may simultaneously serve to obscure opportunistic fiscal behavior such as aggressive tax planning. This aligns with evidence in emerging markets where institutional enforcement is uneven, allowing symbolic compliance to substitute for substantive reform. From an *Agency Theory* perspective, managerial decision-making may prioritize reputational capital over genuine stakeholder alignment, using ESG credentials as a shield to pursue tax minimization strategies that do not necessarily advance societal welfare. Furthermore, *Political Cost Theory* posits that highly rated ESG firms may anticipate reduced regulatory scrutiny, thereby increasing their latitude for aggressive fiscal practices. Such dynamics highlight a moral hazard risk in the current ESG evaluation landscape, particularly where scoring methodologies fail to account for corporate tax behavior as part of governance assessment.

Complementing these theoretical foundations, empirical evidence from Indonesia reveals structural and governance factors that mediate between the ESG with tax relationship. The literature suggests that concentrated ownership structures are associated with a stronger focus on short-term financial gains rather than the integrity of ESG commitments. However, the effectiveness of independent commissioners and audit committees in moderating tax avoidance remains inconsistent across sectors (Nasih et al., 2024; Yanto et al., 2025). Greenwashing literature amplifies these concerns, warning against ESG commitments that are more performative than operational, with the *halo effect* enabling high ESG scores to mask selective tax transparency or superficial compliance with disclosure requirements, especially prevalent in capital-intensive manufacturing industries. In the policy arena, carbon taxes and targeted green fiscal incentives have emerged as mechanisms to align ESG objectives with the public interest. Cross-country evidence, notably from Indonesia and China, indicates that such fiscal instruments can catalyze sustainability-oriented innovation and operational efficiency. However, their potential is frequently undermined by inconsistent regulatory frameworks, limited monitoring capacity, and inadequate policy coherence, reinforcing the need for integrated fiscal to ESG governance mechanisms that move beyond symbolic signaling toward measurable, enforceable outcomes (OECD, 2023).

## **2.2 ESG Disclosure**

ESG disclosures are a measurement tool for the development of information disclosure on the impact of environmental, social, and governance practices implemented by the company. The disclosure of non-financial information can be used as an important indicator in assessing and evaluating a company's performance during the sustainability of its operational activities, along with its impact on the three criteria. Indonesian evidence shows concentrated ownership often prioritizes financial returns over ESG integrity. Independent commissioners and audit committees can moderate tax avoidance, but their effectiveness is inconsistent. Managerial ownership is linked with higher tax aggressiveness, reflecting agency conflicts (Nasih et al., 2024; Yanto et al., 2025). Greenwashing literature underscores the risk of symbolic ESG commitments without substantive action. In fiscal terms, this may translate into selective tax transparency or superficial compliance with disclosure mandates. The halo effect indicates that high ESG scores may conceal opportunistic corporate practices, a pattern particularly evident in the manufacturing sector. Despite this progress, ESG disclosures in Indonesia still face significant challenges. The lack of awareness among corporations, limited technical capacity, inconsistent reporting standards, and low comparability of disclosed information have hindered widespread adoption. In response to these barriers, regulators, industry associations, and international organizations have launched various local initiatives. These efforts aim to enhance ESG literacy, support capacity building, and encourage companies to adopt standardized reporting practices that align with globally recognized frameworks. This collective push reflects the growing recognition of the value of ESG information in promoting long-term business resilience and sustainability.

## **2.3 Prior Studies**

Bibliometric evidence from 118 Scopus-indexed publications (2021–2025) reveals that 34% address emerging markets, with Indonesia representing only 11% of the sample. The largest thematic cluster links ESG disclosure with tax avoidance, with mixed findings on whether sustainability reporting curbs aggressive fiscal behavior (Ekawati, 2025; Lee, 2024). Some studies find ESG performance reduces tax avoidance by promoting transparency, while others note ESG initiatives may drive tax aggressiveness to offset sustainability costs. Huang et al. (2025) provide empirical evidence from China showing that environmental protection taxes have a significant positive impact on corporate ESG performance, reinforcing the potential efficacy of similar instruments in Indonesia's regulatory framework.

However, despite Indonesia's adoption of a carbon tax through Law No. 7/2021, the absence of detailed implementation mechanisms continues to hinder its effectiveness, regarding the limited institutional capacity of the regulators to enforce ESG disclosure practices. Further, Yanto and Baroroh (2025) reveal a reciprocal relationship between ESG practices and tax aggressiveness in Indonesian and Malaysian companies. Their findings support the hypothesis that companies may engage in ESG initiatives to enhance legitimacy while concurrently pursuing aggressive tax strategies to offset ESG that related costs. Tan et al. (2025) broadened the discussion by examining how fiscal incentives, such as accelerated depreciation policies, impact environmental investments. They emphasize that such tax policies are underutilized in Indonesia owing to underdeveloped fiscal infrastructure, highlighting the need for more robust incentive mechanisms to promote green capital allocation. This concern echoes the work of Duan et al. (2024), who argue that corporate sustainability efforts must be supported by fiscal alignment to create long-term value and legitimacy.

### **III. RESEARCH METHODS**

This study employs a Systematic Literature Review (SLR) methodology to critically synthesize the existing academic discourse on sustainable tax strategies within ESG-indexed companies, particularly in the Indonesian context. The SLR framework ensures a transparent, replicable, and comprehensive assessment of scholarly contributions by integrating bibliometric and thematic analysis with VOSviewer. This Literature Review was synthesized using a narrative method by grouping similar extracted data according to the results measured to answer the objectives of the research journal according to the criteria. Academic articles published between 2021 and 2025 were retrieved from reputable databases, including Scopus. To explore the research landscape of this domain, a literature review combined with thematic content analysis was employed to identify and map recurring concepts, including keyword co-occurrence patterns. Thematic synthesis was then applied to integrate the findings from qualitative and quantitative studies, enabling the identification of patterns, contradictions, and research gaps. The journal summary then analyzes the content contained in the research objectives and findings and then requires a coding process on the journal contents that were reviewed. Data that had been collected were then sought for similarities and differences and then discussed to draw conclusions.

#### IV. RESULTS

A bibliometric analysis was conducted to identify prevailing research themes within the intersection of ESG practices and corporate tax strategies. Using Scopus-indexed literature from 2021–2025, keyword co-occurrence mapping revealed three major thematic clusters, complemented by temporal and density visualizations. A quantitative snapshot underscores the contours of the field. Among 118 publications, the largest cluster examines whether ESG reporting curbs or camouflages aggressive fiscal behaviour. Governance-oriented studies focusing on board independence, audit committees, and ownership concentration investigate the mechanisms that moderate the dynamics between ESG and tax strategy. A third research stream explores carbon taxation and green incentives, although explicit connections to firm-level ESG commitments in Indonesia remain comparatively limited. The analysis was performed using VOSviewer with a minimum keyword occurrence threshold of three. Table 1 presents the ten most frequent keywords in the dataset. “greenwashing” and “tax avoidance” dominate the literature.

*Table 1. Keyword co-occurrence in ESG–tax literature (2019–2025)*

| <b>Keyword</b>                  | <b>Occurrences</b> | <b>Total link strength</b> |
|---------------------------------|--------------------|----------------------------|
| sustainability                  | 15                 | 43                         |
| indonesia                       | 17                 | 38                         |
| corporate social responsibility | 13                 | 35                         |
| greenwashing                    | 21                 | 29                         |
| tax avoidance                   | 21                 | 29                         |
| corporate governance            | 16                 | 28                         |
| esg                             | 17                 | 28                         |
| tax system                      | 6                  | 23                         |
| stakeholder                     | 6                  | 21                         |
| governance approach             | 5                  | 19                         |
| risk assessment                 | 5                  | 19                         |
| sustainable development         | 6                  | 19                         |
| firm value                      | 6                  | 14                         |
| esg performance                 | 7                  | 12                         |
| business                        | 5                  | 11                         |
| financial performance           | 5                  | 10                         |
| sustainability reporting        | 7                  | 10                         |
| green economy                   | 6                  | 9                          |
| tax compliance                  | 5                  | 3                          |

“greenwashing” and “tax avoidance” share identical metrics (21 occurrences, link strength 29), placing them as focal points of scholarly concern. Their identical positioning hints at conceptual overlap: both involve discrepancies between corporate rhetoric and actual fiscal/environmental conduct. The co-occurrence suggests that greenwashing may often be discussed alongside aggressive tax strategies, framing both as integrity risks in ESG contexts. “Corporate governance” (16 occurrences, link strength 28) and “ESG” (17 occurrences, link strength 28) sit in the second tier of centrality. This alignment indicates governance is a bridging concept, connecting ESG commitments with fiscal behavior outcomes. Sub-keywords like “governance approach” (19 link strength) and “risk assessment” (19 link strength) further reinforce governance’s mediating role, albeit with more specialized analytical angles.

The keyword network is anchored by “sustainability” (15 occurrences, total link strength 43) as the most interconnected term, indicating that ESG with tax research frames fiscal behavior predominantly within the broader sustainability discourse. The high total link strength suggests sustainability is not an isolated theme but deeply embedded across sub-topics such as governance, environmental policy, and reporting practices. “Indonesia” ranks second in occurrences (17) and third in link strength (38), underscoring the country’s emerging prominence as a case study location in ESG with tax scholarship that likely due to its policy reforms, carbon tax debates, and mixed governance performance. Terms like “ESG performance” (7 occurrences, link strength 12), “sustainability reporting” (7 occurrences, link strength 10), and “tax compliance” (5 occurrences, link strength 3) appear with relatively lower link strengths. This suggests that measurement-oriented aspects (performance, reporting) and compliance-focused fiscal outcomes are underrepresented, presenting clear research gaps for empirical expansion.

The ESG–tax paradox is strongly embedded in literature through the joint prominence of *greenwashing* and *tax avoidance* which an area ripe for deeper causal analysis. Indonesia’s centrality signals both opportunity and responsibility: as a highly connected to country node, its policy and corporate behaviors influence how global literature models ESG–tax interactions. Governance is consistently positioned as the main structural determinant bridging ESG rhetoric and fiscal conduct which making it a critical policy and managerial lever. Compliance-oriented researches such as tax compliance, sustainability reporting topics are comparatively neglected, suggesting room for studies that link disclosure quality directly to fiscal behavior metrics.

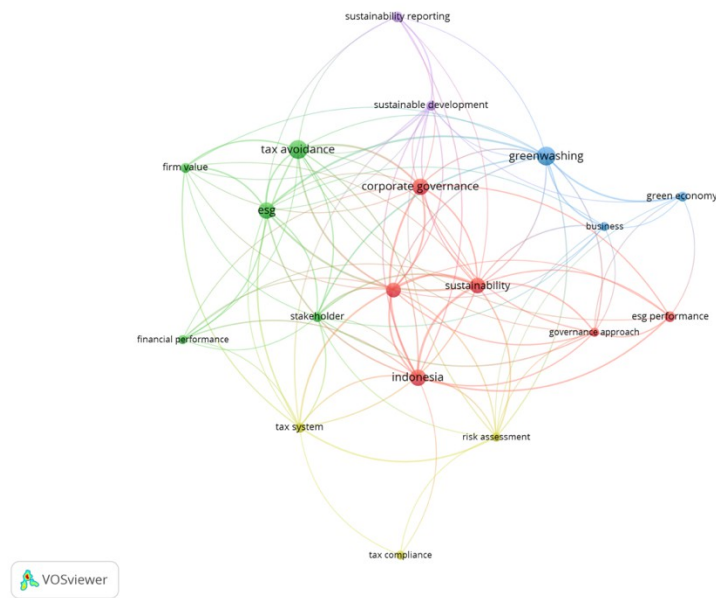
#### **4.1 Thematic Clusters (Network Visualization)**

The bibliometric mapping reveals three dominant thematic clusters within the 2021–2025 Scopus-indexed literature on ESG and tax strategy:

Cluster 1: ESG–Tax Avoidance–Greenwashing. The network structure and link strengths reflect a persistent “ESG–tax paradox”: firms with strong sustainability narratives can, under weak enforcement, maintain or rationalize aggressive tax positions. Overlay colors (recentness) place *greenwashing* and *carbon tax* among newer, fast-rising nodes, indicating a shift from descriptive ESG reporting toward scrutiny of symbolic disclosure, *halo effects*, and the credibility of tax transparency. The interpretive pattern fits legitimacy and political cost logics where ESG signaling can buffer scrutiny, while ESG “wins” may be leveraged to deflect attention from tax planning.

Cluster 2: Corporate Governance and Ownership. Indonesian evidence embedded in the map highlights concentrated ownership and managerial stakes as consistent antecedents of higher tax aggressiveness, with the effectiveness of independent commissioners and audit committees varying by sector. The density of corporate governance alongside ESG and tax avoidance suggests governance is the primary transmission channel through which ESG intentions translate (or fail to translate) into fiscal integrity.

Cluster 3: Environmental Fiscal Instruments. Carbon taxes and green incentives appear as a policy cluster that is still detached from micro governance keywords in the network space which signaling an integration gap between public instruments and firm level governance routines. Where studies connect these spheres, the direction is clear, robust design for carbon taxes can enhance ESG outcomes via investment, innovation, and external monitoring, meanwhile uneven frameworks and weak oversight dilute those gains.



*Figure 1. Network visualization of keyword co-occurrence in ESG–tax literature (2021–2025)*

#### **4.2 Temporal Trends (Overlay Visualization)**

Figure 2 displays the temporal evolution of research topics. Earlier studies (2021–2022) emphasized corporate social responsibility and tax compliance. In contrast, recent literature (2023–2025) focuses on ESG disclosure, carbon tax policies, and greenwashing, indicating a shift toward more nuanced discussions at the intersection of sustainability and fiscal policy.

- 2021–2022: Research concentrated on CSR and tax compliance, treating ESG as a subset of CSR.
- 2023–2025: Shift toward nuanced topics about ESG disclosure ethics indicating a more critical view of ESG’s role in corporate tax behavior.

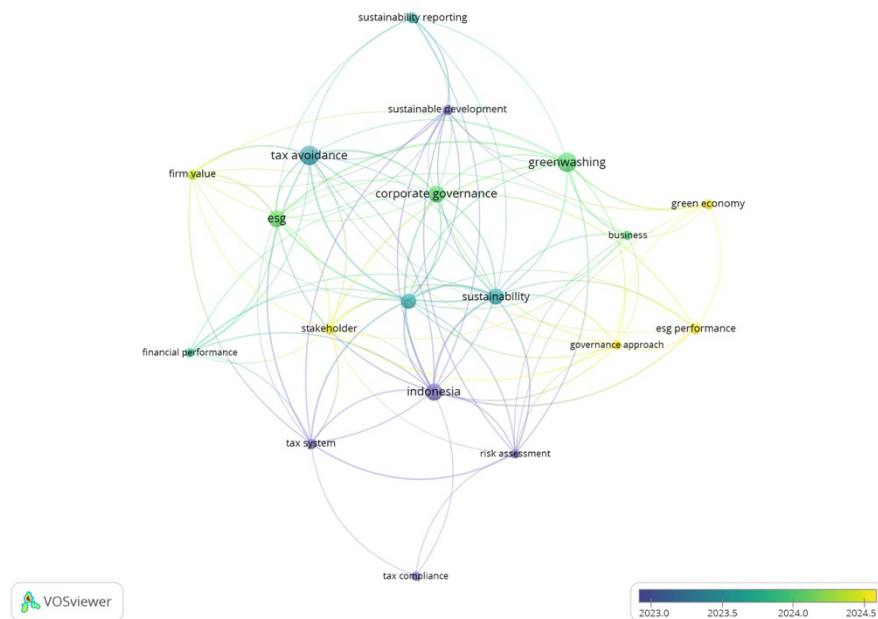


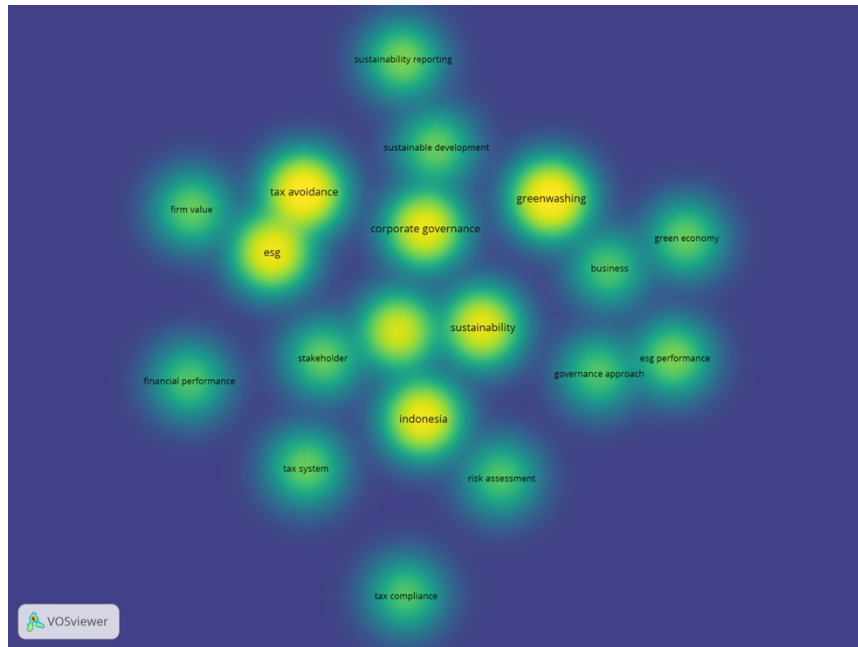
Figure 2. Overlay visualization showing the temporal emergence of ESG with tax themes.

### 4.3 Keyword Concentration (Density Visualization)

The overlay visualization shows a post-2023 pivot toward ESG disclosure quality, carbon pricing, and greenwashing, while density maps keep ESG, tax avoidance, and governance as the brightest, most central topics. The juxtaposition implies maturation: from documenting ESG associations to interrogating *mechanisms* (e.g., symbolic compliance, reputational shielding, incentive compatibility of carbon taxes). The strongest growth margin lies in integrating policy instruments with governance design and tax transparency metrics at the firm level.

- High density core: ESG, tax avoidance, corporate governance appears central to most studies.
- Emerging hotspots: Carbon taxation and greenwashing are gaining increasing attention in both scholarly research and regulatory discourse.
- These hotspots signal future growth areas where research could bridge fiscal strategy with environmental regulation and reputational management.

Figure 3 presents the density map, where bright yellow areas indicate topics with the highest frequency. ESG, tax avoidance, and corporate governance emerge as the densest regions, confirming their dominance in the field. Carbon tax and greenwashing appear as emerging hotspots, suggesting opportunities for further research.



*Figure 3. Density visualization of keyword concentration in ESG in tax literature*

The VOSviewer output validates the paradox between ESG and tax that shows country as the emerging markets with weak enforcement, sustainability narratives may coexist with or even justify aggressive tax strategies.

## **V. CONCLUSION**

The bibliometric mapping confirms that ESG and tax avoidance dominate scholarly discussion, closely interconnected with governance and environmental performance. The emergence of carbon tax and greenwashing as new research hotspots reflects shifting societal expectations and evolving regulatory landscapes. For Indonesia, the findings highlight the importance of integrating tax transparency into ESG frameworks to prevent reputational commitments from masking fiscal opportunism. They also underscore the need to strengthen governance oversight, particularly within concentrated ownership structures, to ensure that managerial actions align with genuine ESG principles. In addition, linking environmental taxation with sustainability reporting is essential to ensure that carbon and green tax incentives lead to substantive corporate behavioral change. Overall, the mapping reveals both the maturity of the ESG with tax discourse and the urgent need for specific policies in the context of emerging markets to reconcile sustainability narratives with authentic fiscal responsibility.

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