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Do Environmental, Social, and Governance (ESG), Leverage, and Financial Performance Affect Tax Avoidance?

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Abstract

This research aims to test the effect of Environmental, Social, and Governance (ESG) proxied by ESG Risk Rating on tax avoidance. This study also examines the influence of leverage measured by the Debt-to-Assets Ratio (DAR) on tax avoidance. Moreover, this research also examines the effect of financial performance as sized by the Return on Assets Ratio (ROA) on tax avoidance. This study uses quantitative descriptive research and panel data analysis to scrutinize data from companies listed in the ESG Leaders Index over three years from 2020 to 2022. The research used eViews 12 software to analyze a descriptive-quan-titative panel data regression analysis to evaluate the research hypotheses. The result showed that imple-menting ESG can reduce tax avoidance and create better financial performance. However, leverage is proven to reduce tax avoidance, but does not influence financial performance. This research concludes that tax avoidance isn't affected by financial performance but is more influenced by management behavior. Moreover, financial performance does not mediate the relationship between ESG, leverage, and tax avoidance. These findings underscore the importance of integrating sustainability principles into corporate governance to mitigate tax avoidance behaviors and promote fiscal transparency.

Keywords: ESG; Leverage; ROA; Tax Avoidance

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INTRODUCTION

In recent decades, taxes have emerged as the primary pillar of state revenue, playing a pivotal role in funding the State Revenue and Expenditure Budget (APBN). From 2013 until 2020, tax revenue did not surpass the established targets. However, in the last two years, specifically in 2021 and 2022, tax revenue targets were exceeded. In Indonesia, there are still frequent efforts to minimize the tax burden, one of which is tax avoidance to increase company profits. Tax avoidance behavior makes tax revenues less than optimal, and is one of the causes of Indonesia's low tax ratio, as reported by IDEAS on www.koran.tempo.co, on April 2023. In 2021, Indonesia recorded a tax ratio of 10.1%, which is lower than Vietnam at 22.7%, the Philippines at 17.8%, Thailand at 16.5%, Singapore at 12.8%, and Malaysia at 11.4% (Rosseno Aji Nugroho, 2024). The data about state revenues, tax revenue targets, tax revenue acknowledgment, and the data about tax ratio for the period from 2013 to 2022, can be described in Table 1.

Table 1. The State Revenue and Expenditure Budget, Tax Revenue, and Tax Ratio

Number	Year	Total State Revenue *	Tax Revenue			Tax Ratio
			Target *	Realization *	% Realization	
1	2013	1.438	1.148	1.072	93.4%	10.25%
2	2014	1.635	1.072	985	91.9%	9.4%
3	2015	1.793	1.294	1.055	81.5%	9.2%
4	2016	1.822	1.539	1.283	83.4%	9%
5	2017	1.736	1.283	1.147	89.4%	8.5%
6	2018	1.895	1.424	1.315	92.3%	8.8%
7	2019	2.165	1.557	1.332	84.4%	8.4%
8	2020	1.699	1.404	1.285	91.5%	6.9%
9	2021	1.743	1.546	1.547	107.2%	10.1%
10	2022	2.266	1.784	2.034	114.0%	10.4%

Note: * = in trillion rupiah
(Source: processed data by Author 2024)

The climate change warning issued by the United Nations (UN) shows that there are very serious things that business actors must pay attention to regarding their commitment to environmental issues and good governance. In terms of company performance, which can be measured by several propositions, including environmental, social, and governance, known as ESG, will sustainably generate value for the firm. On the other hand, implementing ESG represents an additional cost that companies must bear, thus companies must consider the cost and benefit trade-offs. It is not uncommon for companies to implement ESG merely as a cover-up for tax evasion that should be rightfully addressed (Mao, 2019; Montenegro, 2021). The implementation of ESG is expected to be aligned with efforts to enhance performance on environmental issues, concern for contributions to tax payments to the government, and better governance, thereby minimizing undue tax avoid-

ance efforts. Recent researches indicate an inverse correlation between the adoption of ESG and the inclination toward tax avoidance (Yoon et al., 2021).

According to Paul Bendal, Global Leader, Mining, & Metals PwC Australia, tax is a company's fundamental way to demonstrate its commitment to ESG issues. It was stated that less than one-third of the 40 largest companies maintained tax transparency reporting in 2020. Tax clarity, which is one of the key ESG measures, allows mining companies to underscore their notable financial contributions to society and the consequent enhancements in education, public works, and overall quality of life (Paul Bendal, 2021).

Tax is a cost that companies are obliged to bear, the greater the tax obligation is borne, the smaller the profit. Companies that implement a thin capitalization policy take advantage of the gap by maximizing the interest expense incurred on debt used as a source of operational funds. Leverage, referring to the extent to which a company relies on debt to finance its operations, can significantly influence tax strategies. One common tactic involves the use of interest expenses to reduce taxable income. Companies with high leverage ratios may exploit this avenue more aggressively, as they have larger interest payments to offset against profits. Consequently, they might engage in activities such as debt shifting or thin capitalization to maximize deductible interest expenses and minimize tax liabilities. Several studies found that companies with high debt ratios exhibit a greater inclination toward the effort to avoid taxes (Ernawati et al., 2019; Kluzek & Schmidt-Jessa, 2022).

According to the OECD, as noted in Guidance Note Compliance Risk Management, tax-payer compliance is affected by two factors, namely economic factors and behavioral ones. In the first factor, one of the reasons a company avoids taxes is due to a financial burden. If a company perceives that the tax burden it carries is excessively heavy given its financial situation, it often endeavors to minimize tax expenditures. This aligns with the financial conditions within the company; when its financial performance is robust, it typically faces no difficulty in shouldering the tax burden it owes. The second factor, taxpayer compliance is affected by psychological and sociological reasons.

Companies increasingly recognize the importance of ESG considerations in their operations, driven by investor interest, regulatory demands, and societal conventions. Integrating ESG principles into business strategies can enhance corporate reputation, mitigate risks, and drive long-term sustainable growth. Profitability is essential for sustaining operations and shareholder returns, aggressive tax planning strategies aimed at maxi-

mizing short-term profits may conflict with long-term sustainability goals. Companies with robust ESG frameworks may face reputational risks and stakeholder backlash if perceived to engage in aggressive efforts to avoid taxes, which could ultimately impact profitability and long-term competitiveness. Several studies found that ESG initiatives contribute positively to financial performance (Huang, 2021; Kim & Li, 2021).

Leverage, which involves the use of debt to finance operations or investments, can magnify both profitability and risk. On one hand, debt financing allows companies to leverage their investments, potentially leading to higher returns on equity. This amplification effect is especially pronounced in industries with stable cash flows and low borrowing costs. However, excessive leverage can also expose companies to greater financial risks, such as interest rate fluctuations, liquidity constraints, and bankruptcy threats. Moreover, the relationship between leverage and financial performance varies across different business contexts and industries. While some companies may strategically utilize leverage to enhance returns and fuel growth, others may adopt a more conservative approach to minimize financial risks. Several studies have concluded the existence of a positive relationship between leverage and financial performance (Appiah et al., 2020; Bui, 2020).

RESEARCH METHODS

This study utilizes quantitative descriptive research, using drawing data from the Indonesia Stock Exchange (BEI) and individual issuers. The dataset includes firms listed in the Index of ESG Leaders. Panel data examination was conducted on companies that are listed in the index for three years in the 2020 to 2022 period. Based on the data, a total of 46 companies were recorded as having been included in the index. This data serves as the population for this study. To determine the research sample, an elimination process was conducted on the population, excluding companies that were not consistent over the three years from 2020 to 2022 and had exited the ESG Leaders Index. A total of 28 companies were eliminated from the initial population. The data sample resulting 18 companies or 54 data points over the three-year research period.

The ESG variable (X1) is measured by the ESG Risk Rating published by the IDX in collaboration with Sustainalytics Morningstar. Periodically, IDX announces changes to data on issuers entering and/or leaving the ESG Leaders Index, in March and September every year. From this release, the ESG Risk Rating value can be obtained along with the

controversy value of each issuer. ESG Risk Rating published by Sustainalytics reflects the ESG implementation inverse score. The lower ESG Risk Rating score can be judged that ESG implementation is better than the higher ones.

The leverage variable (X2) is assessed using the Debt-to-Assets Ratio (DAR), which is computed as the total debt divided by the total assets (Alm et al., 2019; Ernawati et al., 2019). The financial performance variable (Z) in this research is assessed using the profitability ratio, namely Return on Assets (ROA), computed by dividing the net profit after tax by the total assets. The Generally Accepted Accounting Principles-Effective Tax Rate (GAAP ETR) is employed to gauge the dependent variable, tax avoidance (Y), which is computed by dividing the total tax burden by the profit before tax (Dyreng et al., 2008). The theoretical framework of the study is illustrated in Figure 1.

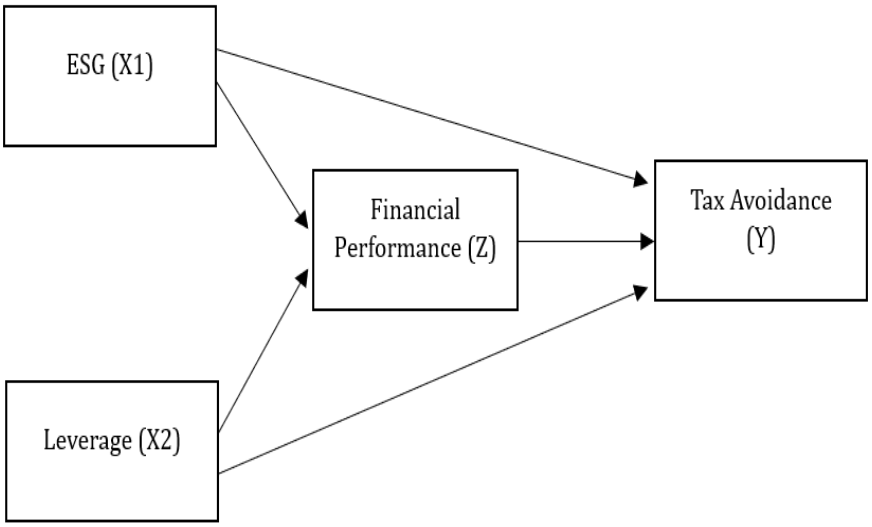

Figure 1. Theoretical Framework

Descriptive analysis techniques are employed to provide an overview of the research data, encompassing minimum, maximum, means, standard deviation, and other relevant values. Quantitative analysis was accomplished using panel data regression. To execute quantitative analysis, the software used is the eViews 12. To test the influence of ESG (X1) and Leverage (X2) factors on Financial Performance (Z), equation (1) is prepared.

$$Z_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \varepsilon_{it} \quad (1)$$

Meanwhile, equation (2) is prepared to determine the effect of ESG variables (X1), Leverage (X2), and Financial Performance (Z) on Tax Avoidance (Y).

$$Y_{it} = \alpha + \beta_3 X_{1it} + \beta_4 X_{2it} + \beta_5 Z_{it} + \varepsilon_{it} \quad (2)$$

To accomplish panel data regression testing, selecting the most suitable estimation method is essential, namely the Common Effect Model (CEM) or Ordinary Least Squares

(OLS), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The tests conducted to determine the most suitable method include the Chow Test, the Hausman Test, and the Lagrange Multiplier Test. If all Gauss-Markov assumptions are satisfied, including non-autocorrelation, the Panel Data Regression method will yield estimation results that are Best Linear Unbiased Estimation (BLUE). In panel data regression analysis, the focus often lies on conducting tests for multicollinearity and heteroscedasticity, rather than requiring all classical assumption tests associated with the OLS method.

Hypothesis testing is conducted on regression coefficients using the t-test, which eva-luates them individually at a significance threshold of 5% to ascertain their statistical signi-ficance. The Sobel test was carried out to analyze the influence of the intervening variable on the influence of the relation between the exogenous variable and the endogenous varia-ble. The Sobel test findings were contrasted with the critical values from the t-table at a significance level of 5%. The coefficient of determination was then examined to find out how much the change in variation of the dependent variable can be elucidated by the change in variation in the exogenous variable (Napitupulu et al., 2021).

The research samples had an ESG Risk Rating in the low category (between 11 and 20) and medium category (between 21 and 30). To test the differences in tax avoidance between categories, a two-average difference test was carried out using SPSS version 27 software.

Agency Theory

According to Jensen & Meckling, (1976), agency theory defines the agency relationship as a contractual arrangement wherein one or more individuals (the principal(s)) enlist another individual (the agent) to execute certain tasks on their behalf, thereby entrusting the agent with decision-making authority. An agency association is a contract between shareholders and management where the principal gives authority to the agent to determine the best yield for the principal.

Agency Theory in a company is related to the efforts made by managers as agents to carry out their responsibilities as maximally as possible to provide value to investors, providing added value to the investment provided by maximizing company profits. On the other hand, managers hope to get greater rewards for greater performance achievements. Tax, as a company's burden in quite large amounts, is often a consideration for management to carry out tax planning, including tax avoidance so that the company's profits are greater.

Hypotheses

The implementation of ESG is expected to influence tax avoidance policy so that it will increase the company's sustainability. Yoon et al., (2021) conducted research in South Korea and found positive things from implementing ESG to reduce tax avoidance. Research conducted in Indonesia also found the same conclusion, the implementation of ESG had an impact on tax avoidance behavior (Nawangsari, 2022). Other research finds that ESG/CSR will increase tax avoidance behavior. Some companies use ESG/CSR as a cover for efforts to plan tax minimization (Mao, 2019; Montenegro, 2021). Another research was conducted by Schochet & Benlemlih, (2022) on American companies by analyzing the ESG dimensions of "Employee Relations" and the effort to avoid taxes. The conclusions of this research indicate a favorable impact on the constructs.

Companies that are concerned about environmental, social, and governance issues develop long-term company management to maintain the sustainability of their business, not only for short-term profits. This is in line with efforts to keep the company's sustainability from the risk factor of avoiding taxes because it provides no added value for the company. Tax avoidance will provide greater risk, especially if the tax authorities discover this practice. Hence, the derived hypothesis is H1: Environmental, Social, and Governance (ESG) factors influence tax avoidance.

The debt policy (leverage) can influence tax avoidance because the company must face risks in managing debt. On the other hand, it can benefit from interest expenses in determining the amount of Income Tax. Research conducted by Kluzek & Schmidt-Jessa, (2022) found that new companies tend to have higher leverage ratios and tend to make tax avoidance. Research with similar results was also conducted by Dang & Tran, (2021); Ernawati et al., (2019); Sadjiarto et al., (2020); and Zhang et al., (2022). Conversely, Barbera et al., (2020) identified a detrimental relationship between leverage and tax avoidance in government-owned companies. Other research concludes that leverage doesn't influence tax avoidance (Anindita et al., 2022; Handoyo et al., 2022). Companies facing substantial tax debt often resort to debt financing as a strategy to alleviate their tax burdens. These firms typically implement tax planning measures to effectively reduce their tax liabilities, there-by engaging efforts to avoid taxes. This hypothesis is formulated as H2: Leverage influences tax avoidance.

ESG includes managerial discretion and inherent obligations which can take the form of ethics in operations. Regarding environmental activities, the traditional view holds that

environmental regulations are new costs or investments for companies that reduce profits. Lower profits lead to lower efficiency. In contrast, strict, but flexible, environmental regulations can trigger firms to establish technologically or managerially. A company that adopts strict global environmental standards will achieve much higher market value com-pared to less inflexible regulations. Several studies show results that ESG can raise financial performance, such as research by Harymawan et al., (2021); Huang, (2021); Kim & Li, (2021); Minggu et al., (2023), other research found the opposite (Duque-Grisales & Aguilera-Caracuel, 2021), denoted as H3: ESG influences financial performance.

Financial leverage refers to how a company manages debt. Companies that choose to take on debt will benefit from reducing the tax burden, because the interest expense has an impact on reducing income subject to tax, thereby providing a development in the company's profitability. Conversely, companies that choose a debt policy have other risks that will arise, one of which is the risk of insolvency if the debt is not managed properly (Bui, 2020). Furthermore, other researchers have concluded the relationship between leverage and the performance of company finances (Appiah et al., 2020). This leads to the formulation of hypothesis H4: Leverage influences financial performance.

Companies with higher profitability typically incur a larger tax burden compared to those with lower profitability. This research concludes that the higher a firm's return on assets (ROA), so does its effective tax rate. Barbera et al., (2020) discovered a substantial inverse correlation between financial performance and tax planning. This finding is in line with the results of studies conducted by Zhong et al., (2023). Consequently, hypothesis H5 proposes that financial performance impacts tax avoidance.

A company that is managed by applying ESG principles is expected to be sustainably operated and this is supported by financial performance resulting from good management. Alm et al., (2019) found that companies experiencing financial difficulties tend to make tax evasion, this is an effort to cover the financial difficulties they are facing by minimizing the tax burden. The influence of applying ESG principles on enhancing financial performance is expected to shape a company's approach to adopting policies to avoid taxes. This leads to hypothesis H6, which suggests that financial performance roles as a mediator in the relationship between ESG and tax avoidance.

The company's debt management policy has implications for financial performance, because additional funds for operations originating from third-party loans have an impact on increasing interest expenses, which on the one hand provides benefits by reducing the

tax burden, but on the other hand provides management risks that can result in bankruptcy. In this case, leverage can affect financial performance. The higher tax burden affected the tendency to tax avoidance policy. Hypothesis H7 posits that financial performance acts as a mediator in the relationship between leverage and tax avoidance.

RESULTS AND DISCUSSION

Table 2 describes the statistical summaries of the research, consisting of ESG (X1), Leverage (X2), Financial Performance (Z), and Tax Avoidance (Y). The average Tax Avoidance (Y) variable is 0.2116 or an Effective Tax Rate of 21.16% with a standard deviation of 0.07767. The average ESG variable (X1) is 23.4231 with a standard deviation of 4.8937. The average Leverage variable (X2) is 0.5277, which means the average comparison between total debt and total net assets is 52.77%. The average Financial Performance (Z) variable is 0.08277, which means that the sample average has an ROA of 8.27% with a standard deviation of 0.07517.

Table 2. Descriptive Statistic Analysis

	Y	X1	X2	Z
Mean	0.211666	23.42312	0.527741	0.082776
Median	0.202621	25.69000	0.505685	0.058773
Maximum	0.479269	29.74000	0.868869	0.348851
Minimum	0.051561	11.31000	0.112072	0.003726
Std. Dev.	0.077667	4.893774	0.233233	0.075172
Observations	54	54	54	54

(Source: Processed data 2024)

The multicollinearity test conducted in Equation (1) revealed a correlation value of 0.4424 between variables, which falls under 0.85. Hence, it can be inferred that multicollinearity is absent in the tested data (X1 and X2). Additionally, the Heteroscedasticity Test yielded probability values of 0.8077 for variable X1 and 0.2619 for X2. Since all values are less than 0.05, it indicates that heteroscedasticity did not manifest in the tested variables.

The Multicollinearity Test in Equation 2 obtained a correlation value between variables of 0.4424; 0.4106; and 0.2395 so that all values are under the threshold of 0.85. It means that the multicollinearity is not present in the data tested (X1, X2, and Z). The Heteroscedasticity Test produces a probability value for variable X1 of 0.0915, X2 is 0.0951, and Z is 0.5283, so all are more than 0.05 and it means that there is no heteroscedasticity in the variable testing carried out. The panel data regression results in testing on the Fi-

nancial Performance variable (Z) in equation (1) and the tax avoidance variable (Y) in equation (2) are presented in Table 3.

Table 3. Data Panel Regression Results

Variables	**Equation (1)**	**Equation (2)**
Model of Estimation	***Random Effect Model* (REM)**	***Common Effect Model* (CEM)**
Constant	0.2133	0.3133
ESG (X1)	-0.0066 0.0047*	-0.0058 0.0224*
Leverage (X2)	0.04769 0.3927	0.1007 0.0444*
Financial Performance (Z)	- -	-0.2173 0.1509
Adjusted R Square	0.1134	0.0878

*significant at 5%
(Source: Processed data 2024)

The statistical analysis conducted on the data from Table 4 indicates a substantial variance in the mean Effective Tax Rate (ETR) between groups categorized by low and medium ESG Risk Ratings. Despite the initial findings, the results of the Mann-Whitney test suggest that there isn't a statistically significant distinction between the impact of the two ESG Risk Rating categories on ETR. The Asymptotic Significance (2-tailed) value of 0.198 is higher than the threshold of 0.05, indicating no significant difference.

Table 4. Descriptive of ESG Risk Rating Category

ESG Risk Rating Category	ESG Risk Rating Score	Data Amount	ETR Means
Low	11 – 20	16	0.2244
Medium	21 – 30	38	0.2062

(Source: Processed data 2024)

Discussion

The ESG variable has a negative influence on tax avoidance. The constant value is -0.0058 at a significance of 0.0224%, less than 5% so **H1 is accepted**. It means that the lower ESG Risk Rating influences reducing tax avoidance (higher ETR). The implementtation of ESG shows that companies are concerned about paying attention to the sustainability of investments carried out in the long term so that management will minimize the risks that must be faced if they avoid tax. The findings of this research corroborate the previous study published by Yoon et al., (2021), yet they diverge from the research conducted by Mao, (2019) and Montenegro, (2021).

The leverage variable exerts a negative influence on the efforts of avoiding taxes, evidenced by a constant value of 0.1007 with a significance of 0.0444, which is below the 0.05 threshold. Thus, **H2 is accepted**. This research proves that an increase in DAR will affect an increase in ETR. As a company's debt increases, so does the risk it faces. Firms may adopt debt policies to alleviate their tax burdens, as interest costs incurred from debt

can be deducted from taxable income, providing a fiscal advantage. The conclusions of this research are consistent with prior research reported by Barbera et al., (2020), but they diverge from the findings of Ernawati et al., (2019); Kluzek & Schmidt-Jessa, (2022); Sadjiarto et al., (2020).

The ESG variable has a beneficial impact on financial performance with a constant of -0.0066, and a significance of 0.0047, less than 0.05 so **H3 is accepted**. This means that the ESG Risk Rating has a negative influence on ROA, meaning that if the ESG Risk Rating decreases it will influence increasing ROA and vice versa. The company's policy in implementing sustainable governance will adopt ESG factors in the management. These principles will produce healthier financial governance because they minimize the risks so that investment sustainability can be maintained. The conclusions of this research support the studies conducted by Harymawan et al., (2021); Kim & Li, (2021), but they diverge from Duque-Grisales & Aguilera-Caracuel, (2021).

The leverage variable maintains a constant value of 0.04769, with a significance of 0.3927, exceeding the 0.05 threshold. Consequently, **H4 is rejected**, suggesting that leverage does not impact financial performance. This research's findings align with the studies of Anindita et al., (2022); and Harymawan et al., (2021), but they differ from those of Dang & Tran, (2021); Ernawati et al., (2019; Kluzek & Schmidt-Jessa, (2022); Sadjiarto et al., (2020); Zhang et al., (2022).

The constant value for financial performance, measured by Return On Assets, is -0.2173, with a significance of 0.1509, exceeding the 0.05 threshold. Therefore, **H5 is rejected**, suggesting that financial performance does not influence tax avoidance. These findings are consistent with Sunarto et al., (2021) but diverge from the results of Zhong et al., (2023).

In Equation (1), the coefficient of determination (adjusted R square) is 0.1134, indicating that 11.34% of the variation in Financial Performance proxied by ROA can be explained by the ESG and Leverage variables. The remaining 88.66% of the variation is assigned to other variables outside the scope of this research. Several other variables that may influence financial performance include firm size, supply chain, and sales growth.

For Equation (2), the coefficient of determination value is 0.878, suggesting that 87.8% of the variance in Tax Avoidance can be elucidated by the ESG, leverage, and financial performance variables. The remaining 12.2% of the variance is accounted for by other

unexamined variables. Other variables that may influence tax avoidance include the company's global scale, dividend policy, and financial distress.

The outcome of the Sobel test, conducted to evaluate the mediating role of Financial Performance on the relationship between ESG and leverage on tax avoidance, as displayed in Table 5, suggests that Financial Performance does not act as a mediator between ESG and tax avoidance. This occurs because the Sobel test value is less than the essential t value re-trieved from the table. Consequently, **H6 is rejected**.

Financial Performance, proxied by ROA, is likewise demonstrated not to mediate the influence between the Leverage Variable and Tax Avoidance, as the Sobel Test value falls below the critical t value from the table. Therefore, **H7 is rejected**.

Table 5. Sobel Test Results

Mediating Rules	Sobel Test Score	t Table
ESG → ROA → ETR	1.3079	2.0075
DAR → ROA → ETR	0.7421	2.0075

(Source: Processed data 2023)

Tax avoidance is proven to be unrelated to economic factors but rather associated with behavioral factors. The OECD has provided guidelines on factors influencing taxpayer compliance, namely economic factors and behavioral factors. Economic factors include financial burden, cost of compliance, disincentives, and incentives. Meanwhile, behavioral factors encompass individual differences, perceived inequity, perception of minimal risk, and risk-taking. In this study, the tax avoidance variable is not associated with these economic factors.

Four out of seven hypotheses proposed in this study were rejected, attributed by the author to the inclusion of financial performance variables in the research, both as dependent and mediating variables, which failed to demonstrate significant influence. Referring to Agency Theory, opportunistic management policies influence decisions to engage in avoiding taxes, disregarding sustainability. Applying ESG principles can pressure management to reduce such opportunistic policies, as evidenced by ESG's positive impact on financial per-formance and negative influence on tax avoidance. The debt policies pursued by manage-ment are not aimed at tax planning but rather at meeting proper funding needs.

CONCLUSION

The principles of sustainability reflected in the implementation of ESG have been proven to create better financial performance and reduce efforts to avoid taxes. ESG, which is applying good governance towards sustainability, not only has short-term effects but is

more focused on long-term efforts to provide higher value to the company. The implementation of ESG has also been proven to influence actions that are less compliant with environmental norms, one of which is in governance, making companies more tax-compliant.

Leverage does not influence financial performance but can influence reducing tax avoidance. These findings indicate that the limitations regulated in Minister of Finance Regulation Number 169/PMK.10/2015 have proven to have an impact on companies with high leverage. The third-party fund management policy implemented in the sampled companies has been proven to harm the efforts to avoid taxes. Despite the management's adoption of thin capitalization policies, these efforts have not been able to reduce the tax expenditure.

Financial performance does not influence tax avoidance and yet mediates the influence of ESG and leverage on tax minimization. Furthermore, this study concludes that tax avoidance behavior is more driven by managerial decisions and corporate governance practices rather than purely economic considerations.

The results of this research contribute to management science, especially Agency Theory, to generate values and minimize risks, companies should apply sustainability principles. Financial Reports and Sustainability Reports as a means of principal supervision of agent performance are prepared with the aim of reducing information asymmetry so that both parties can develop the best strategy for business sustainability. The implementation of ESG and good leverage will minimize the efforts of tax planning or tax avoidance, thereby improving Indonesia's tax ratio, which is currently lower than other countries.

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