Do Sustainability Performing Firms Avoid Tax More?

Agung Septia Wibowo[*], Eko Suwardi

Gadjah Mada University, Indonesia

Abstract

This paper examines whether firms, with their claim of their sustainability performance, avoid tax aggressively. The tendency to reduce profit levels can also have an impact on the quality of information in financial reports, where in the case of undervalued share prices, it can be exploited by opportunistic management to carry out insider trading. The study uses sustainability indexes and tests them for tax avoidance aggressivity as well as real earnings management measures from the sample of Indonesian firms in the sectors related to sustainability issues. The findings of this research, which reveal that companies with high sustainable performance tend to pay less tax or be more aggressive in avoiding tax, can provide valuable insights for practitioners in these sectors. This research also reviews how companies can avoid taxes through earnings management with actual activities. Companies use earnings management through real activities to increase production costs, cash flow, and discretionary costs to reduce profit levels to minimize their tax contribution. These costs are integrated into the company's operational sustainability activities to achieve a high level of sustainability and meet the expectations of stakeholders and interested parties. This may be because attention to sustainable aspects is higher and more urgent than attention to tax avoidance, so trade-offs need to be made by companies on how costs can be allocated efficiently. Therefore, these findings are important not only for external stakeholders and outside parties who are affected but can also influence the level of information in the market which affects the wealth of company shareholders.

Keywords: sustainability, tax avoidance, earnings management

1. INTRODUCTION

Indonesia, as known as the "lungs of the world," is now experiencing a significant threat of sustainability issues. Data from the Central Statistics Agency shows that the deforestation figure in Indonesia reached 104,032.5 hectares in the last decade, with Kalimantan contributing to the largest forest loss of 33,303.8 hectares, which triggered the loss of tropical forests (Central Statistics Agency, 2024). The development of the capital city of the archipelago (Ibukota Nusantara - IKN) also plays a role in the environmental issues, not only at the IKN location but also in areas that supply raw materials such as the need for sand, cement, and stone which trigger environmental problems (Tempo, 2024).

The Indonesian government has attempted to address this issue through various policies and regulations. One approach is through the implementation of environmental taxes, which aim to internalize environmental costs into the prices of products and services. However, the effectiveness of this policy is often hampered by tax avoidance practices by large companies. Tax avoidance, a legal but ethically questionable practice that involves using methods such as transfer pricing and affiliated debt to reduce tax liabilities, can have a detrimental effect on state revenues earmarked for sustainable development (Proconsult, 2023).

Despite the pressing urgency of the issue, it has unfortunately received little attention in the academic field. Research on how sustainable activities in the sector impact sustainability is still limited. Several previous studies have focused on the relationship between certain components of sustainability (such as social or environmental aspects) and tax avoidance, while research examining the overall relationship between sustainability and tax avoidance still needs to be conducted.

----
[*]Corresponding author. Tel.: +62-81381810767
E-mail: agungseptiawibowo@mail.ugm.ac.id

Research from Zeng (2019) found that higher corporate social responsibility (CSR) scores were positively associated with lower tax avoidance, especially in countries with weak country-level governance. However, research that focuses on CSR activities may need to be able to capture broader environmental and sustainability issues. Other research suggests that tax avoidance can be better understood if viewed as a sustainability issue (Bird & Davis-Nozemack, 2018). This perspective views tax avoidance as a financial problem for tax authorities and a problem that erodes important shared spaces necessary for regulatory compliance, organizational integrity, and society.

Previous research shows that companies with good sustainability performance tend to have a more positive image in the eyes of the public and other stakeholders (i.e., Hristov & Chirico, 2019; Mishra & Kumar, 2023). Companies may, therefore, seek to improve their ongoing performance and disclose their activities. In the Indonesian context, the Indonesian government is committed to achieving the UN's Sustainable Development Goals (SDGs) by 2030, especially Goal 16, encouraging a sustainable economy. In this regard, the Financial Services Authority (OJK), the institution with the authority to regulate public companies, has issued sustainable reporting regulations per the Global Reporting Initiative (GRI) standards. Implementing this rule is still gradual and still needs to be completely mandatory for all public companies in Indonesia, so reporting on sustainable activities becomes discretionary and an opportunity for managers to show their compliance with sustainable issues and improve the company's image.

Sustainable activities and performance require significant costs, and tax avoidance can be an opportunity for company cost efficiency to cover expenses in sustainable activities. Research from Zeng (2019) found that higher corporate social responsibility (CSR) scores were positively associated with more aggressive tax avoidance, especially in countries with weak country-level governance. However, research that focuses on CSR activities may need to be able to capture broader environmental and sustainability issues. Other research suggests that tax avoidance can be better understood if viewed as a sustainability issue (Bird & Davis-Nozemack, 2018). This perspective views tax avoidance as a financial problem for tax authorities and a problem that erodes important shared spaces necessary for regulatory compliance, organizational integrity, and society.

Integrating sustainability principles and existing research on corporate social responsibility and taxation can contribute to a better understanding of tax avoidance activities and provide a basis for sustainability policies (Lanis & Richardson, 2014; Yoon et al., 2021). A study by Hoi et al. (2013) found that companies engaged in CSR activities, including environmental performance, tended to engage in lower tax avoidance. In contrast, a study by Lanis and Richardson (2015) showed contrasting results. This study found that companies with good environmental performance were more likely to engage in tax avoidance. One possible reason is that companies that have invested heavily in environmental performance may feel the need to cover these costs by reducing their tax burden. These differences may be due to contextual factors such as sectors in which firm operates and the rules applied in sustainability reporting. Therefore, it is important to consider the specific context when analyzing this relationship. In addition, differences in research methodology and operational definitions of environmental performance and tax avoidance may also contribute to the different results.

Research on sustainability reporting in relation to tax avoidance in developing countries is still limited, and the regulation of sustainability reporting, which is still varied, may have a different impact from the reporting patterns in developed countries as studied by previous studies. For this reason, this research aims to examine the relationship between sustainability performance and tax avoidance in industries that have received attention regarding their impact on sustainability issues in Indonesia.

The findings of this research, which reveal that companies with high sustainable performance tend to pay less tax or be more aggressive in avoiding tax, can provide valuable insights for practitioners in these sectors. This research also reviews how companies can avoid taxes through earnings management with actual activities. Companies use earnings management through real activities to increase production costs, cash flow and discretionary costs to reduce profit levels so they can minimize their tax contribution. These costs are integrated into the company's operational activities in sustainability activities so that it can achieve a high level of sustainability and meet the expectations of stakeholders and interested parties. This may be because attention to sustainable aspects is higher and more urgent than attention to tax avoidance, so trade-offs need to be made by companies on how costs can be allocated efficiently. The tendency to reduce profit levels can also have an impact on the quality of information in financial reports, where in the case of undervalued share prices, it can be exploited by opportunistic management to carry out insider trading. Therefore, these findings are important not only for external stakeholders and outside parties who are affected but can also influence the level of information in the market which affects the wealth of company shareholders.

This research contributes to the literature on tax avoidance, disclosure of sustainability activities, and information usefulness in market decision-making. This research also provides a better understanding of how sustainability and tax avoidance intersect and provides valuable insights for practitioners and policymakers.

2. THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Legitimacy theory states that organizations must operate in accordance with the norms and values accepted by society to gain social support and legitimacy. Organizations that do not adhere to social norms risk losing legitimacy, which can impact their ability to obtain resources and social support (Sciulli, 2024). Social and environmental disclosure is considered one way for companies to avoid a legitimacy crisis and maintain support from stakeholders (Gray, 2010). Meanwhile, Sikka (2010) found that managers do not view tax avoidance as an unacceptable or significant activity. Instead, they view it as a strategic decision to achieve greater profits, enhance status, and meet high compensation expectations. Furthermore, Lanis and Richardson (2013) found a positive and statistically significant relationship between corporate tax aggressiveness and corporate social responsibility (CSR) disclosure, which refers to the practice of companies communicating their social and environmental activities and impacts to their stakeholders. These results support legitimacy theory, which states that companies that engage in tax aggressiveness tend to disclose more CSR information to reduce public concerns.

Companies, in addition to meeting society's expectations for business continuity, face institutional pressures from various stakeholders, including government, industry, competitors, and consumers (DiMaggio & Powell, 1991). Organizations can gain institutional legitimacy by complying with institutional norms, which is crucial for their survival and growth (Hopwood & Miller, 1994). Several studies highlight the intricate interplay between sustainability, tax management, and institutional factors. Duhoon and Singh (2023) reveal that tax decisions are crucial for managers and are influenced by factors such as risk-averse shareholders, company characteristics, political connections, and corporate social responsibility (CSR) activities. Furthermore, Zeng (2019) found that companies with high CSR scores in countries with weak governance tend to engage in less tax avoidance. Disclosure of sustainability activities serves as a powerful tool to demonstrate that the organization meets the expectations of its stakeholders (Chen & Roberts, 2010). Several studies highlight the complex interactions between sustainability, tax management, and stakeholder perspectives. Companies must maintain positive relationships with all stakeholders for long-term sustainability, and sustainability plays a key role in meeting these stakeholder expectations, even though tax avoidance can increase short-term profits (Saka, 2017).

Sustainability Performance and Tax Avoidance

A company's sustainability performance is an important aspect that can influence various strategic decisions, including how managers determine approaches to tax planning policies. According to Bird and Davis-Nozemack (2018), sustainability is an established and accepted concept and can be easily integrated with taxation. Previous research shows a complex relationship between sustainability performance and tax avoidance. Several studies indicate that companies committed to CSR tend to avoid aggressive tax avoidance. Lanis and Richardson (2012) found that companies with high levels of CSR disclosure tend to have lower levels of tax avoidance. They argue that companies that are more transparent in their CSR activities will also be more careful in their tax practices to maintain their reputation and public trust (Lanis & Richardson, 2012). On the other hand, research by Hoi et al. (2013) identified that companies that engage in significant CSR activities may use CSR as a tool to cover up their tax avoidance practices. They refer to this as "sin cover," where companies use CSR to improve their image while still engaging in aggressive tax avoidance (Hoi et al., 2013). This study highlights that the motivations behind CSR can be very diverse and do not always reflect a commitment to ethical values. Understanding these diverse motivations is crucial for policymakers and business professionals as it can help in designing effective tax planning policies that promote corporate sustainability.

Managerial motivation also plays a crucial role in determining how CSR and tax avoidance are implemented in the company. According to a study by Watson (2015), CEOs with stock-based incentives tend to focus more on tax avoidance to increase net income and, ultimately, the company's stock price. However, companies facing pressure from external stakeholders to improve their CSR performance may feel compelled to reduce tax avoidance as part of an overall strategy to improve reputation and public trust (Watson, 2015). This highlights the significant influence of top management on these practices. From an agency theory perspective, tax avoidance can be viewed as the result of a conflict of interest between managers and shareholders. Managers may be motivated to avoid taxes to increase their short-term profits and personal bonuses, even though this may harm the long-term interests of shareholders and the company's reputation. However, from the perspective of legitimacy theory, companies that engage in CSR tend to be more concerned with how they are viewed by society and other

stakeholders. Such firms may reduce tax avoidance practices to gain social legitimacy and improve stakeholder relations (Chen et al., 2010).

Empirical studies in Indonesia reveal a complex interplay between CSR and tax avoidance. Suandy et al. (2017) found that companies in Indonesia with robust CSR programs tend to avoid less tax. This research underscores the need for a comprehensive understanding of the motivations behind CSR. In developing countries like Indonesia, companies may use CSR to foster better relationships with the government and society, thereby reducing the incentives for tax avoidance (Suandy et al., 2017). However, other research by Firmansyah and Triyanto (2019) shows that several companies in Indonesia use CSR to cover tax avoidance. This study highlights the need to recognize that some companies still resort to aggressive tax avoidance despite engaging in CSR activities. This diversity in the motivations behind CSR underscores the need for a nuanced and comprehensive analysis (Firmansyah & Triyanto, 2019).
Based on the theoretical basis and previous research:

Hypothesis 1 (H1): *Company sustainability performance has a positive relationship with tax avoidance aggressiveness.*

Real Earnings Management (REM)

In implementing the best strategy for the company, managers may manage profits with current operating activities or carry out natural earnings management (REM). REM can encourage a higher profitability level in the reporting period with the company's operating activities. Setting profit levels with operating activities can not only be done to increase profits. However, it can also reduce profits or increase costs at the manager's discretion to reduce tax payments. Using REM to reduce profits and pay lower taxes may be more profitable for companies with pressure for high sustainable performance because the company can allocate its expenditure to be integrated into its ongoing activities. Even though the profit from presenting financial statements is lower, the company gets added value from disclosing sustainable activities, which can increase legitimacy and support from stakeholders.

REM is often a management choice to achieve specific targets without being detected by external parties. According to research by Gunny (2010), REM is a strategy often used by companies to achieve profit targets, especially when companies have limitations in using accrual earnings management. This strategy can include manipulating operational activities such as delaying maintenance costs, reducing advertising expenditures, or increasing production to utilize fixed costs more efficiently (Gunny, 2010). Furthermore, a study by Roychowdhury (2006) shows that REM is used to increase profits and reduce tax liabilities. Companies can do this by increasing tax-deductible expenses, such as research and development costs or sustainability activities that can reduce taxable profits (Roychowdhury, 2006). For example, research by Zang (2012) finds that companies use REM under high external pressure, such as when they must meet analysts' expectations or have significant institutional ownership that demands high short-term financial performance (Zang, 2012). Thus, using REM to lower profits and pay lower taxes may benefit companies under pressure for high sustained performance levels. This is because companies can allocate their expenses to be integrated into the company's sustainable activities, and even though the profit in presenting financial statements is lower, the company gets added value from disclosing sustainable activities, which can increase legitimacy and support from stakeholders.
Based on these arguments, hypotheses 2 and 3 are:

Hypothesis 2 (H2): *Company sustainability performance has a positive relationship with real activity earnings management.*
Hypothesis 3 (H3): *Corporate tax avoidance has a positive relationship with real activity earnings management.*

3. METHODS

This study takes a sample of companies listed on the Indonesia Stock Exchange (BEI) from 2021 to 2023. The companies selected have received sustainable performance scores from Katadata, a highly respected independent research institution that collects data on sustainability activities, including company disclosures in sustainability reports and environmental impact scores from the Indonesian environment ministry (Katadata, 2024). Initial samples were 171 firm-years and after checking for completeness and potential outliers, the final test data are 133 firm-years.

For hypothesis testing, we meticulously use sustainability performance (SUS) with sustainability index data from Katadata (2024). To measure the level of aggressiveness of tax avoidance, we adopt the Cash Effective Tax Rate measure from the research of Dyreng et al. (2010) and Lanis and Richardson (2015). Meanwhile, for the REM

variable, we adopt the REM model of Roychowdhury (2006) and Cohen et al. (2008). Company size, profitability, efficiency, and financial pressure are the control variables used. The natural logarithm of total assets (SIZE) is used as a proxy for company size. Larger companies may have more opportunities and incentives to engage in REM but may also face greater scrutiny and regulation. Return on Assets (ROA) is used as a measure of profitability. More profitable companies may have less need to manipulate profits, but they also face more pressure to maintain them or improve their performance. The Leverage Ratio (LEV) is used as an indicator of a company's financial pressure regarding its ability to pay its debt.

To test hypothesis H1, H2, and H3, we use the following model

$$SUS_{it} = b0 + b1*CTA_{it} + bi * \Sigma \text{ Control Variables } it + \acute{\epsilon} \quad \text{(Model 1)}$$
$$SUS_{it} = b0 + b1*REM + bi * \Sigma \text{ Control Variables } it + \acute{\epsilon} \quad \text{(Model 2)}$$
$$CTA_{it} = b0 + b1*REM + bi * \Sigma \text{ Control Variables } it + \acute{\epsilon} \quad \text{(Model 3)}$$

where:
SUS$_{it}$ Sustainability performance of firm i on year t, derived from sustainability index of Katadata
CTA$_{it}$ Corporate Tax Avoidance of firm i on year t, using Cash effective tax rate (ETR) as a measure used by Dyreng et al. (2010) and Lanis and Richardson (2015)
AB_PROD$_{it}$ discretionary production cost firm i on year t, derived from the cross-sectional model adopted from Roychowdhury (2006)
AB_CFO$_{it}$ discretionary cash flow firm i on year t, derived from the cross-sectional model adopted from Roychowdhury (2006)
AB_DISEXP$_{it}$ discretionary expenditure firm i on year t, derived from the cross-sectional model adopted from Roychowdhury (2006)
REM$_{it}$ Real Earnings Management of firm i on year t, calculated by subtracting AB_PROD with AB_CFO and AB_DISEXP

Control Variables:
SIZE$_{it}$ Size of firm i on year t, calculated by natural logarithm of Total Assets
LEV$_{it}$ Leverage ratio of firm i on year t, calculated by dividing Total Debt to Total Asset
ROA$_{it}$ Return on Assets ratio of firm i on year t, calculated by dividing Revenue to Total Asset.

4. RESULT AND DISCUSSION

This study conducted descriptive statistics, followed by correlation tests, and then hypothesis tests were employed by regression analysis based on the described models. Table 1 presents descriptive statistics for the various variables used in this study. The average value of the Sustainability Score (SUS) is 0.544 with a standard deviation of 0.125, indicating moderate variation among the companies studied. Firm size (LnSize) has an average of 29.515, while leverage (LEV) has an average of 0.231. Return on assets (ROA) has an average value of 0.751, indicating quite high profitability among sample companies. Cash tax avoidance (CTA) has an average value of 0.240. The variables abnormal production cost (AB_PROD), abnormal CFO (AB_CFO), and abnormal discretionary expense (AB_DISEXP) each have an average value of -0.037, 0.018, and 0.007.

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness
SUS	133	0.217	0.816	0.544	0.125	0.016	- 0.312
LnSize	133	26.621	32.826	29.515	1.452	2.107	0.230
LEV	133	0.001	0.693	0.231	0.177	0.031	0.605
ROA	133	0.011	1.913	0.751	0.409	0.167	0.577
CTA	133	- 0.329	1.110	0.240	0.190	0.036	1.462
AB_PROD	133	- 1.096	1.733	- 0.037	0.300	0.090	2.374
AB_CFO	133	- 0.737	1.157	0.018	0.202	0.041	1.994
AB_DISEXP	133	- 0.718	0.687	0.007	0.115	0.013	- 0.027

Table 2 shows the correlation matrix between the variables studied. Negative correlations were found between SUS and LEV and AB_PROD, while positive correlations were found between SUS and CTA. Company size is positively correlated with leverage and CTA, but negatively with ROA. Leverage has a negative correlation with ROA and R_DISEXP. A negative correlation is found between ROA and R_CFO, while R_DISEXP is negatively correlated with R_PROD and R_CFO.

Table 2. Correlation Matrix

	SUS	*LnSize*	*LEV*	*ROA*	*CTA*	*R_PROD*	*R_CFO*	*R_DISEXP*
SUS	1							
LnSize	-0.0117	1						
LEV	-0.22716	0.183691	1					
ROA	-0.00193	-0.16682	-0.28044	1				
CTA	0.136838	0.203953	0.106382	0.065905	1			
R_PROD	-0.13934	0.037884	0.055185	0.153457	0.074301	1		
R_CFO	-0.06543	0.172494	0.065748	-0.23699	0.054296	-0.11928	1	
R_DISEXP	-0.03204	-0.01865	-0.03393	0.057069	-0.06424	-0.52828	-0.42457	1

Table 3. Model 1 Regression Result

Model 1	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	-0.773	0.346		-2.236	0.027
LnSize	0.027	0.011	0.202	2.341	0.021
LEV	0.160	0.099	0.148	1.622	0.107
ROA	0.066	0.041	0.142	1.596	0.113
CTA	0.263	0.132	0.173	1.995	0.048

Table 4. Model 2 Regression Result

Model 2	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0.414	0.225		1.840	0.068
LnSize	0.006	0.008	0.070	0.800	0.425
LEV	-0.164	0.063	-0.231	-2.606	0.010
ROA	-0.014	0.028	-0.047	-0.512	0.609
AB_PROD	-0.129	0.047	-0.309	-2.740	0.007
AB_CFO	-0.147	0.066	-0.238	-2.229	0.028
AB_DISEXP	-0.327	0.133	-0.300	-2.457	0.015

Table 5. Model 3 Regression Result

Model 3	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	-0.197	0.072		-2.734	0.007
LnSize	0.006	0.002	0.213	2.600	0.010
LEV	-0.065	0.020	-0.267	-3.228	0.002
ROA	0.029	0.009	0.272	3.195	0.002
AB_DISEXP	-0.016	0.042	-0.042	-0.372	0.710
AB_CFO	0.002	0.021	0.009	0.093	0.926
AB_PROD	-0.038	0.015	-0.264	-2.507	0.013

Model 1 in Table 3 shows that company size (LnSize) and CTA have a significant positive influence on SUS, with coefficients of 0.027 and 0.263, respectively. Leverage and ROA do not show a significant influence on SUS. Model 2 in Table 4 shows that leverage, abnormal production costs (AB_PROD), abnormal CFO (AB_CFO), and abnormal discretionary expense (AB_DISEXP) have a significant negative influence on CTA. Company size and ROA do not show a significant influence in this model. Model 3 in Table 5 shows that company size, leverage, and ROA have a significant influence on AB_PROD. Company size and ROA have a significant positive influence, while leverage has a significant negative influence. The variables AB_DISEXP and AB_CFO do not show a significant effect in this model, but AB_PROD shows a significant negative effect on itself.

Overall, these results reveal a complex relationship between various financial and operational variables and corporate sustainability and tax avoidance strategies. Variables such as company size, leverage, profitability, and abnormal activity in operations play an important role in determining this strategy. This research provides important insights into how companies can manage various aspects of their operations and finances to achieve sustainable performance and tax efficiency.

REM can affect the tendency of tax avoidance through several mechanisms, for example, companies can delay the recognition of income or accelerate the recognition of expenses to reduce taxable income. Thus, they can reduce the amount of tax to be paid in a certain period. In addition, changes in operating activities, such as increasing production or reducing marketing costs, can be used to adjust the net income statement. This can directly affect the company's tax base and potentially reduce the tax burden. Amidst the demands of high sustainability performance, as encouraged in Indonesia, companies may make trade-offs by reducing their taxes with tax avoidance in order to improve sustainability performance.

This study supports Watson's (2015) findings that while tax avoidance can increase short-term profitability, it

often conflicts with sustainability goals. This is because a strong sustainability strategy generally includes paying fair taxes as part of ethical practices. Thus, there are trade-offs between the short-term financial benefits of tax avoidance and long-term investments in sustainability and corporate reputation. In addition, Lanis and Richardson (2013) found that companies that reduce tax avoidance tend to have better environmental performance and are more likely to gain stakeholder support for their sustainability efforts. This suggests that while tax avoidance can reduce a company's financial burden, it can undermine broader sustainability goals. Overall, the trade-offs between tax avoidance and corporate sustainability performance suggest that balanced decision-making is needed. Too much focus on tax avoidance can compromise long-term sustainability and create substantial reputational risk. Conversely, companies that commit to strong sustainability practices tend to gain long-term benefits from public trust, consumer loyalty, and government support.

5. CONCLUSION

This research finds that companies with high sustainable performance pay less tax or are more aggressive in avoiding tax. This research also reviews how companies can avoid taxes through a practice known as earnings management through actual activities. This practice involves manipulating the company's operational activities, such as increasing production costs, cash flow, and discretionary costs, to reduce profit levels and thereby minimize their tax contribution. These costs are integrated into the company's operational sustainability activities to achieve a high level of sustainability and meet the expectations of stakeholders and interested parties. This may be because attention to sustainable aspects is higher and more urgent than attention to tax avoidance, so trade-offs need to be made by companies on how costs can be allocated efficiently. The tendency to reduce profit levels can also impact the quality of information in financial reports, where in the case of undervalued share prices, it can be exploited by opportunistic management to carry out insider trading. Therefore, these findings are important not only for external stakeholders and outside parties who are affected but can also influence the level of information in the market, which affects the wealth of company shareholders.

Since tax avoidance can pose reputational risks, companies must have an adequate risk management strategy. This includes regular monitoring and reporting on sensitive tax issues and communicating openly with the public about the company's contribution in terms of tax responsibility. Through these steps, companies can maintain the right balance between tax avoidance and sustainability, maximizing long-term benefits both in terms of finance and reputation. Several recommendations can be put forward to help companies achieve an optimal balance between short-term financial goals and long-term sustainability, such as increasing tax transparency. Namely, companies need to increase transparency in tax reporting as part of their sustainability strategy. This step can create public trust, strengthen stakeholder relationships, and reduce reputational risks related to excessive tax avoidance. Thus, companies can still achieve profitability goals without sacrificing their social image, in addition, integrating a responsible tax strategy into the corporate social responsibility framework towards sustainability by treating taxes as a positive contribution to society, which in turn increases stakeholder support and long-term sustainability.

Meanwhile, the suggestion for regulators is that they should formulate tax policies that are transparent and fair and that can close loopholes for aggressive tax avoidance. Strict supervision and stronger law enforcement will ensure tax compliance and reduce avoidance practices that are detrimental to the country. In addition, tax incentives can be given to companies committed to sustainability, such as investment in renewable energy and social responsibility programs, thus encouraging companies to contribute more financially and socially. Regulators can also adopt ESG (Environmental, Social, and Governance)-based tax policies, which provide better tax treatment to companies that excel in sustainability. International collaboration is needed to address cross-border tax avoidance. On the other hand, education related to tax compliance and the importance of tax transparency as part of sustainability must continue to be improved so that companies understand that tax contributions are an integral part of their social responsibility and long-term image.

This research contributes to the literature on tax avoidance, disclosure of sustainability activities, and information usefulness in market decision-making. This research also provides a better understanding of how sustainability and tax avoidance intersect and offers valuable insights for practitioners and policymakers.

REFERENCES

Bird, R., & Davis-Nozemack, K. (2018). Tax Avoidance as a Sustainability Problem. Journal of Business Ethics, 151(4), 1009–1025. http://www.jstor.org/stable/45022713

Central Bureau of Statistics. (2024). Indonesia's (net) deforestation figures inside and outside forest areas 2013-2022. Central Bureau of Statistics. Retrieved from https://www.bps.go.id/id/statistics-table/1/MjA4MSMx/angka-deforestasi--netto--indonesia-di-dalam-dan-di-luar-kawasan-hutan-tahun-2013-2022--ha-th-.html

Chen, S., Chen, X., Cheng, Q., & Shevlin, T. (2010). Are family firms more tax aggressive than non-family firms? Journal of Financial Economics, 95(1), 41-61.

Duhoon, A., & Singh, M. (2023). Corporate tax avoidance: a systematic literature review and future research directions. LBS Journal of Management & Research, 21(2), 197–217. https://doi.org/10.1108/LBSJMR-12-2022-0082

Firmansyah, A., & Triyanto. (2019). Corporate social responsibility and tax avoidance: Evidence from Indonesian manufacturing companies. Journal of Accounting and Business, 4(2), 123-136.

Gunny, K. A. (2010). The relation between earnings management using real activities manipulation and future performance: Evidence from meeting earnings benchmarks. Contemporary Accounting Research, 27(3), 855-888. doi:10.1111/j.1911-3846.2010.01029.x

Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics, 50*(2-3), 127-178. https://doi.org/10.1016/j.jacceco.2010.09.002

Hoi, C.-K., Wu, Q., & Zhang, H. (2013). Is Corporate Social Responsibility (CSR) Associated with Tax Avoidance? Evidence from Irresponsible CSR Activities. The Accounting Review, 88, 2025–2059. https://doi.org/10.2308/accr-50544

Huseynov, F., & Klamm, B. K. (2012). Tax avoidance, tax management and corporate social responsibility. *Journal of Corporate Finance, 18*(4), 804-827. https://doi.org/10.1016/j.jcorpfin.2012.06.005

Katadata. (2024). Indonesian environmental dashboard. Katadata Green. Retrieved from https://green.katadata.co.id/dashboard/welcome

Kim, J. B., & Sohn, B. C. (2013). Real earnings management and cost of capital. Journal of Accounting and Public Policy, 32(6), 518-543. doi:10.1016/j.jaccpubpol.2013.08.002

Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. Journal of Accounting and Public Policy, 31(1), 86-108.

Lanis, R., & Richardson, G. (2013). Corporate social responsibility and tax aggressiveness: A test of legitimacy theory. Accounting, Auditing and Accountability Journal, 26(1), 75–100. https://doi.org/10.1108/09513571311285621

Lanis, R., & Richardson, G. (2014). Is Corporate Social Responsibility Performance Associated with Tax Avoidance? Journal of Business Ethics, 127. https://doi.org/10.1007/s10551-014-2052-8

Mishra, P., & Kumar, K. (2023). Uncovering the sustainability reporting: bibliometric analysis and future research directions. International Journal of Disclosure and Governance. https://doi.org/10.1057/s41310-023-00216-1

Roychowdhury, S. (2006). Earnings management through real activities manipulation. Journal of Accounting and Economics, 42(3), 335-370. doi:10.1016/j.jacceco.2006.01.002

Proconsult. (2024). *Kasus penghindaraan pajak*. Retrieved from https://proconsult.id/kasus-penghindaraan-pajak/

Saka, C. (2017). Does Tax Avoidance Diminish Sustainability?

Sikka, P. (2010). Smoke and Mirrors: Corporate Social Responsibility and Tax Avoidance. Accounting Forum - Account Forum, 34, 153–168. https://doi.org/10.1016/j.accfor.2010.05.002

Souguir, Z., Lassoued, N., Mehdi, I., & Bouzgarrou, H. (2023). Environmental performance and corporate tax avoidance: Greenwashing policy or eco-responsibility? The moderating role of ownership structure. Journal of Cleaner Production, 434, 140152. https://doi.org/10.1016/j.jclepro.2023.140152

Tempo. (2023). *Dampak proyek IKN*. Tempo. Retrieved from https://majalah.tempo.co/read/lingkungan/171882/dampak-proyek-ikn

Watson, L. (2015). Corporate Social Responsibility, Tax Avoidance, and Earnings Performance. Journal of the American Taxation Association, 37(2), 1–21. https://doi.org/10.2308/atax-51022

Yoon, B. H., Lee, J. H., & Cho, J. H. (2021). The effect of ESG performance on tax avoidance—evidence from Korea. Sustainability (Switzerland), 13(12). https://doi.org/10.3390/su13126729

Zeng, T. (2019). Relationship between corporate social responsibility and tax avoidance: international evidence. Social Responsibility Journal, 15(2), 244–257. https://doi.org/10.1108/SRJ-03-2018-0056

Zang, A. Y. (2012). Evidence on the trade-off between real activities manipulation and accrual-based earnings management. The Accounting Review, 87(2), 675-703. doi:10.2308/accr-10196

Suandy, E., Firdaus, M., & Widiastuti, T. (2017). Pengaruh Corporate Social Responsibility terhadap penghindaran pajak: Studi pada perusahaan yang terdaftar di Bursa Efek Indonesia. Jurnal Akuntansi dan Keuangan Indonesia, 14(2), 159-175.

Watson, L. (2015). Corporate social responsibility, tax avoidance, and earnings performance. The Journal of the American Taxation Association, 37(2), 1-21.