Research Article

Environmental Influence Social Governance , Leverage , and Managerial Ability Towards Tax Avoidance

Fifi Arianti[1] *, Aisyaturrahmi [2]

1   State Universitas Surabaya,Surabaya, East Java,Indonesia
     e- mail : fifi.21077@mhs.unesa.ac.id
2   State Universitas Surabaya; Surabaya, East Java;
     e- mail : aisyaturrahmi@unesa.ac.id

* Corresponding Author : Fifi Arianti

Abstract : This study aims to get empirical evidence on the effect of Environmental Social Governance (ESG), leverage , and managerial abilities on tax avoidance in manufacturing industry companies listed on the Indonesian Stock Exchange for the 2021-2023 period with a total of 129 observations . The research method uses a quantitative approach with panel data regression and secondary data from annual reports and company sustainability reports . Data analysis was carried out using Stata 17 software . The results of the study show that ESG and leverage have a positive effect on tax avoidance , while managerial ability has no effect on tax avoidance . This finding indicates that ESG disclosure is still used as a legitimacy tools without being accompanied by compliant tax practices . Therefore , companies are advised to ensure that reported sustainability practice reflect responsible tax compliance

Keywords : Environmental Social Governance ; Leverage ; Managerial Ability ; Tax Avoidance

1.   Introduction

Tax revenue is one of the funding contributors that plays an important role in supporting national development to encourage national economic growth [1]. However, tax avoidance efforts are still a challenge faced by many countries, including Indonesia. Tax avoidance is a strategy to reduce tax obligations. Although tax avoidance is not against the law, this practice is considered unethical [2]. According to the Tax Justice Network report (2021, 2023), losses caused by tax avoidance in Indonesia showed an increase from US\$2,216.3 million in 2021 to US\$2,736.5 million in 2023. This practice has a direct impact on state revenues, reducing the government's potential to finance public services and national development. In addition to harming the state, tax avoidance also creates injustice in the tax system for companies that do not take advantage of tax loopholes [5]. One of the strategic sectors facing tax-related challenges is the processing industry. This sector plays an important role in the economy because it contributes to Gross Domestic Product (GDP). However, in 2022, the percentage contribution of this sector to GDP showed a decline from 19.24% in 2021 to 18.34%. This decline was due to the performance of the oil and gas and non-oil and gas processing industry sub-fields. This condition reflects the challenges faced by the sector including the risk of tax avoidance which can affect state revenues.

Table 1Sectors in Indonesia

Sector	Distribution of GDP		
	2021	2022	2023
Mining	8.97%	12.22%	10.52%
Processing industry	19.24%	18.34%	18.67%
Construction & Real Estate	13.16%	12.26%	12.34%
Trading	12.96%	12.85%	12.94%
Transportation & Warehousing	4.24%	5.02%	5.89%
Financial Services & Insurance	4.34%	4.13%	4.16%
Information and Communication	4.41%	4.15%	4.23%
Corporate Services	1.77%	1.74%	1.83%

Source: Central Bureau of Statistics, 2024

Tax practice *avoidance* often done through various strategies, as found in the case of one of the processing industry companies, namely PT Bentoel Internasional Investama. This company is reported to have suffered losses every year since 2012 and dividend distribution has been very low or not done at all since 2011, resulting in minimal tax payments. PT Bentoel Internasional Investama is suspected of utilizing intra-company loans and royalty payments abroad to reduce tax obligations . The Tax Justice Network (2019) reported that the potential loss to the Indonesian state due to this strategy reached US $ 14 million per year. Cases like this show how companies can exploit loopholes in tax regulations to reduce tax obligations. Therefore, the processing industry is used as a research sample because it contributes greatly to the Indonesian economy, but is also vulnerable to *tax practices avoidance* .

Environmental social and governance (ESG) is viewed as factors that have potential to influence *tax* practices *avoidance* . ESG is used to evaluate how companies and investors manage environmental, social and governance issues within their business models, along with their impact on financial performance and investment decisions [8] . Companies with high ESG scores tend to avoid *tax avoidance* to maintain social reputation in the eyes of the public [9] . This indicates that with a strong commitment to ESG, companies are more transparent and responsible in carrying out tax obligations [10]–[13] . However, different results were found in the study . others where ESG has no impact on *tax avoidance* . The study argues that the main focus of ESG is not directly related to tax policy or *tax strategy.* corporate *avoidance* [14], [15] .

Leverage also often considered as factors that related to *tax* practices *avoidance* . *Leverage* refers to a company's ability to utilize loans to fund operational activities [16] . Companies can utilize *tax shield* , which is a reduction in tax burden by recognizing interest expense through *leverage* . This interest expense is a type of cost that can be deducted in calculating tax liabilities (*deductible) expense*) so that it has an impact on reducing taxable profit and reducing the total tax payable [17] . The higher the company's debt, the greater the tax benefits obtained. This condition encourages companies to increase *leverage.* as one of the strategies in reducing the tax burden [18]–[21] . However, different results were found in other studies where *leverage* does not influence the company's decisions regarding *tax avoidance* [22] . This is because not every debt generates interest expenses and not all interest expenses from debt can be recognized as a reduction in the calculation of taxable profit. [23]–[26] .

In addition, *managerial ability* is also a factor that influences *tax avoidance* . *Managerial ability* refers to the manager's ability to optimally utilize company resources in various operational aspects with the aim of increasing the company's value [27] . The higher *the managerial ability* , the lower *the tax avoidance* [28] . This is because competent managers tend to prioritize other projects that can increase the company's value compared to *tax strategies. avoidance* [29]–[32] . However, the results of other studies show that *managerial abilities* high level allows managers to understand and exploit regulatory gaps including in tax regulations, thereby increasing the likelihood of *tax evasion. avoidance* [33]–[36] .

The inconsistency of results in previous studies is the main reason for conducting this study because it shows that there are factors that have not been fully explained or have

different relevance when applied in certain contexts. The inconsistency of research results is not only due to different research objects, but also reflects the existence of research gaps to re-test existing theories, especially in the context of Indonesia which has different tax regulations, economic structures, and ESG practices from other countries. This study is interesting because it combines ESG, *leverage* , and *managerial ability* as an independent variable that has not been studied much in an integrated manner, especially in the manufacturing industry sector which has a large contribution to GDP, but is vulnerable to *tax practices. avoidance* . By using legitimacy theory and *trade-off theory* , this study not only aims to obtain empirical evidence to enrich academic literature, but also provides new insights for policy makers and business actors in understanding how companies manage social legitimacy by maintaining optimal tax strategies so that researchers take the research title "The Influence of Environmental Social Governance , Leverage , and Managerial Ability Towards Tax Avoidance ."

2.   Literature Review or Related Research
Legitimacy Theory (*Legitimacy) Theory*)
Legitimacy theory explains that companies try to adjust the social norms of company activities with principles that are acceptable to the society in which the company operates [37] . This theory is related to the concept of a "social contract," whereby a company's legitimacy can be lost if society judges the company to be acting unethically [38] . Legitimacy includes three main types including *pragmatic legitimacy* , *moral legitimacy* , and *cognitive legitimacy* . *Pragmatic legitimacy* arises when a company is considered capable of providing direct benefits to stakeholders, for example through accurate and credible financial reporting transparency. *Moral legitimacy* reflects a normative evaluation of whether a company's actions are considered "right," or in accordance with ethical values, such as compliance in paying taxes as a contribution to national development. While *cognitive Legitimacy* arises when a company's actions are seen as reasonable and in line with prevailing norms [39] .

Tax avoidance Although it is a legal action, this action can create a negative perception in society because it is considered unethical and contrary to public interest [9] . To maintain legitimacy, companies can increase transparency through ESG disclosures that reflect a commitment to social and environmental responsibility . In addition, *managerial abilities* is also an important factor in maintaining corporate legitimacy. Competent managers are not only able to design efficient tax strategies, but also in accordance with ethical values and regulatory compliance [11] .

Trade- Off Theory (*Trade- Off Theory*)
The trade-off theory describes how companies determine the optimal capital structure by considering the balance between the benefits and costs [40] that arise from the use of debt. One of the main advantages of using debt is the potential for tax savings because debt interest is recognized as an expense that can reduce taxable income so that the tax burden borne by the company also decreases. However, companies also need to consider the potential risks that accompany the use of debt, such as the risk of bankruptcy and other financial costs [41]

In the context of *tax avoidance* , *the trade-off theory* suggests that *leverage* can be used as a strategy to reduce tax liabilities. Companies that have *leverage* high tend to be more actively involved in *tax practices avoidance due to tax* benefits *a* more significant *shield* [17] . By minimizing the taxes paid, companies can allocate these funds to meet debt interest obligations, thereby strengthening the company's financial position. However, *tax practices avoidance* also has risks, such as increased scrutiny from tax authorities and potential reputational damage [42] .

Tax Avoidance
Tax Tax avoidance is a tactic used by companies to reduce tax burdens through legal means, although it is often considered unethical by the public and regulators. *avoidance* is a tax planning strategy that includes tax management, tax planning, tax aggressiveness, *tax shelter , and tax evasion. Tax* practices *avoidance* has a complex impact. This strategy allows companies to save resources that can be allocated to business development investments or dividend distribution to shareholders [43] . However, on the other hand, *tax* Aggressive *avoidance can*

have negative impacts such as the risk of tax litigation , strict supervision from regulators, and damage to the company's reputation.

Tax avoidance can be measured through *Cash Effective Tax Rate (CETR)* which is the ratio between the amount of cash payments for income tax and the company's profit before tax. A low CETR indicates an indication of *tax fraud practices.* high *avoidance* . *CETR was chosen because the data is more widely available and reflects the effective tax rate paid by the company. The CETR formula is* [44] :

$$Cash\ Effective\ Tax\ Rate = \frac{Cash\ Paid\ Tax}{Pretax\ Income} \tag{1}$$

Environmental Social Governance (ESG)

ESG is a framework used by investors and stakeholders to assess the sustainability of a company from an environmental, social, and governance perspective. In addition, ESG also serves as a means to achieve transparency and communication with all stakeholders, including investors, workers, customers, or the community [43], [45] . Environmental aspects include energy efficiency, carbon emission reduction, waste management, and use of renewable resources. Social aspects focus on respecting human rights, workforce quality, product accountability, and community relations. Meanwhile, governance aspects focus on the rights and responsibilities of management in running the company [9] . Companies with high ESG disclosure tend to be motivated to minimize reputational risk and improve relations with stakeholders, including government and the community. In the context of *tax avoidance* , companies that pay attention to ESG aspects tend to be more transparent in financial reporting, thereby minimizing the use of *tax strategies. avoidance* [11] . Thus, ESG is not only an indicator of corporate sustainability, but also plays a role as a factor that can influence strategic decisions regarding taxes. The ESG score is calculated using the following formula [15] :

$$ESG = \frac{Number\ of\ Company\ Disclosures\ Items}{Total\ GRI\ Standard\ \ Disclosure\ Items} \tag{2}$$

Leverage

Leverage refers to the use of debt in a company's capital structure, which reflects the level of dependence on external financing to support operational and investment activities [26] . *Leverage* level high can be used to optimize the potential return for shareholders, but on the other hand it also increases the company's financial risk due to the obligation to pay interest and principal regardless of financial performance [40] . In the context of *tax avoidance* , one of the main benefits *of leverage* is being able to generate *tax shield* because debt interest is *deductible* , it reduces taxable income [17] . However, excessive use of debt can increase financial risks, such as interest rate fluctuations, liquidity risk, and bankruptcy which can affect tax decisions and *tax strategies.* corporate *avoidance* [12] . Companies with high levels *of leverage* tend to be encouraged to reduce tax burdens in order to maintain liquidity and solvency, resulting in *tax* more aggressive *avoidance* . *Leverage* is measured using *debt to equity ratio* (DER), namely [46] :

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity} \tag{3}$$

Managerial Ability (*Managerial) Ability*)

Managerial Ability is the manager's ability to utilize company resources optimally in various operational aspects with the aim of increasing the company's value [27] . Competent managers better understand the opportunities that must be utilized and the risks that need to be anticipated [47] . In the context of taxation, managers with high ability tend to choose more productive business strategies and have a positive impact on the company's efficiency, thereby reducing the tendency to carry out *tax avoidance* [28] . On the other hand, managers who are less competent in managing company resources are more prone to making risky decisions, including being involved in *tax avoidance* .

Managerial measurement *abilities* carried out in two stages, namely [27] :

a. *Data Envelopment* Approach *Analysis* (DEA) with *output* orientation and *variable* assumptions *returns to scale* (VRS) is used to assess the efficiency of a company in changing *inputs* , such as cost of goods sold (COGS) , selling and general administrative expenses (SG&A) , fixed assets (PPE) , operating expenses (E&A), *and operating expenses (E&A). lease* , research and development (R&D) expenses ,

goodwill , other intangible assets (*other intangibles*) into sales *output* . The DEA efficiency formula is as follows:

$$\max \theta = \frac{Sales}{v_1 CoGS + v_2 SG\&A + v_3 PPE + v_4 OpLease + v_5 R\&D + v_6 Goodwill} \quad (4)$$
$$+ v_7 OtherIntan$$

b. Residual of *tobit regression* of the efficiency score against the company characteristic variables with the following regression model :

$$Firm\ Efficiency_i = a + \beta_1 ln(Total\ Assets)_i + \beta_2 Market\ Share_i + \beta_3 Free\ Cash\ Flow\ Indicator_i$$
$$+ \beta_4 ln(Age)_i + \beta_5 Business\ Segment\ Concentration_i + \beta_6 Foreign\ Currency$$
$$+ Year_i + \epsilon_i$$

3. Research Hypothesis

Environmental Influence Social Governance against Tax Avoidance

`Legitimacy theory explains that companies have a responsibility to ensure that the activities they carry out are in accordance with social norms, ethics and community expectations [37] . *Tax avoidance* is viewed by society as unethical and detrimental behavior that can trigger political pressure, consumer boycotts, and potential fines or reputational losses [9] . In this context, ESG implementation motivates companies to be socially responsible and more transparent in tax reporting. ESG disclosure is often used as a strategy to manage reputational risk. Companies with higher ESG disclosure tend to be less likely to engage in *tax avoidance* because such actions can damage public trust [10] . These results are consistent with previous research showing that companies with high ESG tend to implement more responsible financial governance and avoid tax manipulation practices [11] . In addition, the implementation of ESG also supports the sustainability of long-term investment by minimizing reputational and governance risks. [12] . With higher transparency, companies can demonstrate their tax contributions to society, thereby strengthening social legitimacy [13] .

H $_1$: *Environmental social governance* has a negative effect on *tax avoidance* .

Leverage Effect against Tax Avoidance

Leverage is related to tax practices *avoidance* because the use of debt provides benefits in the form of reducing the tax burden through interest. As stated in Article 6 Paragraph (1) of Law No. 36 of 2008 concerning Income Tax, interest is included in the category of deductible costs so that taxable profit and the amount of tax paid by the company decrease [17] . High *leverage is directly related to increasing interest expenses so that it can have an effect on reducing the tax calculation basis and encouraging companies to implement tax strategies. avoidance* [18] . In the perspective of *trade-off theory* , companies must balance the benefits and risks of using debt. One of the main benefits of debt is tax savings, where tax-deductible loan interest becomes an important incentive for companies. If the benefits of tax savings are greater than the risks incurred, such as increased likelihood of bankruptcy or financial pressure due to *leverage* high, then debt can be a strategic source of funding [19] . In addition, a significant increase *in leverage* has also been shown to reduce the tax burden paid, making debt a priority for companies in order to manage tax obligations efficiently [20] .

H $_2$: *Leverage* has a positive effect on *tax avoidance* .

Managerial Influence Abilities against Tax Avoidance

Managers are responsible for planning corporate strategies that focus on increasing corporate value by managing resources efficiently and optimally [27] . In this context, *managerial ability* to influence the company's strategic decisions, including *tax practices avoidance* . Managers with high ability tend to focus more on strategies that directly increase the value of the company compared to *tax avoidance strategies. avoidance* [28] . This is because competent managers are aware of potential risks, such as reputation costs and other non-tax consequences that can harm the company [32] . Competent managers have a better understanding of the industry and are able to allocate resources effectively so that they can improve financial performance without having to rely on *tax avoidance* [28], [29] . In addition, managers also consider the risk of reputational losses that can have a negative impact on the manager's personal career prospects [30] . This approach encourages managers to place more emphasis on operational efficiency and investments that provide greater value with lower risk compared to *tax strategies. avoidance* aggressive [31] . In the context of legitimacy theory,

companies strive to build and maintain legitimacy in the eyes of the public and interested parties. Competent managers understand that *tax practices Aggressive avoidance* can damage the company's reputation because it is considered contrary to prevailing social norms and business ethics. Therefore, competent managers tend to avoid *tax avoidance strategies. avoidance* to maintain the company's reputation and sustainability in the long term [48] . Thus, *managerial high ability* enables managers to make wiser and more strategic financial decisions with a focus on creating long-term value through operational efficiency and resource optimization rather than simply minimizing tax burdens.

H $_3$: *Managerial ability* has a negative effect on *tax avoidance* .

4.   Proposed Method

Stata 17 software to test the influence of ESG, *leverage* , and *managerial ability* to *tax avoidance* . The sample consists of 43 companies from the manufacturing industry listed on the Indonesia Stock Exchange during the period 2021–2023. Election sample done in a way *purposive sampling* based on the criteria of availability of annual reports and sustainability, positive profits, and completeness of research data with a total of 129 observations.

The data used are secondary data (*archival data*) obtained from annual reports and company sustainability reports. The use of secondary data (*archival data*) in this study has the potential to cause model bias. To reduce this risk and increase the validity of the estimate, this study adds two control variables, namely profitability represented by *return on assets* (ROA) and *capital intensity* is measured by dividing total fixed assets and total assets. The structure of the regression equation in this study is as follows:

$$CETR_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 DER_{it} + \beta_3 MA_{it} + \beta_4 ROA_{it} + \beta_5 CI_{it} + \varepsilon \qquad (6)$$

Where ,

$CETR_{it}$	= *Tax avoidance* company *i* in year *t* .
ESG_{it}	= *Environmental social governance* company *i* in year *t* .
DER_{it}	= *Leverage*
MA_{it}	= *Managerial ability* of company *i* in year *t* .
ROA_{it}	= Profitability of company *i* in year *t* .
CI_{it}	= *Capital Intensity* company *i* in year *t* .
α	= Constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$	= Regression coefficient
ε	= *Standard error*

The data analysis process includes several stages starting from descriptive statistics, determining the most appropriate regression model by conducting the *Chow* test , *Hausman* test , and *Lagrange test. Multiplier ,* continued with classical assumption tests such as normality test , multicollinearity test , autocorrelation test , and heteroscedasticity test to ensure the validity of the model, and ended with the F test, determination coefficient test (R2 ⟩ , and t test to see the significance of the parameters.

5.   Results and Discussion

Descriptive Statistics

Table 2 Descriptive **Statistics**

Variable	Obs	Mean	Std . dev .	Min	Max
CETR	129	0.239	0.142	0.005	0.866
ESG	129	0.472	0.178	0.130	0.864
DER	129	0.744	0.701	0.072	3.928
MA	129	-1.81e-09	0.061	-0.149	0.088
ROA	129	0.088	0.067	0.000	0.310
CI	129	0.369	0.199	0.018	0.814

Source: Output Stata , 2025

Descriptive statistics present an overview of the data analyzed . The average *tax rate avoidance* calculated using CETR was recorded at 0.239 with a standard deviation of 0.142 indicating a variation in the level of tax payments between companies with a minimum value

of 0.005 indicating that there are companies that pay almost no taxes. *Environmental score social governance* (ESG) has an average of 0.472 with and range of values 0.130–0.864. This reflects the varying levels of compliance with sustainability practices across companies . The average *leverage* with DER proxy is 0.744 with a standard deviation of 0.701, reflecting the difference in capital structure from companies that are almost entirely financed by equity to those that rely on debt. *Managerial variables ability* shows an average close to zero (–1.81e-09) with a standard deviation of 0.061, indicating the existence of *managerial differences ability* in managing resources. The average profitability with ROA proxy is 0.088 and ranges from 0 to 0.310, reflecting variations in efficiency in generating profits from assets. Meanwhile, *capital intensity* has a mean of 0.369 and a standard deviation of 0.199 indicating a variable fixed asset structure from *asset-light* to *asset-heavy companies* . Overall, there is significant variation in all variables which is an important basis for further regression analysis in testing the relationship between variables .

Regression Model Selection
***Chow* Test**

Table 3 *Chow* Test

Chow test	Prob .
F(42, 79)	2.57
Prob > F	0.0002

Source: Output Stata , 2025

Chow test shows that the Prob > F value of 0.0002 is below the significance limit of 0.05 so that the *fixed model effect* is considered more appropriate to apply than the *common* model *effect* .

***Hausman* test**

Table 4 *Hausman* test

Houseman test	Prob .
chi2(5)	15.67
Prob > chi2	0.0078

Source: Output Stata , 2025

The Prob value > chi2 of 0.0078 was obtained from the *Hausman test* . This value is < 0.05 which indicates that the *fixed model effect* is more suitable to be applied compared to *random* models *effect* . This difference occurs because there are systematic differences between the *fixed model estimates effect* and *random effect* thus making the model *fixed effect* is more consistent and efficient. Thus, the *fixed model effect* set as a regression model in this study . This model is considered the most appropriate because it is able to accommodate the fixed effects that exist in each company (*cross-section*) in this study so that the estimates obtained are more consistent and unbiased.

Classical Assumption Test
Normality Test

Table 5 Normality Test

Variable	Obs	W	V	z	Prob>z
e	129	0.917	8,476	4,807	0.000

Source: Output Stata , 2025

normality test is conducted to ensure that the residuals in the regression model have a normal distribution because it is one of the basic assumptions in panel data regression analysis. The results of *the Shapiro - Wilk W test* show a W value of 0.917 with Prob > z of 0.000 which is far below the significance of 0.05 so that it can be stated that the residuals are not normally distributed .

Table 6 Normality Test After *Winsorizing*

Variable	Obs	W	V	z	Prob >z
e3	129	0.989	1.147	0.308	0.379

Source: Output Stata , 2025

To overcome this violation, *winsorizing was carried out* by 10% by limiting *outliers* to the 10th to 90th percentiles. After *winsorizing* , the W value increased to 0.989 with Prob > z of 0.379 which indicates that the residual data has a normal distribution. Thus, the *winsorizing process* successfully overcomes the problem of non-normal residual distribution so that the data meets the assumption of normality and is worthy of further analysis with regression.

Test Multicollinearity

Table 7 Multicollinearity Test

Variable	VIF	1/VIF
ESG3	8.82	0.113
DER3	3.57	0.280
MA3	1.38	0.725
ROA3	3.45	0.290
CI3	5.09	0.197
YEAR		
2022	2.18	0.459
2023	2.44	0.410
Mean VIF	3.85	

Source: Output Stata , 2025

Multicollinearity test is conducted to detect the presence of linear correlation between independent variables in the regression model. The test results show that all variables have *Variance values. Inflation Factor* (VIF) below the general tolerance threshold of 10. The ESG variable has the highest VIF of 8.82, while other variables, such as DER, MA, ROA, and CI are in the range of 1.38 to 5.09. The average VIF of 3.85 indicates that the regression model does not experience multicollinearity problems. so that the data is worthy of further analysis.

Autocorrelation Test

Table 8 Autocorrelation Test

Wooldridge test	Prob.
F(1, 42)	1,881
Prob > F	0.178

Source: Output Stata , 2025

Autocorrelation test is conducted to detect whether or not there is a correlation between residuals from one period to another in panel data. The F value of 1.881 and Prob > F of 0.178 are confirmed by the *Wooldridge test* . Therefore, the regression model is declared free from the autocorrelation problem .

Heteroscedasticity Test

Table 9 Heteroscedasticity Test

Modified Wald test	Prob.
chi2 (43)	69896.76
Prob>chi2	0.000

Source: Output Stata , 2025

heteroscedasticity test is carried out to detect whether *the error variance* (residual) is constant or not. If the residual variance is not constant (heteroscedastic), then the classical assumptions of linear regression are violated, which can result in *standard estimates error* becomes invalid and interferes with statistical decision making. *Modified test results Wald* shows a *chi-square value* of 69896.76 with P r ob >

chi2 = 0.000 (<0.05), indicating the presence of heteroscedasticity in the regression model. Therefore, the regression estimation using *robust standard error* to maintain the validity of the results, even though the assumption of homoscedasticity is not met [49] .

Robust Standard Error

Table 10. *Robust Standard Error*

Fixed-effects (within) regression				Number of obs =			129
Group variable : COMPANY				Number of groups =			43
R- squared :				Obs per group :			
	Within =	0.246				min =	3
	Between =	0.089				avg =	3.0
	Overall =	0.011				max =	3
				F(7.42)		=	4.12
corr (u_i , Xb) = -0.8489				Prob > F		=	0.002
				(Std . err . adjusted for 43 clusters in COMPANY)			
CETR3	Coefficient	Robust std . err .	t	P>t	[95% conf . interval]		
ESG3	-0.134	0.061	-2.19	0.034	-0.257		-0.011
DER3	-0.182	0.088	-2.08	0.044	-0.360		-0.005
MA3	-0.214	0.438	-0.49	0.627	-1,097		0.669
ROA3	-1.044	0.334	-3.12	0.003	-1,718		-0.369
CI3	0.160	0.137	1.17	0.250	-0.117		0.437
YEAR							
2022	0.046	0.015	3.05	0.004	0.016		0.077
2023	0.038	0.014	2.68	0.011	0.009		0.067
_ cons	0.405	0.080	5.04	0.000	0.243		0.567
sigma_u	0.113						
sigma_e	0.057						
rho	0.793	(fraction of variance due to u_i)					

Source: Output Stata , 2025

The panel regression model is known to experience heteroscedasticity as indicated by the results of the *Modified Variance test. Wald* with Prob > chi2 of 0.000. This study applies the *robust method standard error* in *fixed regression model effect* as a corrective step. The regression results show a value of F (7,42) = 4.12 with Prob > F = 0.0016 which indicates that the model remains significant overall. After the correction is made, the ESG, DER, and ROA variables still have a significant effect on CETR, each with a negative coefficient of -0.134; -0.182; and -1.044 and a p value of 0.034; 0.044; and 0.003 . The three variables show a negative influence on CETR. Thus, even though there is a violation of the heteroscedasticity assumption , the regression model can still be used because it has been corrected with the appropriate method. Correction using *robust standard error* has fixed the discrepancy in the *standard calculation error* so that the significance test of the regression coefficient remains valid. In addition, the direction and magnitude of the influence of the variables do not experience significant changes and the panel regression model remains stable and reliable in explaining the relationship between variables in the study.

F Test

The F test is conducted to detect whether all independent variables in the *fixed panel regression model effect* simultaneously has a significant influence on the dependent variable. The regression results show an F value of 4.12 and Prob > F 0.0016 which is below the significance of 0.05. The data indicates that simultaneously, all independent variables in the model have an effect on *tax avoidance* (CETR). This finding also shows that the applied regression model is statistically feasible and good enough in describing the variation in the dependent variable.

Determination Coefficient Test (R ^{2})

R- squared or coefficient of determination functions to measure how much of the proportion of variation in the dependent variable can be explained by all the independent variables in the model. Based on the results of the *fixed* regression *effect* , the *Within R- squared value* is 0.2463, which means that approximately 24.63% of the variation in CETR can be explained by the independent variables after controlling for inter- firm fixed effects. The *Between R- squared* value of 0.0892 indicates that this model is able to explain approximately 8.92% of the variation in CETR. Meanwhile, *the Overall R- squared* of only 0.0107 indicates that this model as a whole can only explain 1.07% of the variation in CETR when considering all data. Although the *Within R -squared value* indicates that this model is quite effective in explaining the variation between variables in one company, the low *Overall R- squared value indicates that there are still many* external factors that are not covered in the model and have the potential influence *tax avoidance* .

t-test

The t-test is used to identify the influence of each independent variable on the dependent variable partially, namely *tax. avoidance* with CETR proxy at a significance of 0.05. If *the p- value* is below 0.05 , then the independent variable is considered to have a partial influence on the dependent variable. The results of the analysis shows that ESG, DER, and ROA have an effect on CETR. ESG has a negative coefficient of -0.134 (*p- value* = 0.034) which indicates that the higher the company's ESG score, the CETR tends to decrease or *tax* higher *avoidance* . *Meanwhile, DER has a coefficient of -0.182 (p- value* = 0.044) which means that companies with high *leverage utilize interest expenses as a tax deduction. ROA also has a negative coefficient of -1.044 (p- value* = 0.003) which shows that companies that generate higher profits have higher incentives and capacities to carry out aggressive tax planning. On the other hand , the MA and CI variables have no effect against CETR with *p-values* of 0.627 and 0.250 respectively . This is indicates that other factors outside *of managerial ability* and *capital intensity tends to be* less dominant in influencing a company's CETR level, compared to sustainability, capital structure, and profitability factors.

6.   Discussion

Environmental Influence *Social Governance* against *Tax Avoidance*

The t-test results show that ESG has a coefficient of -0.134 with *a p- value* of 0.034 which is smaller than 0.05. This indicates that the ESG variable has an effect on *tax avoidance* . A negative coefficient indicates that an increase in the ESG score is correlated with a decrease in the CETR value, indicating the existence of *tax avoidance practices.* higher *avoidance* . *This finding is consistent with previous research which revealed that* a company's ESG score is directly proportional to the company's increased tendency to conduct *tax avoidance* [50]–[52] .

A company's high ESG score does not necessarily reduce *tax practices avoidance* . In the perspective of legitimacy theory, companies seek to gain social support and acceptance by aligning their operational activities with the values and expectations of society. In this context, ESG implementation can serve as a symbolic means to build a company's image as a socially and environmentally responsible entity. However, high ESG disclosure can also be used to cover up *tax* practices . *avoidance* and maintaining legitimacy in the eyes of the public [51] . Companies with high ESG scores have the potential to avoid public and tax authority scrutiny due to the positive reputation the company has built. This provides space for companies to implement *tax strategies. avoidance* without arousing suspicion [50] .

PT Merck Indonesia Tbk, which is one of the companies in the research sample, obtained an ESG score of 81 based on measurements using the 2021 GRI standard. PT Merck Tbk in its 2021 sustainability report showed a high commitment to ESG aspects by realizing 22 social activities worth IDR5.74 billion, reducing energy consumption intensity from 6.3 to 5.7 kWh/product unit, and maintaining emission and waste scores at low levels. In addition,

the company recorded a distribution of economic value of IDR950 billion and an average employee training of 3.9 hours per person to improve competence. However, in the 2022 financial report, PT Merck Indonesia Tbk posted a profit before tax of IDR190 billion with taxes paid of IDR23 billion and resulted in a low CETR ratio of 12.09%. This indicates the existence of *tax avoidance* hidden behind the image of sustainability that companies build.

This condition confirms that a high ESG score does not always reflect an ethical commitment in all aspects of company management, including in the taxation aspect. ESG activities can function as reputation compensation to cover up actions that have the potential to cause negative reactions from the public, such as *tax avoidance* . Therefore, even though companies appear active in social and environmental programs, this is not necessarily accompanied by high tax compliance [52] .

Leverage Effect against *Tax Avoidance*

The results of the t-test show that DER as a proxy *for leverage* has been proven to have a positive influence on *tax avoidance* as reflected in the coefficient of -0.1825 with *a p- value* of 0.044 which is smaller than 0.05. The negative coefficient indicates that an increase in *leverage* is followed by a decrease in the CETR value which reflects an increase in *tax practices. avoidance* . Thus, high *leverage* in a company can reflect the tendency of the company to be involved in *tax avoidance. avoidance* .

Companies utilize debt-based capital structures as a legal strategy to reduce tax burdens. This is in line with the *trade-off theory* which explains that companies will try to find the optimal point between tax benefits due to the use of debt and the potential financial risks that arise. One of the advantages of utilizing debt is that interest expenses can be a reduction in taxable income [53] , as regulated in Article 6 Paragraph (1) of Law No. 36 of 2008 concerning Income Tax.

The high proportion of debt in the capital structure causes improvement interest expense that must be borne. This interest expense is then used to reduce taxable profit so that the tax burden that must be paid is lower. This is reinforced by the findings of previous research which states that *leverage* provides tax incentives through a taxable profit reduction mechanism [17], [18] . In this context, *leverage* is used not only as a source of financing, but also as a strategy for tax efficiency through *tax avoidance* . This opinion is also in line with the statement that management makes debt a priority because it is able to reduce the tax burden legally [20] .

PT Ever Shine Tex Tbk, which is one of the samples of this study, has a DER value of 2.51 in 2021, which shows that the company's capital structure is dominated by debt compared to equity. In the financial report, the company recorded an interest expense of IDR 3.14 billion and a profit before tax of IDR 20.90 billion, but the income tax paid was only IDR 2.85 billion, resulting in a CETR of 13.62%. A low CETR can be an indication of *tax practices avoidance* carried out through the use of interest as a tax deduction. This statement is in line with the findings in the research of Malinda & Pradana (2022) which states that increasing *leverage* increases the potential for companies to carry out *tax avoidance* due to the tax reduction benefits of debt interest.

Managerial Influence *Abilities* against *Tax Avoidance*

The results of the t-test show that the *managerial coefficient value ability* (MA) of -0.214 and *p- value* of 0.627, where this value is greater than 0.05 so it can be concluded that *managerial ability* does not affect *tax avoidance* . Although the direction of the coefficient is negative, this is not statistically strong enough to state that there is an influence between *managerial ability* and *tax practice avoidance* . In other words, the manager's ability to manage resources effectively does not affect the implementation of aggressive tax strategies.

Strategic decisions regarding taxes, including *tax avoidance* , is not entirely within the authority of managers. Although managers have high capabilities in carrying out managerial functions, decisions regarding tax strategies are more determined by the board of directors, audit committee, or parties with higher authority [54], [55] . In other words, managers do not have complete freedom in making decisions regarding taxes. Therefore, *managerial ability* does not affect the company in carrying out *tax avoidance* . In addition, competent managers tend to focus more on operational efficiency and achieving long-term performance, rather than on tax planning that produces short-term profits [56], [57] . This shows that the role of managers in tax decision making is relatively limited and is outside the scope of managers' primary responsibilities.

In the context of legitimacy theory, management decisions regarding taxes are influenced by the urge to maintain legitimacy in the eyes of the public, not just by technical efficiency or managerial competence. Managers realize that compliance with tax regulations is a form of corporate social responsibility that contributes to a positive image in the eyes of the public and stakeholders. Therefore, despite having the ability to design tax avoidance strategies, managers still choose to be conservative in order to maintain corporate legitimacy.

This condition is reinforced by data from PT Hanjaya Mandala Sampoerna Tbk in 2021 with an MA score of 0.087 which indicates *managerial high ability* compared to other companies in the research sample. However, this company recorded a CETR of 0.6901 or 69.01% which indicates high tax compliance and is far from the indication *of tax avoidance* . Although management is operationally efficient, it is not always directed at maximizing tax efficiency through *tax avoidance* .

Conclusion

This study was conducted to provide empirical evidence regarding the influence of ESG, *leverage* , and *managerial ability* to *tax avoidance* in Indonesian manufacturing industry companies for the period 2021–2023. The results of the analysis show that ESG and *leverage* has a positive effect on *tax avoidance* , whereas *managerial ability* does not affect *tax avoidance* . This finding indicates that ESG is still used as a legitimation tool to reduce public scrutiny of tax obligations and companies tend to utilize interest expenses from debt as a *tax avoidance strategy. avoidance* . Meanwhile, *managerial ability* has not become a determining factor in corporate tax policy. The implications of this study confirm that ESG disclosure does not fully reflect tax responsibility and can still be used as a legitimacy tool. On the other hand, high *leverage* provides an opportunity for companies to reduce tax burdens through interest expenses. This finding is important for regulators and companies in designing more integrative tax policies and sustainability reporting. However, this study has limitations in the approach to measuring variables, especially ESG which is only measured quantitatively based on GRI indicators and *managerial ability* assessed from technical efficiency based on financial data. Therefore, further researchers are advised to pay more attention to the context of information delivery and examine the characteristics of the company or other internal factors that may influence tax decision making. so that the analysis results better reflect the actual conditions .

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