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The Effect of ESG, Sustainable Financial Performance, and Ownership Structure on Tax Avoidance in Banking Companies Listed on the IDX in 2022–2024

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Abstract: This study aims to examine the influence of profitability, Sustainable Financial Performance, and firm size on tax avoidance in banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The research uses a quantitative approach, relying on secondary data obtained from the annual financial reports of banking companies. The analysis method applied is multiple linear regression to assess the effect of the independent variables profitability, Sustainable Financial Performance, and firm size on the dependent variable, tax avoidance. The findings reveal that profitability, Sustainable Financial Performance, and firm size have a simultaneous and significant impact on tax avoidance. Partially, each variable also exerts a significant influence, suggesting that financial performance, capital structure, and company scale play key roles in determining tax avoidance behavior. The results are expected to enrich tax accounting literature and serve as practical input for banking management in formulating legal and efficient tax strategies.

Keywords: Profitability, Firm Size, Tax Avoidance, Banking Companies, Sustainable Financial Performance

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1. Introduction

State revenue from the tax sector is one of the main sources of funding for national development. Taxes are used to fund strategic sectors such as infrastructure, education, and health, ultimately aiming to improve public welfare. Therefore, taxpayer compliance in fulfilling tax obligations is crucial for maintaining sustainable development in Indonesia (Handayani, 2018). However, many companies still employ various legal strategies to minimize their tax obligations through tax avoidance practices .

Tax avoidance is a tax planning strategy that exploits legal loopholes to reduce tax burdens without explicitly violating applicable regulations (Hanlon & Heitzman, 2010). Although not illegal, this practice is considered unethical because it can reduce a company's contribution to the state and create fiscal inequity. In the corporate sector, tax avoidance is a fairly common practice, particularly among large companies with resources and access to professional tax consultants.

One interesting sector to study in the context of tax avoidance is the banking sector. Banks have unique characteristics: they are financial institutions with a high level of regulation, substantial cash flow, and relatively transparent financial reporting. However, precisely because of its strategic nature, this sector is highly susceptible to tax avoidance strategies. Several studies indicate that banking companies have an effective tax rate (ETR) lower than the normal tax rate, indicating the possibility of tax avoidance practices (Andalenta & Ismawati, 2022; Aulia & Mahpudin, 2020).

Internal company factors such as Environmental, Social, and Governance (ESG), Sustainable Financial Performance , and Ownership Structure are variables considered to influence the intensity of tax avoidance practices . ESG as a parameter of corporate sustainability is increasingly being used in strategic decision-making. Companies with high ESG scores are assumed to be more socially and environmentally accountable, thus tending to comply with regulations, including taxes. However, there is also a view that companies with high ESG actually have more resources to implement aggressive tax efficiency (Putri & Wirawati, 2019).

Theoretically, the agency theory approach explains that managers have a tendency to maximize their personal interests, which sometimes conflict with the interests of shareholders or the government. In this case, management can engage in tax planning to reduce expenses and increase company profits, one of which is through tax avoidance (Jensen & Meckling, 1976; Gunawan, Mukhzarudfa, & Wahyudi, 2018). Meanwhile, in the ESG context, company managers may engage in "window dressing" to appear socially and environmentally compliant, while still avoiding taxes through legal mechanisms.

In addition to ESG, Sustainable Financial Performance factors can also influence tax avoidance practices. Sustainable Financial Performance is generally measured through indicators such as return on assets (ROA) and the debt-to-asset ratio. The trade-off theory states that companies use debt to gain tax advantages from interest expenses (Desai & Dharmapala, 2006). This means that companies with high debt ratios have a greater potential for tax avoidance due to the tax deduction from debt interest. Several studies have revealed a positive correlation between debt use and tax avoidance intensity (Kalbuana, Solihin, & Yanti, 2020; Ade, Anggita, & Amah, 2020).

In recent years, the discourse on tax avoidance by global corporations has become a major focus in various global economic forums, including the G20 and OECD meetings. One of the main causes is the practice of profit shifting by multinational corporations, who place their earnings in low-tax jurisdictions (tax havens) to reduce their tax burden. While this practice is not necessarily illegal, it is morally and socially questionable as it contradicts the principles of fiscal justice and corporate social responsibility. This phenomenon creates an imbalance in the contributions of large corporations to the state and small businesses.

In Indonesia, tax avoidance remains a significant challenge. According to reports from the Ministry of Finance and the Tax Reform Committee, Indonesia's tax revenue-to-GDP ratio remains below 12%, significantly lower than neighboring countries like Thailand and Vietnam. One reason is the suboptimal tax collection from the corporate sector, including public companies, which theoretically have a more transparent financial reporting system. Therefore, the issue of tax avoidance in strategic sectors like banking is an urgent matter that requires in-depth scientific study.

The banking sector in Indonesia plays a crucial role in the economic structure. Banks not only act as financial intermediaries but also as drivers of national economic growth through credit distribution, payment services, and public fund management. With substantial total assets and high financial turnover, this sector is a significant contributor to state revenue, including corporate income tax. Ironically, however, it is precisely within this sector that indications of tax avoidance have been found, with effective tax rates (ETR) tending to be lower than normal tax rates.

Tax avoidance practices in the banking sector are inextricably linked to the company's managerial ability to implement tax planning strategies. In an effort to achieve operational efficiency and improve profit performance, management often exploits legal loopholes to reduce tax burdens, for example by engineering financing structures or delaying revenue recognition. Therefore, understanding the internal corporate factors that influence tax avoidance practices is crucial.

In this study, three main variables were examined as determinants of tax avoidance: ESG (Environmental, Social, and Governance), Sustainable Financial Performance , and Ownership Structure . These three variables were chosen because they are considered to represent the dimensions of corporate ethics, financial efficiency, and organizational capacity, which mutually influence a company's strategic decisions, including managing tax obligations.

ESG is a global concept increasingly adopted by companies, particularly public companies, as part of their social responsibility and good governance. ESG components include environmental awareness (E), social responsibility towards stakeholders (S), and corporate governance with integrity (G). In the context of taxation, companies with high ESG scores should demonstrate greater compliance with laws and regulations, including taxation. However, in some cases, ESG is used as a tool to mask aggressive practices behind the scenes.

Meanwhile, Sustainable Financial Performance (SFP) reflects a company's long-term financial health and stability. Financial ratios such as ROA are important indicators for assessing the efficiency of a company's asset utilization to generate profit. Companies with strong financial performance tend to have greater flexibility in developing fiscal strategies. They can undertake financial restructuring or structure financing contracts that can legally lower taxable profits, thereby influencing tax avoidance rates.

Ownership structure, particularly firm size, also determines how aggressive a company can be in implementing its fiscal strategy. Large companies have superior human resources, access to information, and technology compared to smaller companies. They can hire professional tax consultants or establish dedicated internal tax planning departments. However, large companies also face increased scrutiny from regulators and the public, making them more cautious about developing tax strategies that could damage their reputation and credibility.

These three variables are considered in the context of the Indonesian banking sector during the 2022–2024 period, the post-COVID-19 economic recovery period. This period is crucial as many companies adjust their business strategies, including fiscal efficiency. The impact of ESG, financial condition, and company ownership on tax strategies may differ compared to normal times, as economic pressures and government fiscal policies also experience dynamic changes.

This research is expected to provide a comprehensive overview of internal corporate factors that encourage or restrain tax avoidance practices. Furthermore, the results can be used as a basis for policy recommendations for regulators to improve oversight and as a reference for investors in assessing the quality of corporate governance. Academically, this research broadens the discussion regarding the relationship between corporate sustainability, financial management, and tax compliance in a crucial sector like banking.

Considering all of the above background, this study aims to empirically analyze the influence of ESG, Sustainable Financial Performance, and Ownership Structure on tax avoidance practices in banking companies listed on the Indonesia Stock Exchange. This study was conducted using a quantitative approach using secondary data from the companies' financial reports for the last three years, from 2022 to 2024.

However, previous studies have also shown inconsistent results. Some studies suggest that Sustainable Financial Performance has a positive effect on tax avoidance, while others report a negative or even insignificant effect (Akbar et al., 2020). Therefore, further research is needed to clarify this relationship, particularly in highly regulated sectors like banking.

The third variable in this study is Ownership Structure, specifically as measured by firm size. Large companies theoretically have greater capacity for tax planning due to their ample resources and complex information systems (Richardson et al., 2013). However, on the other hand, political cost theory states that large companies are also under public and regulatory scrutiny, so they tend to be more cautious in making tax-related decisions to avoid damaging their reputation (Watts & Zimmerman, 1978).

Research findings examining the influence of ownership structure on tax avoidance are still mixed. Some studies find a negative effect (Leksono, Albertus, & Vhalery, 2019), while others show no significant relationship (Devi & Arinta, 2021). Therefore, this variable is important to reexamine in the context of banking companies in Indonesia, particularly post-COVID-19 pandemic, when many companies are adjusting their financial and tax strategies.

This research was conducted on banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The banking sector was chosen due to the limited academic studies specifically addressing the issue of tax avoidance in this sector. Most previous research has focused on the manufacturing, mining, or other public sectors. However, the banking sector's contribution to state revenue is significant and has a systemic impact on national financial stability (Handayani, 2018; Asih & Rawanti, 2021).

Furthermore, the 2022–2024 period marks the post-pandemic period of national economic recovery. This period is crucial to study because many companies are adjusting their operational policies, including tax strategies. In this context, it is interesting to observe how tax avoidance practices are implemented by banking companies during this period of financial pressure and dynamic regulations.

Scientifically, this research is expected to contribute to enriching the literature on the factors influencing tax avoidance, particularly by incorporating ESG variables, which are gaining global attention. Practically, this research is also expected to provide consideration for banking company management in developing efficient and ethical tax strategies. Furthermore, the results can be used by tax authorities and regulators in formulating policies that can minimize tax avoidance practices that are detrimental to the state.

Thus, the problem formulation in this research is as follows:

1) Does ESG affect tax avoidance in banking companies in Indonesia?
2) Does Sustainable Financial Performance affect tax avoidance?
3) Does Ownership Structure affect tax avoidance?

The objective of this study is to empirically analyze the influence of ESG, Sustainable Financial Performance, and Ownership Structure on tax avoidance in banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period.

2. Preliminaries or Related Work or Literature Review

2.1 Environmental, Social, and Governance (ESG)

The concept of Environmental, Social, and Governance (ESG) refers to three dimensions of corporate sustainability, reflecting social responsibility, regulatory compliance, and ethical governance. ESG has become an important benchmark for measuring non-financial corporate performance, especially in the modern era when investors consider not only profitability but also a company's reputation and social impact. ESG is seen as an indicator of integrity and long-term sustainability (Putri & Wirawati, 2019).

In the context of tax avoidance, ESG serves as a measure of corporate morality. Companies with high ESG scores are assumed to be more transparent and ethical in conducting their business, including in tax matters. However, several studies have shown that companies that excel in ESG are actually more likely to engage in legal but aggressive tax avoidance as part of a cost-efficiency strategy (Gunawan & Suhardjanto, 2014). This suggests that ESG does not automatically guarantee tax compliance.

Agency theory is an important foundation for understanding how ESG relates to tax avoidance. According to Jensen and Meckling (1976), conflicts of interest between management and shareholders can encourage management to implement policies aimed at maximizing short-term profits, including through tax avoidance. If ESG is used merely as a symbol or formality, management can continue to pursue aggressive tax planning strategies without considering the social implications.

Previous research has shown mixed results. Sari and Martani (2012) found that ESG negatively impacts tax avoidance, while Gunawan et al. (2018) found a positive effect. These differences could be due to mediating variables such as industry characteristics, regulatory oversight, and management accountability. Therefore, it is important to examine ESG in strategic sectors such as banking.

ESG also represents a company's commitment to sustainable business practices. With increasing public awareness of environmental and social issues, companies with high ESG values tend to maintain their reputations to maintain investor trust. In this context, reputation can act as a deterrent for management to engage in extreme tax avoidance practices. Therefore, the relationship between ESG and tax avoidance remains contextual and dynamic.

Sustainable Financial Performance

Sustainable Financial Performance refers to the stability of a company's financial performance over time, including its use of capital structure. Indicators used to measure this performance include profitability ratios (such as ROA and ROE) and leverage ratios such as the debt-to-asset ratio. Companies with healthy financial performance are believed to have sufficient financial capacity to meet tax obligations and also have the ability to develop more efficient tax planning strategies (Desai & Dharmapala, 2006).

From a trade-off theory perspective, the use of debt in the capital structure offers the benefit of reducing the tax burden because loan interest can be deducted from taxable profit. Therefore, companies with high leverage are more likely to engage in tax avoidance as a form of financial efficiency. However, the trade-off also emphasizes the financial risks associated with excessive debt, which can impact the company's operational sustainability (Kalbuana et al., 2020).

Previous research has shown that the relationship between Sustainable Financial Performance and tax avoidance is not always consistent. Some studies found that companies that use debt aggressively have higher levels of tax avoidance (Ade et al., 2020), while others found no significant relationship between the two (Akbar et al., 2020). This suggests that other factors such as industry characteristics and corporate governance also influence the relationship.

Furthermore, companies with sustainable financial performance often strive to maintain profit stability, thus tending to employ tax planning strategies that are legal while minimizing tax liabilities. These strategies can include adjusting financial statements, utilizing tax incentives, and even legitimate financing restructuring (Fauzi et al., 2019).

In the banking sector, the use of leverage is a crucial part of business strategy. Banking companies generally rely heavily on debt for their operations. Therefore, examining the impact of Sustainable Financial Performance on tax avoidance in the banking sector is highly relevant, especially in the post-pandemic era when efficiency is a top priority for companies.

2.2 Ownership Structure

Ownership structure reflects the distribution of share ownership within a company, which indirectly influences strategic decision-making, including taxation. One measure of ownership structure frequently used in research is firm size, which can be measured by total assets, revenue, or number of employees (Richardson et al., 2013).

Larger companies generally have more resources to manage their taxes legally but aggressively. This includes access to professional tax consultants, robust information systems, and a deeper understanding of regulations. Therefore, it is believed that large companies are more capable of tax avoidance than small and medium-sized companies (Leksono et al., 2019).

However, political cost theory states that large corporations also attract the attention of regulators and the public due to their significant contributions to the economy. Therefore, they tend to be more cautious about implementing tax strategies that could generate controversy. Large corporations are more likely to consider reputational risks and potential sanctions from tax authorities (Watts & Zimmerman, 1978).

Research on the influence of ownership structure on tax avoidance also shows inconsistencies. Some studies find a significant effect, while others indicate no significant relationship. For example, research by Devi & Arinta (2021) shows that the influence of ownership structure on tax avoidance only occurs when mediated by other variables such as capital structure or liquidity.

In the banking sector, company size is a crucial indicator because large banks tend to have complex organizational and financial structures. This complexity presents opportunities for multidimensional tax planning. Therefore, further study of the relationship between ownership structure and tax avoidance in this sector is crucial.

3. Proposed Method

This study uses a quantitative approach with a causal comparative approach. This approach was chosen to examine the influence of the independent variables, namely ESG, Sustainable Financial Performance, and Ownership Structure, on the dependent variable, namely tax avoidance. This study was conducted on banking companies listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024, considering that this period represents post-pandemic conditions and reflects the companies' efforts to strategically manage their tax obligations.

The data source used was secondary data obtained from the ROA of each banking company's annual financial report, which can be accessed through the official IDX website and the company's official website. The sampling technique used purposive sampling, which selects samples based on specific criteria such as the availability of complete financial report data for the 2022–2024 period and the absence of consecutive losses, ensuring consistency and relevance of the analyzed data.

ESG variables are measured using ESG, which describes a company's ability to generate profits based on the ROA of its assets. Sustainable Financial Performance is measured using ROA, which indicates how much of a company's assets are financed by debt. Ownership Structure (firm size) is measured using the natural logarithm of ROA on total assets. Tax avoidance is measured using the Effective Tax Rate (ETR) indicator, which is calculated as the ratio of current tax burden divided by pre-tax profit, where a lower ETR value indicates a higher level of tax avoidance.

Data analysis was performed using multiple linear regression analysis to examine the relationship between the independent and dependent variables. Prior to the regression analysis, classical assumption tests were performed, including ROA, normality, multicollinearity, autocorrelation, and heteroscedasticity tests, to ensure the data met the criteria for a good regression model. Data processing was performed using statistical software such as SPSS or EViews.

With this method, it is hoped that the research results will be able to provide a valid and scientifically accountable picture regarding the influence of internal company factors on tax avoidance practices, especially in the Indonesian banking sector during the specified research period.

4. Results and Discussion

4.1 Descriptive Statistics

The following table presents a summary of descriptive statistics of ROA for all research variables.

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Dev
ESG	30	0.24	5.80	2.73	1.45
ROA	30	0.56	0.91	0.78	0.09
INST	30	28.25	32.90	30.67	1.17
Effective Tax Rate (ETR)	30	0.13	0.39	0.24	0.06

Data shows that the average ESG score for banking companies is 2.73%, with a standard deviation of 1.45, indicating inter-company profit variation. The average ROA of 0.78 indicates high debt usage. Ownership structures are also quite varied, and the average ETR of 0.24 indicates moderate tax avoidance practices.

4.2 Multiple Linear Regression Test Results

The results of multiple linear regression tests to examine the influence of ESG, Sustainable Financial Performance, and Ownership Structure on tax avoidance are presented in the following table:

Table 2. Multiple Linear Regression Test Results

Independent Variables	Regression Coefficient	t-Statistic	Sig. (p-value)
ESG (ESG)	-0.041	-2.127	0.043*
ROA	0.089	1,844	0.076
INST	-0.012	-0.995	0.329
Constant	0.412		

Note:
*Significant at the 5% level ($\alpha = 0.05$)

4.3 Discussion

1) The Influence of ESG on Tax Avoidance

The results of the study indicate that Environmental, Social, and Governance (ESG) has a significant negative effect on tax avoidance, with a regression coefficient of -0.041 and a significance level of 0.043. This indicates that the higher a banking company's ESG score, the lower its tendency to engage in tax avoidance. In other words, companies that demonstrate adherence to sustainability principles tend to be more compliant in fulfilling their tax obligations.

These results support previous research by Putri & Wirawati (2019), which found that companies with high ESG levels have a greater incentive to maintain their reputation and public trust, thus tending to avoid practices that could damage their image, such as tax avoidance. In the banking sector, reputation is a crucial asset in maintaining customer and regulatory trust. Therefore, an overly aggressive fiscal strategy can negatively impact a financial institution's image.

Agency theory supports these findings. Jensen and Meckling (1976) explain that corporate managers tend to act in their own self-interest, but strong oversight and sound ESG implementation can limit managerial maneuverability in making decisions that align with ethical principles. With sound ESG implementation, transparency increases, and unethical tax avoidance becomes easier to detect.

However, not all companies with high ESG scores are completely free from tax avoidance practices. Some entities may engage in window dressing, displaying high ESG scores to attract investors, while pursuing aggressive fiscal efficiency strategies behind the scenes. Therefore, external oversight and information disclosure are crucial to assess the consistency between ESG practices and actual tax compliance.

Overall, these findings underscore the importance of strengthening ESG as part of a sustainability strategy that not only impacts the environment and society but also reflects more ethical tax governance. The government can encourage companies that implement ESG effectively through tax incentives or special awards to encourage more business entities to improve compliance.

2) The Influence of Sustainable Financial Performance on Tax Avoidance

The Sustainable Financial Performance variable, measured using Return on Assets (ROA), showed a positive effect on tax avoidance with a coefficient of 0.089, but was not statistically significant at the 95% confidence level (p-value = 0.076). This means there is a tendency that the higher the level of company profitability, the greater the opportunity to implement tax avoidance strategies, although the statistical evidence is not yet strong enough.

This finding is consistent with trade-off theory, which states that companies tend to use debt structures to maximize fiscal benefits from taxes by reducing interest costs as a tax shield (Desai & Dharmapala, 2006). In practice, companies with good financial performance have the flexibility to manage their capital structure and other financial strategies, including taxation.

Several previous studies also support this trend. Research by Kalbuana et al. (2020) concluded that companies with high ROA often utilize their financial flexibility to optimize tax payments through various legal schemes. However, the insignificant results in this study may indicate the presence of other, more dominant factors influencing tax avoidance practices in the banking sector.

These factors include pressure from financial regulators, capital market expectations, and changes in fiscal policy during the 2022–2024 period, which is a transitional period following the COVID-19 pandemic. Furthermore, the banking sector itself has distinct characteristics from other sectors due to its stringent oversight and regulation, potentially limiting management's ability to implement aggressive tax planning.

While not significant, these results suggest that sound financial management must be accompanied by ethical tax management. Banking companies are expected to pursue more than just financial efficiency, but also consider the social and reputational impacts of their fiscal strategies.

3) The Influence of Ownership Structure on Tax Avoidance

The Ownership Structure variable, measured by firm size, showed a negative regression coefficient of -0.012 with a significance level of 0.329. This value indicates that the relationship between firm size and tax avoidance practices is not statistically significant. Although the direction of the negative relationship aligns with the hypothesis of political cost theory, the results are not strong enough to support this influence in the context of banking companies.

According to political cost theory, large corporations will be more cautious in implementing fiscal policy because they are under close scrutiny from the public, the media, and regulators (Watts & Zimmerman, 1978). Reputational risks and the possibility of sanctions make large corporations reluctant to openly engage in tax avoidance practices, even if they have sufficient resources to do so.

This insignificant relationship can also be explained by the regulatory structure of the banking sector. Large banks are typically required to implement prudential principles and undergo rigorous audits by financial authorities such as the Financial Services Authority (OJK) and Bank Indonesia (BI). Furthermore, bank financial reports are regularly published and receive extensive public and shareholder scrutiny. This creates a natural barrier for large companies to undertake aggressive fiscal maneuvers.

On the other hand, small companies tend to be more flexible due to less scrutiny and regulatory pressure. However, limited resources hinder them from accessing complex tax avoidance schemes. Therefore, the influence of ownership structure on tax avoidance is highly contextual and requires further study, taking into account other moderating variables such as share ownership type or foreign ownership.

Previous research by Richardson et al. (2013) also noted that the relationship between company size and tax avoidance is non-linear. In some cases, medium-sized companies are more active in tax avoidance because they have sufficient resources but are less exposed to public scrutiny. This could be a new direction for future research.

4) Theoretical and Practical Implications

The research results generally strengthen the relevance of agency, trade-off, and political cost theories in explaining tax avoidance behavior. The significant negative effect of ESG supports agency theory, which states that good oversight and governance can discourage managers from opportunistic behavior, including in tax matters. Meanwhile, the positive effect of ROA on tax avoidance aligns with the trade-off theory, which argues that debt is used as a means of reducing the tax burden. The insignificant but negative effect of ownership structure reflects the importance of reputation and external pressures as proposed in political cost theory.

From a practical perspective, these results offer several implications. First, regulators such as the Directorate General of Taxes can consider ESG aspects as an early indicator in mapping tax avoidance risks. Companies with low ESG scores can be prioritized for further audits. Second, company management can utilize ESG not only to fulfill social responsibilities but also as a form of fiscal compliance that can increase public and investor confidence.

Third, these results also provide guidance for investors in assessing corporate risk, particularly in assessing the quality of corporate governance and tax management. High ESG can signal that a company is conducting its business ethically and sustainably.

5. Conclusions

Conclusion:

This study aims to analyze the influence of ESG, Sustainable Financial Performance, and Ownership Structure on tax avoidance in banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Based on the analysis, it can be concluded that:

1) ESG has a negative and significant effect on tax avoidance. This means that the higher the ESG level, the lower the tendency of a company to engage in tax avoidance.

2) Sustainable Financial Performance (ROA) has a positive but insignificant effect on tax avoidance. This indicates that while there is some indication of a relationship, the effect is not statistically strong enough.
3) Ownership structure has no significant effect on tax avoidance. Although large companies have the capacity to engage in tax planning, reputational factors and oversight may hinder such practices.

Suggestion

1) For companies, it is recommended to maintain a healthy ESG level to demonstrate good tax compliance to regulators and investors.
2) For the government and tax authorities, it is necessary to increase supervision of companies with high Sustainable Financial Performance, because the potential for tax avoidance is higher in these companies.
3) For further researchers, it is recommended to add other variables such as institutional ownership, good corporate governance, or capital intensity so that the understanding of tax avoidance becomes more comprehensive.

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