



ESG AND TAX AVOIDANCE RELATIONSHIP: A SYSTEMATIC LITERATURE REVIEW

Agung Dinarjito

agung.dinarjito@pknstan.ac.id, Politeknik Keuangan Negara STAN

Abstract

This study examines the correlation between Environmental, Social, and Governance (ESG) practices and corporate tax avoidance by synthesizing previous empirical research. This study utilizes a systematic literature review to analyze the relationship between ESG performance and disclosure and corporations' tax avoidance in various institutional contexts. The review indicates a significant correlation between ESG and tax avoidance, however the nature and intensity of this association differ between situations. In numerous instances, enhanced ESG engagement correlates with reduced tax avoidance, illustrating ESG's function as an ethical governance framework that fosters openness and accountability. Nevertheless, the literature indicates that superficial implementation of ESG may serve as a legitimacy mechanism, enabling them to sustain tax avoidance practices while presenting a responsible facade. The data indicate that the impact of ESG on tax avoidance is significantly contingent upon the quality of implementation, governance frameworks, and institutional contexts. This study enhances the ESG and taxes literature by elucidating the dual function of ESG and emphasizing the significance of substance above mere symbolic compliance.

Keywords: Corporate Governance; Environmental, Social, and Governance (ESG); Sustainability Reporting; Tax Avoidance

INTRODUCTION

The evolution of Environmental, Social, and Governance (ESG) issues in the last decade has revealed a substantial shift in the evaluation of company performance. Historically, evaluations concentrated mostly on conventional financial metrics; however, sustainability has recently emerged as a central concern for investors, regulators, and other stakeholders (Fatemi et al., 2018; Khan et al., 2016). The enhancement of the sustainability agenda in Indonesia is evident in the Financial Services Authority (OJK) policy on sustainable finance and the obligatory preparation of sustainability reports as mandated by OJK Regulation (POJK) No. 51/POJK.3/2017, alongside the establishment of an ESG-based index by the Indonesia Stock Exchange. Additionally, the Sustainability Standards Board (DSK) of the Indonesian Institute of Accountants (IAI) has released Sustainability Disclosure Standards Statements (PSPK) Nos. 1 and 2. This role positions the ESG performance of public firms not just as an adjunct, but as an essential factor in evaluating the company's long-term risks and opportunities.

The practice of tax avoidance continues to be a significant topic in tax discussions, both internationally and domestically. Taxes provide a primary source of governmental revenue, utilized to fund growth and deliver public services. Tax avoidance can diminish the state's budgetary capability and exacerbate social inequality (Slemrod, 2019). While numerous tactics exist, tax avoidance, which operates within legal parameters, is frequently regarded as ethically contentious due to its potential clash with the principles of distributive justice and corporate social responsibility (de la Feria & Walpole, 2020). The Directorate General of Taxes (DGT) of Indonesia has undertaken multiple initiatives to enhance oversight, including the Automatic Exchange of Information (AEOI), a tax amnesty program, augmented audit capability, and other policies. Nonetheless, numerous signs of tax avoidance persist, including transfer pricing strategies, the utilization of low-tariff jurisdictions, and the manipulation of cross-border commercial frameworks.

The correlation between ESG and tax avoidance constitutes a significant and pertinent area of research. These two challenges are intrinsically linked to corporate responsibility towards stakeholders and the endeavor to uphold social legitimacy. Corporate tax payments



provide a direct contribution to development and public welfare; thus, tax conduct must be integral to debates of corporate social responsibility. Legitimacy theory and stakeholder theory underscore that companies necessitate societal and authoritative support and approval for sustained commercial continuity (Dowling & Pfeffer, 1975; Suchman, 1995). Consequently, firms dedicated to ESG principles are anticipated to refrain from excessively tax techniques, as such actions may present reputational concerns and erode public trust.

Several international empirical research corroborate this perspective. (Gaaya et al., 2017) demonstrate that enhanced governance systems and more extensive social responsibility disclosures correlate with reduced tax avoidance levels. (Laguir et al., 2015) discovered that firms with substantial corporate social responsibility (CSR) commitments typically incur greater tax liabilities on their profits. (Zeng, 2019) demonstrates that in China, an enhancement in CSR quality correlates with a reduction in tax avoidance. The findings suggest that enterprises that really adopt sustainability principles regard the payment of equitable taxes as an aspect of their social obligation.

Conversely, other literature indicates that the correlation between CSR and tax avoidance is not consistently linear. (Col & Patel, 2019) discovered that in certain settings, firms employing tax havens can preserve a positive societal image through corporate social responsibility (CSR) initiatives, suggesting that CSR may serve as a legitimacy strategy to mitigate the adverse effects of tax avoidance methods. (Drake et al., 2019) underscore the intricate relationship between tax avoidance and corporate social responsibility (CSR); under specific circumstances, tax avoidance may undermine the legitimacy of a company's social commitment. The variability of these data indicates that the correlation between CSR and tax avoidance remains inadequately elucidated and may differ among nations, sectors, and temporal contexts.

A first examination of the literature identifies multiple research gaps that necessitate additional investigation. Prior research has predominantly employed CSR metrics derived from narrative disclosures in annual reports, rather than utilizing comprehensive ESG scores or ESG disclosures that encompass environmental, social, and governance aspects based on independent rating agency techniques or relevant standards. This requires an evaluation of research outcomes, taking into account the implementation of more sophisticated and standardized ESG metrics.

This study was conducted utilizing a systematic literature review (SLR) methodology to thoroughly and methodically analyze the correlation between ESG and tax avoidance. The SLR methodology enables researchers to systematically locate, select, and synthesize pertinent empirical studies within a defined timeframe, specifically from 2020 to 2025, in a worldwide context and, if feasible, in the context of Indonesia and other developing nations. This study aims to delineate the correlation between ESG and tax avoidance through a systematic literature review (SLR).

This research holds significance for multiple reasons. This systematic literature review aims to deliver a thorough synthesis of the fragmented literature and pinpoint underexplored research gaps, especially in developing nations. This research can inform regulators, tax authorities, and policymakers about the degree to which companies' professed ESG commitments are manifested in more responsible tax practices. Moreover, the results of this research may aid investors and other stakeholders in evaluating the alignment between disclosed ESG performance and business tax procedures.

LITERATURE REVIEW

Stakeholder theory posits that firms are accountable not only to shareholders but also to a broader set of stakeholders, including governments, communities, employees, and the



environment (Freeman, 1984). From this perspective, firms are expected to create long-term value by balancing and addressing the interests of these stakeholders (Donaldson & Preston, 1995). Consequently, corporate decisions, particularly those related to sustainability reporting and tax strategies, should consider their implications for legitimacy and public trust (Deegan, 2002).

In the context of Environmental, Social, and Governance (ESG), stakeholder theory provides a relevant theoretical foundation, as ESG practices reflect firms' efforts to meet growing stakeholder expectations regarding social and environmental responsibility (Gillan et al., 2021). Firms with strong ESG performance are generally more transparent, ethically oriented, and focused on long-term value creation, which in turn enhances corporate reputation and firm value (Fatemi et al., 2018). Moreover, ESG disclosure serves as an important communication mechanism through which firms signal their commitment to sustainability to stakeholders (Eccles et al., 2014).

Regarding tax avoidance, stakeholder theory suggests that aggressive tax practices may harm key stakeholders, particularly governments and society that rely on tax revenues (Lanis & Richardson, 2012). Firms with strong ESG performance tend to avoid excessive tax avoidance due to reputational concerns and increased scrutiny from stakeholders (Hoi et al., 2013). In contrast, firms with weaker social responsibility orientations are more likely to engage in tax avoidance to maximize short-term profits. Therefore, ESG can function as an internal governance mechanism that constrains tax avoidance practices, consistent with stakeholder theory's emphasis on balancing the interests of multiple stakeholders (Davis et al., 2016).

Agency theory explains the relationship between principals (shareholders) and agents (managers), emphasizing potential conflicts of interest arising from information asymmetry and divergent objectives (Jensen & Meckling, 1976). In such settings, managers may pursue actions that serve their own interests rather than maximizing shareholder value. These agency conflicts can influence a wide range of corporate decisions, including those related to transparency, sustainability practices (ESG), and tax strategies.

From an agency perspective, ESG practices can function as an effective governance mechanism by enhancing transparency, accountability, and monitoring of managerial behavior (Gillan et al., 2021). Firms with strong ESG performance are generally associated with higher disclosure quality and more robust internal controls, which help reduce managerial opportunism and better align managerial actions with shareholders' long-term interests (Fatemi et al., 2018). Nevertheless, ESG activities may also be used opportunistically by managers to build personal reputation or justify the use of corporate resources that do not necessarily maximize firm value (Barnea & Rubin, 2010).

Regarding tax avoidance, agency theory offers two competing views. On the one hand, tax avoidance can be considered a value-enhancing strategy, as it increases after-tax cash flows available to shareholders. On the other hand, it may reflect managerial opportunism, particularly when complex tax strategies are used to obscure financial reporting or extract private benefits (Desai & Dharmapala, 2006). Firms with stronger ESG performance and governance structures tend to exhibit lower levels of aggressive tax avoidance, as enhanced monitoring and stakeholder scrutiny limit managerial discretion (Hoi et al., 2013). Therefore, within the agency framework, ESG can serve as a governance tool that constrains tax avoidance by reducing agency conflicts and improving corporate oversight. Robust ESG policies typically correlate with enhanced corporate governance and increased transparency, hence constraining managers' opportunities for excessive tax avoidance (Metwally et al., 2025).

Legitimacy theory posits that firms continuously seek to ensure that their operations are aligned with prevailing social norms, values, and expectations (Suchman, 1995). To maintain this "social license to operate," companies engage in various disclosure and communication



strategies to demonstrate accountability and conformity with societal expectations (Deegan, 2002). In this context, corporate reporting, particularly sustainability-related disclosures play a crucial role in shaping external perceptions and securing organizational legitimacy. Organizations endeavor to acquire and sustain legitimacy by conforming their actions and communications to established social norms and values. Within the framework of ESG, legitimacy theory posits that corporations can utilize ESG disclosures to cultivate a favorable reputation. Nevertheless, ESG may serve as a façade, concealing less ethical internal activities such as tax avoidance. Consequently, ESG serves as both an ethical regulatory instrument and a legitimacy tool (Amarna et al., 2025).

With respect to tax avoidance, legitimacy theory suggests that aggressive tax practices may undermine a firm's legitimacy, as they can be perceived as socially irresponsible and contrary to public interest (Lanis & Richardson, 2012). Consequently, firms that are concerned with maintaining legitimacy, particularly those with strong ESG commitments, tend to limit excessive tax avoidance to avoid negative public scrutiny and reputational damage (Hoi et al., 2013). In this regard, ESG can function as a signaling and legitimacy-building mechanism that constrains opportunistic tax avoidance and reinforces alignment with societal expectations.

METHODS

This research is a systematic literature review aimed at elucidating the correlation between ESG and tax avoidance. To comprehend the correlation between ESG and tax avoidance, the Preferred Reporting Items for Systematic Reviews and Meta-Analysis (PRISMA) was employed to systematically curate relevant literature that corresponds with the research aims. PRISMA offers a standardized framework that enhances the quality assurance of the review and replication process (Tedja et al., 2024). (Page et al., 2021) further note that PRISMA is intended to assist systematic reviewers in publicly documenting the rationale for the review, the methodologies employed, and the findings obtained. Consequently, this study will employ the PRISMA methodology for the literature analysis. This study employs the PRISMA methodology as outlined by (Setiya Yoga & Dinarjito, 2021).

This research has created various standards for the identification stages, as outlined by (Debrah et al., 2022). The identification phase involves analyzing the study scope, data sources, and information to be gathered from the reviewed studies. This study utilized data from the Scopus database to guarantee the integrity of the research findings, as per the reviewer's assessment (Tranfield et al., 2003). Based on the study by (Setiya Yoga & Dinarjito, 2021), the Scopus database ensures the quality of the selected literature, as it indexes publications that have undergone rigorous peer-review processes. Therefore, by relying on the Scopus database, this study is expected to produce findings that are both reliable and of high academic quality.

The publication years considered were from 2020 to 2025, coinciding with the commencement of the review process. The information gathered from the studies encompassed the title, author(s), year of publication, keywords, country/region of publishing, study objectives, results, and recommendations for further research. This study incorporates journal articles covering a wide range of research designs, including both qualitative and quantitative approaches. Furthermore, it takes into account studies employing diverse methodologies. Such an inclusive approach aims to ensure a more comprehensive and well-rounded understanding of the research domain.

The subsequent stage in the identification process is to define inclusion and exclusion criteria. This phase of the study is confined to scholarly articles sourced from the Scopus database. Articles not classified as Q1, Q2, Q3, or Q4 were excluded from this review. The literature review was performed from December 2025 to January 2026.



The subsequent step in the identification phase is the methodical search technique. The selection of articles is the most critical aspect of this strategy, since it establishes the foundation for deriving research results. Consequently, the literature search approach and databases were meticulously chosen. Scopus was the initial reference due to its status as an internationally acknowledged database (Dinarjito, 2022). The Wataseuake tool was utilized to search for these papers, employing the keywords ESG AND Tax. The most recent search occurred on January 4, 2026. The search produced 71 items. Additionally, eight articles lacked a Q1, Q2, Q3, or Q4 ranking, yielding a total of 63 articles utilized in the identification phase.

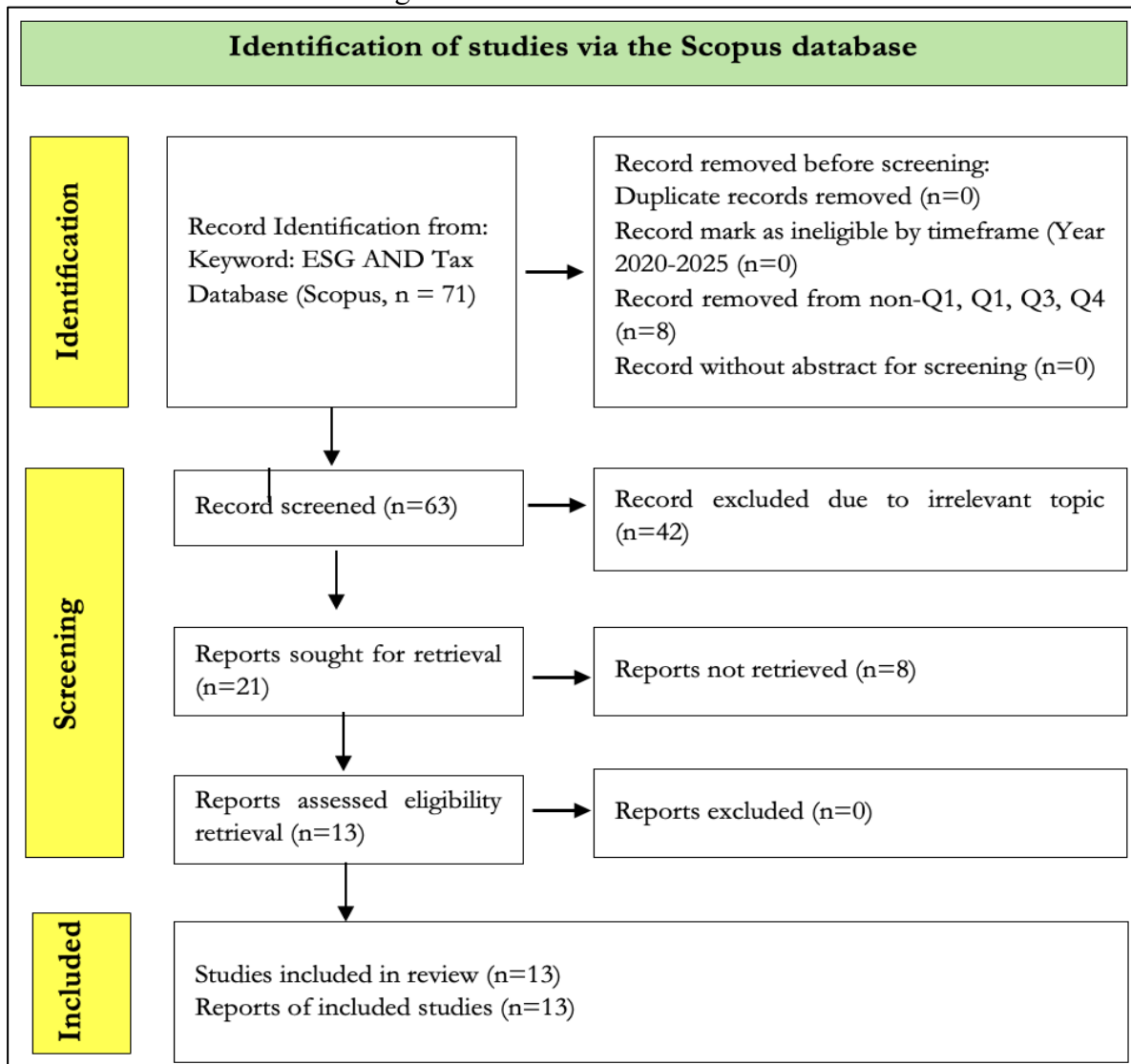
The second stage was screening to identify the papers chosen for the research discussion. The initial phase involved filtering the papers by an independent examination of the titles, abstracts, language and keywords to ascertain studies that fulfilled the eligibility requirements pertaining to the issue. The results identified 42 articles that were irrelevant to the research topic. All literatures captured are used english. The subsequent phase was selecting articles that were entirely accessible. Out of the accessible items, eight were not accessible. The screening phase yielded 13 articles for inclusion in this research review. Figure 1 illustrates the outcomes of the literature selection phase.

The final phase involves data extraction. The authors took data from each study and recorded it in a Microsoft Excel spreadsheet. The extracted data comprised the author, year, title, objectives, methods, results, and recommendations. The research findings were subsequently synthesized descriptively by evaluating the thesis and antithesis of the studies. The authors subsequently analyzed the extracted data to verify its alignment with the research objectives. The Mendeley Reference Manager was utilized to guarantee the accurate management of citations and documents during the process.

The concluding phase is data synthesis. This section delineates the research findings concerning the correlation between ESG and tax avoidance. The evaluation analyzes research findings to determine the correlation between ESG and tax avoidance. Conclusions and recommendations for this research will be produced based on the data synthesis.



Figure 1. Article Selection Process



RESULT AND DISCUSSION

General Characteristics

Based on the results of article searches using the keywords ESG and Tax in the Scopus database Q1 to Q4, the workload results in Figure 2 indicate that there are several main theme clusters that dominate the current research direction. According to Figure 2, larger letter sizes denote more keyword frequency, reflecting the principal emphasis in the pertinent scientific literature. These clusters comprise:

1. Primary Emphasis: ESG and Environmental Taxation

The predominant keywords were ESG performance, environmental protection tax, and tax avoidance. This signifies a robust association in the research about the impact of Environmental, Social, and Governance (ESG) performance on corporate tax avoidance. Researchers have thoroughly investigated whether organizations with elevated ESG scores are more likely to exhibit tax compliance or utilize environmental promises as a strategy for tax avoidance (greenwashing).

2. Environmental Innovation and Sustainability

The second principal subject pertains to business operational transformation, as indicated by the term's green innovation, sustainable development, and green technical innovation.



Discussions in this category generally concentrate on how tax policies, such as green taxes or environmental protection tax legislation, incentivize corporations to invest in eco-friendly technologies for long-term sustainability.

3. Administration and Clarity

The rise of terms like as governance, ESG disclosure, transparency, and board characteristics indicates that internal corporate systems are essential. Research in this domain typically investigates the impact of board composition and reporting transparency on the efficacy of ESG policies and adherence to environmental tax regulations.

Figure 2. Workcloud ESG AND Tax



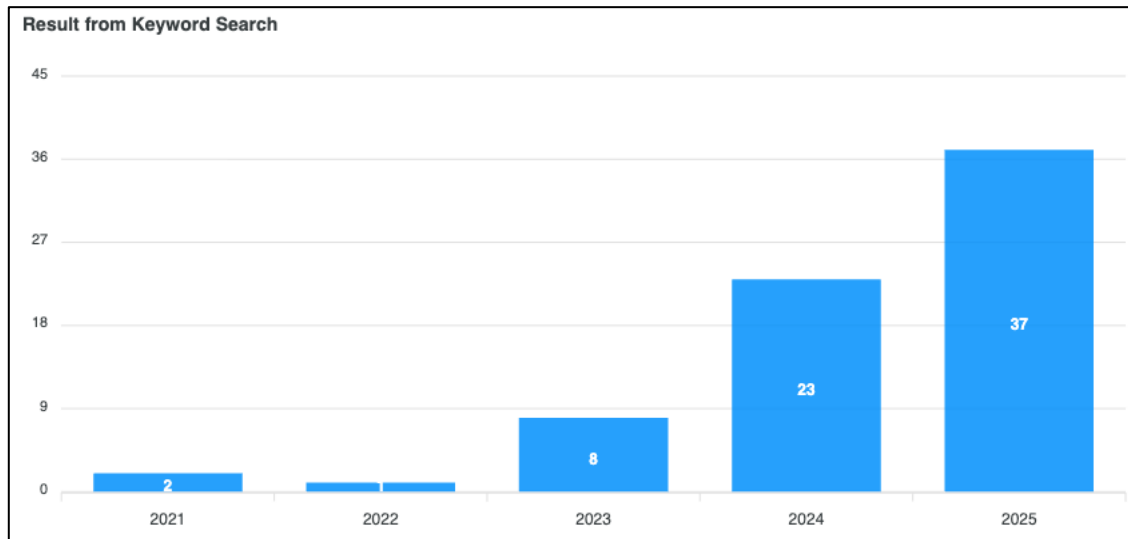
The aforementioned data indicate a substantial correlation between ESG problems and taxation. A causal relationship exists between ESG and taxation. ESG performance might affect a company's tax strategy. The efficacy of ESG performance is additionally affected by current tax policies, particularly their propensity to promote investment in sustainable technologies. Moreover, corporate governance might impact a company's tax strategy.

Research Trends on the Relationship Between ESG and Tax

The quantity of studies reflected in Chart 1 suggests that research on the correlation between ESG and taxation is beginning to expand. This is apparent from 2023 to 2025, when the number of studies climbed from 8 to 37. In 2025, the number of studies examining the relationship between ESG and taxation reached its peak. These findings corroborate the word cloud results, which suggest that research on ESG and taxation has commenced its development.



Chart 1. ESG AND Tax Research Trends



Discussion

This section examines two primary inquiries: the existence of a correlation between ESG and tax avoidance, and the nature and mechanisms of this correlation. The empirical research demonstrates a considerable, yet complex and non-linear, relationship between ESG and tax avoidance. The link demonstrates a complicated and contextual pattern, shaped by the quality of ESG implementation, corporate governance frameworks, and both internal and external supervision systems.

Several empirical studies captured in this research indicate that superior ESG performance and transparency are generally inversely associated to tax avoidance strategies. Several empirical studies reviewed in this research suggest that ESG performance is negatively associated with tax avoidance practices. This relationship is documented in studies by (Alomair & Metwally, 2025; Amarna et al., 2025; Elgharbawy & Aladwey, 2025; Jiang et al., 2024; Metwally et al., 2025). Specifically, (Amarna et al., 2025) examines charitable activities and finds that ESG disclosure has a negative effect on temporary tax differences, which are often associated with tax avoidance strategies. This finding implies that greater transparency through ESG disclosure can reduce tax avoidance behavior. Similar conclusions are also supported by (Alomair & Metwally, 2025; Khlifi et al., 2025; Metwally et al., 2025).

Furthermore, (Elgharbawy & Aladwey, 2025) demonstrates that higher ESG performance leads to a reduction in tax avoidance practices. From this perspective, ESG performance, particularly through improved governance mechanisms enhances corporate ethical standards, thereby discouraging unethical practices such as aggressive tax avoidance. This finding is consistent with the study by (Jiang et al., 2024), which also reports that ESG performance reduces tax avoidance.

Hongli (2024) further explains that ESG performance strengthens corporate governance by improving internal controls and enhancing external monitoring mechanisms. These improvements reduce managerial opportunism and limit the firm's ability to engage in tax avoidance practices. Overall, these findings reinforce the argument that ESG serves as an effective governance and transparency mechanism in mitigating tax avoidance behavior.

This result suggests that firms with robust ESG commitments are comparatively more judicious in their tax policy management and are inclined to eschew aggressive tax avoidance techniques. From a stakeholder theory perspective, ESG-oriented corporations' endeavor to sustain long-term relationships with stakeholders, including government and society, by exhibiting ethical business conduct. Taxes are considered a company's contribution to social



welfare; thus, excessive tax avoidance may jeopardize legitimacy and public trust (Khlifi et al., 2025).

Moreover, these results can be elucidated through agency theory. Robust ESG is typically linked to enhanced corporate governance, including board independence, the presence of a sustainability committee, and a more efficient internal control system (Elgharbawy & Aladwey, 2025; Jiang et al., 2024). These governance tools aim to restrict opportunistic managerial conduct that may exploit tax regulatory loopholes for immediate benefit. Enhanced transparency and accountability amplify the reputational risks and agency costs associated with tax avoidance tactics, hence prompting corporations to implement more conservative tax policies (Metwally et al., 2025).

ESG also can diminishes tax avoidance via indirect mechanisms. Organizations exhibiting robust ESG performance generally possess superior internal controls, thereby diminishing the likelihood of tax non-compliance (Jiang et al., 2024). Moreover, these corporations face heightened scrutiny from institutional investors and market analysts, resulting in increased external pressure to adopt transparent and responsible tax policies (Zhang & Yuan, 2025). Consequently, ESG serves as a non-financial governance tool that enhances the effectiveness of formal regulation in curbing tax avoidance practices.

Nonetheless, the findings of the research synthesis suggest that the correlation between ESG and tax avoidance is not invariably adverse. Several research has identified either a positive or negligible correlation, suggesting that ESG may serve as a legitimacy instrument under specific circumstances. (Chandrasena et al., 2025; Zhang & Yuan, 2025) report contrasting findings, indicating that ESG performance is positively associated with tax avoidance practices. This suggests that improvements in ESG performance may, in some cases, be accompanied by increased engagement in tax avoidance activities. Such findings imply that certain firms may strategically utilize strong ESG performance as a tool to obscure opportunistic behavior and create a more favorable image in the eyes of stakeholders.

Within the context of legitimacy theory, corporations may enhance ESG disclosures or engage in social and environmental initiatives to cultivate a favorable public image, all the while implementing an assertive tax policy. This issue typically arises when ESG is adopted superficially, primarily focusing on formal adherence to reporting standards, without significant alterations in managerial conduct (Amarna et al., 2025). In this setting, ESG disclosure functions as a veneer, diminishing stakeholder scrutiny of a company's tax policies. Certain studies indicate that firms with elevated ESG scores may nevertheless partake in tax avoidance, since the social legitimacy derived from ESG initiatives can alleviate the adverse reputational consequences of aggressive tax avoidance strategies. These findings affirm that the extent of ESG disclosure does not necessarily indicate the caliber of a company's ethical commitment.

Moreover, research indicates that the governance component of ESG may be positively associated with tax avoidance. Furthermore, this study provides an important finding that the governance component of ESG plays a crucial role in mitigating tax avoidance practices. (Jiang et al., 2024) explains that effective governance mechanisms, such as strengthened internal controls and enhanced external oversight can significantly reduce tax avoidance behavior. These governance structures help limit managerial opportunism and improve transparency, thereby discouraging aggressive tax strategies.

In addition, (Chandrasena et al., 2025) finds that the presence of a sustainability committee contributes to reducing tax avoidance practices. The existence of such committees reflects a firm's commitment to responsible governance and ethical business conduct, which in turn constrains opportunistic tax behavior. Overall, these findings highlight that governance, as a core pillar of ESG, serves as a key mechanism in curbing tax avoidance.



The two aforementioned studies primarily focus on organizational structure as a component of ESG that can be utilized to reduce tax avoidance practices. However, another critical dimension of governance lies in ethical considerations. (Elgharbawy & Aladwey, 2025) argue that firms need to establish governance frameworks that explicitly integrate ethical considerations by embedding ethical norms into corporate governance rules.

This perspective highlights that beyond formal structures, such as committees and control systems, ethical governance plays a vital role in shaping corporate behavior. By incorporating ethical principles into governance mechanisms, firms are more likely to discourage opportunistic actions, including aggressive tax avoidance, and align their practices with broader societal expectations.

The synthesis results further affirm that the correlation between ESG and tax avoidance is affected by multiple moderating and mediating factors. The study indicates that ESG mediates the connection between board features and tax avoidance, implying that the efficacy of corporate governance in mitigating tax avoidance is somewhat facilitated by ESG practices (Khlifi et al., 2025). The presence of a sustainability committee has been demonstrated to enhance ESG's capacity to mitigate tax avoidance, whilst its absence allows ESG to serve as a weapon for legitimacy (Chandrasena et al., 2025).

External pressure significantly influences the relationship between ESG and tax avoidance. Studies indicate that adverse media coverage of ESG matters can prompt corporations to diminish tax avoidance strategies in order to regain their legitimacy and public reputation. The media functions as an external oversight mechanism that supplements the roles of regulators and investors (Menicacci & Simoni, 2024).

A country's institutional environment, beside internal and external factors, also affects the relationship between ESG and tax avoidance. In underdeveloped nations, where law enforcement and regulatory supervision are feeble, ESG is more prone to being utilized as a vehicle for legitimacy. In contrast, in industrialized nations with strong regulatory frameworks, ESG serves as an efficient ethical control mechanism to mitigate aggressive tax avoidance methods (Elamer et al., 2024; Zhang & Yuan, 2025). This contextual disparity elucidates why empirical evidence regarding the correlation between ESG and tax avoidance frequently yields divergent outcomes across nations.

This discussion substantiates a substantial correlation between ESG and tax avoidance. This link is intricate and significantly reliant on the quality of ESG implementation, corporate governance framework, and the institutional context. ESG can serve as an ethical regulatory framework that mitigates tax avoidance when applied rigorously and underpinned by robust governance. Conversely, ESG can serve as a legitimizing mechanism that enables corporations to persist in tax avoidance when its application is merely symbolic. Consequently, ESG must be perceived as a strategic governance instrument rather than merely an independent element in elucidating company tax avoidance. The specifics of the papers utilized in this study are presented on appendix.

CONCLUSIONS

This study provides a systematic literature review of prior research examining the relationship between Environmental, Social, and Governance (ESG) practices and tax avoidance. The synthesis of existing studies reveals that the relationship between ESG and tax avoidance is neither uniform nor linear, but rather complex and highly context dependent. While a considerable body of literature indicates a negative association, suggesting that stronger ESG performance is linked to lower tax avoidance although other studies report positive or insignificant relationships, highlighting inconsistencies in empirical findings.



The review identifies several key factors that help explain these divergent results. First, the effectiveness of ESG in constraining tax avoidance depends on the quality and depth of ESG implementation, particularly whether ESG practices are substantive or merely symbolic. Second, the governance dimension of ESG emerges as a critical determinant, where strong internal controls, effective external monitoring, and the presence of sustainability committees contribute to reducing opportunistic tax behavior. Third, the institutional environment, including regulatory strength, media scrutiny, and investor pressure, significantly shapes how ESG practices influence corporate tax strategies.

Importantly, the findings suggest that ESG plays a dual role. On the one hand, ESG can function as a governance and transparency mechanism that mitigates tax avoidance. On the other hand, ESG may also serve as a legitimacy tool, enabling firms to maintain a favorable public image while engaging in aggressive tax practices. This duality underscores the need to distinguish between symbolic ESG adoption and substantive ESG integration, as the latter is more likely to reflect genuine ethical commitment.

Based on these findings, several recommendations can be proposed. For practitioners, firms should focus on strengthening the substance of ESG implementation, particularly by enhancing governance quality and embedding ethical considerations into corporate decision-making processes. ESG should not be treated merely as a reporting exercise, but as an integral part of corporate strategy and risk management.

For policymakers and standard setters, there is a need to improve the clarity, comparability, and enforcement of ESG disclosure standards, especially those related to tax transparency. More detailed and standardized tax-related disclosures within ESG frameworks may help reduce information asymmetry and prevent the use of ESG as a tool for legitimacy without substantive change.

Finally, for future research, this study highlights several important directions. Researchers are encouraged to explore the ESG–tax avoidance relationship using multi-country and cross-institutional perspectives, as well as to investigate the role of moderating and mediating variables such as governance quality, audit effectiveness, and regulatory enforcement. Additionally, future studies should further examine the distinction between symbolic and substantive ESG practices to better understand their implications for corporate behavior.

REFERENCES

- Alomair, M., & Metwally, A. B. M. (2025). Does ESG Disclosure Matter for the Tax Avoidance–Firm Value Relationship? Evidence from an Emerging Market. *Sustainability*, 17(9), 3836. <https://doi.org/10.3390/su17093836>
- Amarna, K., López-Pérez, M. V., Garde Sánchez, R., & Rodríguez Ariza, L. (2025). Information Disclosure and Its Relationship to Tax Practices: Stakeholder-Friendly or Legitimacy-Seeking? *Sustainable Development*, 33(3), 3906–3917. <https://doi.org/10.1002/sd.3333>
- Asmoro, P. S., Ramakrishnan, S., Arsyanda, S., Alfandia, N. S., Ningsih, D. N. C., Rokhimakhumullah, D. N. F., & Hidayat, K. (2024). ESG disclosure, governance, political connection, and tax Aggressiveness: what information is critical, and is more information always forceful? *Cogent Business & Management*, 11(1). <https://doi.org/10.1080/23311975.2024.2435600>
- Barnea, A., & Rubin, A. (2010). Corporate Social Responsibility as a Conflict Between Shareholders. *Journal of Business Ethics*, 97(1), 71–86. <https://doi.org/10.1007/s10551-010-0496-z>



- Chandrasena, S., Matthews, L., & Gerged, A. M. (2025). Does the presence of a sustainability committee strengthen the impact of ESG disclosure on tax aggressiveness? Insights from North America. *Review of Quantitative Finance and Accounting*, 65(3), 1039–1065. <https://doi.org/10.1007/s11156-024-01368-z>
- Col, B., & Patel, S. (2019). Going to Haven? Corporate Social Responsibility and Tax Avoidance. *Journal of Business Ethics*, 154(4), 1033–1050. <https://doi.org/10.1007/s10551-016-3393-2>
- Davis, A. K., Guenther, D. A., Krull, L. K., & Williams, B. M. (2016). Do Socially Responsible Firms Pay More Taxes? *The Accounting Review*, 91(1), 47–68. <https://doi.org/10.2308/accr-51224>
- de la Feria, R., & Walpole, M. (2020). The Impact of Public Perceptions on General Consumption Taxes. *British Tax Review*, 67(5), 637–669.
- Debrah, C., Chan, A. P. C., & Darko, A. (2022). Green finance gap in green buildings: A scoping review and future research needs. *Building and Environment*, 207, 108443. <https://doi.org/10.1016/j.buildenv.2021.108443>
- Deegan, C. (2002). Introduction. *Accounting, Auditing & Accountability Journal*, 15(3), 282–311. <https://doi.org/10.1108/09513570210435852>
- Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics*, 79(1), 145–179. <https://doi.org/10.1016/j.jfineco.2005.02.002>
- Donaldson, T., & Preston, L. E. (1995). The stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *Academy of Management Review*, 20(1), 65–91.
- Dowling, J., & Pfeffer, J. (1975). Organizational Legitimacy: Social Values and Organizational Behavior. *The Pacific Sociological Review*, 18(1), 122–136. <https://doi.org/10.2307/1388226>
- Drake, K. D., Lusch, S. J., & Stekelberg, J. (2019). Does Tax Risk Affect Investor Valuation of Tax Avoidance? *Journal of Accounting, Auditing and Finance*, 34(1), 151–176.
- Elamer, A. A., Boulhaga, M., & Ibrahim, B. A. (2024). Corporate tax avoidance and firm value: The moderating role of environmental, social, and governance (ESG) ratings. *Business Strategy and the Environment*, 33(7), 7446–7461. <https://doi.org/10.1002/bse.3881>
- Elgharbawy, A., & Aladwey, L. M. A. (2025). ESG performance, board diversity and tax avoidance: empirical evidence from the UK. *Journal of Financial Reporting and Accounting*. <https://doi.org/10.1108/JFRA-04-2024-0177>
- Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating role of disclosure. *Global Finance Journal*, 38, 45–64. <https://doi.org/10.1016/j.gfj.2017.03.001>
- Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Pitman.
- Gaaya, S., Lakhali, N., & Lakhali, F. (2017). Does family ownership reduce corporate tax avoidance? The moderating effect of audit quality. *Managerial Auditing Journal*, 32(7), 731–744. <https://doi.org/10.1108/MAJ-02-2017-1530>
- Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance. *Journal of Corporate Finance*, 66, 101889. <https://doi.org/10.1016/j.jcorpfin.2021.101889>
- 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(6), 2025–2059. <https://doi.org/10.2308/accr-50544>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)



- Jiang, H., Hu, W., & Jiang, P. (2024). Does ESG performance affect corporate tax avoidance? Evidence from China. *Finance Research Letters*, 61, 105056. <https://doi.org/10.1016/j.frl.2024.105056>
- Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate Sustainability: First Evidence on Materiality. *The Accounting Review*, 91(6), 1697–1724. <https://doi.org/10.2308/accr-51383>
- Khlifi, S., Chouaibi, Y., & Chouaibi, S. (2025). Do ESG practices mediate the relationship between board characteristics and tax avoidance in G20 countries? *Corporate Governance: The International Journal of Business in Society*, 25(2), 288–310. <https://doi.org/10.1108/CG-11-2023-0498>
- Kim, Y. M., & Lee, S. J. (2025). ESG controversies and corporate tax avoidance. *Applied Economics Letters*, 1–6. <https://doi.org/10.1080/13504851.2025.2532835>
- Laguir, I., Staglianò, R., & Elbaz, J. (2015). Does corporate social responsibility affect corporate tax aggressiveness? *Journal of Cleaner Production*, 107, 662–675. <https://doi.org/10.1016/j.jclepro.2015.05.059>
- Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, 31(1), 86–108. <https://doi.org/10.1016/j.jaccpubpol.2011.10.006>
- Menicacci, L., & Simoni, L. (2024). Negative media coverage of ESG issues and corporate tax avoidance. *Sustainability Accounting, Management and Policy Journal*, 15(7), 1–33. <https://doi.org/10.1108/SAMPJ-01-2023-0024>
- Metwally, A. B. M., Montash, A. A., Ali, S. A., & Yassin, M. (2025). Board characteristics and tax avoidance: the moderating effect of ESG disclosure. *Cogent Business & Management*, 12(1). <https://doi.org/10.1080/23311975.2025.2588063>
- Page, M. J., McKenzie, J. E., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., Shamseer, L., Tetzlaff, J. M., Akl, E. A., Brennan, S. E., Chou, R., Glanville, J., Grimshaw, J. M., Hróbjartsson, A., Lalu, M. M., Li, T., Loder, E. W., Mayo-Wilson, E., McDonald, S., ... Moher, D. (2021). The PRISMA 2020 statement: An updated guideline for reporting systematic reviews. *PLOS Medicine*, 18(3), e1003583. <https://doi.org/10.1371/journal.pmed.1003583>
- Setiya Yoga, B., & Dinarjito, A. (2021). THE IMPACT OF KEY AUDIT MATTERS DISCLOSURE ON COMMUNICATIVE VALUE OF THE AUDITOR'S REPORT: A SYSTEMATIC LITERATURE REVIEW. In *Jurnal Akuntansi dan Keuangan Indonesia* (Vol. 18, Number 1).
- Slemrod, J. (2019). Tax Compliance and Enforcement. *Journal of Economic Literature*, 57(4), 904–954. <https://doi.org/10.1257/jel.20181437>
- Suchman, M. C. (1995). Managing Legitimacy: Strategic and Institutional Approaches. *Academy of Management Review*, 20(3), 571–610. <https://doi.org/10.5465/amr.1995.9508080331>
- Tedja, B., Al Musadieq, M., Kusumawati, A., & Yulianto, E. (2024). Systematic literature review using PRISMA: exploring the influence of service quality and perceived value on satisfaction and intention to continue relationship. *Future Business Journal*, 10(1), 39. <https://doi.org/10.1186/s43093-024-00326-4>
- Tranfield, D., Denyer, D., & Smart, P. (2003). Towards a Methodology for Developing Evidence-Informed Management Knowledge by Means of Systematic Review. *British Journal of Management*, 14(3), 207–222. <https://doi.org/10.1111/1467-8551.00375>
- Yuan, W., Zhang, M., Guo, X., & Jiang, Y. (2025). ESG disclosure and firm long-term value: The mediating effect of tax avoidance. *Finance Research Letters*, 83, 107728. <https://doi.org/10.1016/j.frl.2025.107728>



- 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>
- Zhang, Y., & Yuan, L. (2025). The Effect of ESG Performance on Aggressive Tax Planning in China: The Moderating Role of Internal Control. *SAGE Open*, 15(2). <https://doi.org/10.1177/21582440251341282>



Appendix

No	Author	Year	Title	Result
1	Ahmed A., Elamer; Mounia, Boulhaga; Bassam A., Ibrahim (Elamer et al., 2024)	2024	Corporate tax avoidance and firm value: The moderating role of environmental, social, and governance (ESG) ratings	The study findings reveal that investors reward companies for robust ESG performance and regard them as more valuable. Nonetheless, when these organizations face increased tax obligations, the beneficial impact of ESG on company value is considerably diminished. These subtle conclusions underscore the significance of examining the interplay between tax strategies and ESG activities in influencing overall corporate value.
2	Khayria, Amarna; Maria Victoria, López-Pérez; Raquel, Garde Sánchez; Lázaro, Rodríguez Ariza (Amarna et al., 2025)	2025	ESG Information Disclosure and Its Relationship to Tax Practices: Stakeholder-Friendly or Legitimacy-Seeking?	The findings indicate that ESG disclosure positively influences permanent tax discrepancies arising from charity endeavors. The impact of ESG disclosure on transient discrepancies, potentially associated with tax avoidance strategies, is adverse. Organizations dedicated to ESG principles refrain from tax avoidance practices. The findings indicate that among financial metrics, only profitability positively moderates the connection between ESG disclosure and temporary tax differences. ESG disclosures may serve to obscure tax avoidance strategies.
3	Supun, Chandrasena; Lane, Matthews; Ali Meftah, Gerged (Chandrasena et al., 2025)	2025	Does the presence of a sustainability committee strengthen the impact of ESG disclosure on tax aggressiveness? Insights from North America	The research indicated that corporations with an emphasis on ESG shown greater tax aggression. This implies that certain corporations might leverage robust ESG performance to obscure aggressive tax avoidance practices. The study revealed that the existence of a sustainability committee can mitigate corporate tax aggressiveness and promote an ethical business culture, correlating increased ESG engagement



				with reduced tax aggressiveness. Sustainability committees are essential for firms to tackle wider social issues, such as tax aggressiveness, thereby influencing their sustainability agenda.
4	Hongli, Jiang; Wenjie, Hu; Pengcheng, Jiang (Jiang et al., 2024)	2024	Does ESG performance affect corporate tax avoidance? Evidence from China	The findings indicate that ESG performance markedly diminishes corporate tax avoidance. The mechanisms of influence encompass alleviating financial limitations, enhancing the quality of internal controls, and fortifying external oversight. The impact of ESG performance on tax avoidance is particularly significant in enterprises situated in areas with underdeveloped FinTech, as well as in firms exhibiting elevated agency charges and diminished audit quality. Our findings indicate that ESG performance is essential for mitigating tax avoidance behavior.
5	Wei, Yuan; Minqiang, Zhang; Xiaomei, Guo; Yihuo, Jiang (Yuan et al., 2025)	2025	ESG disclosure and firm long-term value: The mediating effect of tax avoidance	ESG disclosure significantly enhances the long-term value of corporations, with tax avoidance serving as a primary economic conduit. Subsequent study indicates that this favorable correlation is more pronounced among small enterprises and non-state-owned entities. This research enhances the financial literature regarding the effects of ESG on company outcomes.
6	Yong Mi, Kim; Seung Jae, Lee (<i>Kim & Lee, 2025</i>)	2025	ESG controversies and corporate tax avoidance	Our analysis of a sample of US corporations reveals that those with ESG controversies are more prone to participate in tax avoidance practices. Firms embroiled in scandals are viewed as possessing diminished legitimacy, and our findings indicate that such companies are more inclined to evade their tax obligations, exemplifying a basic aspect of corporate citizenship behavior.
7	Riandhita Sukowidyanti, Asmoro; Suresh, Ramakrishnan; Sifa,	2024	ESG disclosure, governance, political connection, and tax Aggressiveness:	The research findings demonstrate that no singular combination of variables is uniformly beneficial in



	Arsyanda; Nurlita Sukma, Alfandia; Devi Nur Cahaya, Ningsih; Dewi Noor Fatikhah, Rokhimakhumullah; Kadarisman, Hidayat (Asmoro et al., 2024)		what information is critical, and is more information always forceful?	diminishing TAG among Indonesian and Malaysian enterprises. Moreover, the study emphasizes the intricate structure of disclosure information, indicating that not all disclosed data holds equal significance in mitigating TAG. The study, while not validating the legitimacy argument, finds the 2018 and 2019 GRI standards as offering critical information for Indonesian companies to mitigate tax TAG. A significant contribution is the identification of tax-related disclosures inside the 2019 GRI framework as a substantial influence, enhancing comprehension of the relationship between ESG practices and tax aggression. The efficacy of ESG disclosures in mitigating TAGs is contingent upon the specificity and clarity of the reporting criteria. The 2019 GRI is notable for its rigorous standards concerning tax-related disclosures; however, integrating tax indicators from the 2018 GRI into the 2019 GRI could enhance the overall efficacy of ESG disclosures in addressing TAGs.
8	Abdelmoneim Bahyeldin Mohamed, Metwally; Abdelhameed A., Montash; Salah A., Ali; Mohamed, Yassin (Metwally et al., 2025)	2025	Board characteristics and tax avoidance: the moderating effect of ESG disclosure	The study findings indicate a substantial adverse effect of board governance attributes on tax avoidance. Moreover, ESG disclosure was recognized as having a beneficial moderating effect. Research indicates that ESG disclosure independently exerts a favorable influence on tax avoidance. Enhanced ESG disclosure correlates with a reduced propensity for tax avoidance.
9	Sawssen, Khelifi; Yamina, Chouaibi; Salim, Chouaibi (Khelifi et al., 2025)	2025	Do ESG practices mediate the relationship between board	The regression analysis indicates that ESG reporting mediates the association between the



			characteristics and tax avoidance in G20 countries?	board of directors and tax avoidance in G20 nations. Enhanced ESG Disclosure will mitigate Tax Avoidance practices.
10	Adel, Elgharabawy; Laila Mohamed Alshawadfy, Aladwey (<i>Elgharabawy & Aladwey, 2025</i>)	2025	ESG performance, board diversity and tax avoidance: empirical evidence from the UK	Elevated ESG ratings correlate with diminished tax avoidance, whereas superior governance scores within the ESG framework correlate with heightened tax avoidance. This indicates that contemporary governance systems emphasize compliance rather than ethics. Companies ought to establish governance frameworks that incorporate ethical considerations into their governance structures by embedding ethical norms into corporate governance rules.
11	Luca, Menicacci; Lorenzo, Simoni (<i>Menicacci & Simoni, 2024</i>)	2024	Negative media coverage of ESG issues and corporate tax avoidance	The study's findings indicate that adverse media coverage of ESG issues is inversely connected with tax avoidance, suggesting that the media serves as an external regulator for corporate taxation.
12	Yuxuan, Zhang; Leihong, Yuan (<i>Zhang & Yuan, 2025</i>)	2025	The Effect of ESG Performance on Aggressive Tax Planning in China: The Moderating Role of Internal Control	This paper provides distinctive data from publicly listed corporations in China, the largest rising country, indicating a favorable correlation between ESG performance and Aggressive Tax Planning.
13	Mohammed, Alomair; Abdelmoneim Bahyeldin Mohamed, Metwally (<i>Alomair & Metwally, 2025</i>)	2025	Does ESG Disclosure Matter for the Tax Avoidance–Firm Value Relationship? Evidence from an Emerging Market	Statistical study indicates a strong negative effect of tax avoidance on corporate value. Moreover, ESG disclosure has a detrimental moderating effect as it mitigates the adverse influence of tax avoidance on business value, culminating in a net positive effect. This study is substantiated by two principal conclusions derived from the empirical findings. There exists a significant negative association between tax avoidance and corporate value,



				indicating that aggressive tax strategies may erode investor confidence, since investors see them unfavorably due to their implications for transparency and agency costs. This analysis reveals that the connection is positively influenced by ESG disclosure, indicating that robust ESG policies enhance market performance and stakeholder trust while alleviating the adverse effects of tax avoidance on corporate value.
--	--	--	--	--