



Determinant of Tax Avoidance with Company Size as a Moderating Variable: Empirical Study in Indonesia

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Abstract

This study aims to investigate and analyze the impact of environmental, social, and governance (ESG) performance, institutional ownership, and foreign ownership on tax avoidance practices. In addition, this study also examines how company size acts as a variable that moderates the relationship. Using a quantitative approach, this study uses data from 21 purposively selected publicly listed manufacturing companies during the 2019-2023 period. Panel data linear regression analysis and moderation regression analysis were used in data processing.

The research findings show that ESG performance, institutional ownership, and foreign ownership have a significant influence on tax avoidance in listed manufacturing companies during the 2019-2023 period. Furthermore, this study reveals that firm size can strengthen the influence of ESG performance, institutional ownership, and foreign ownership on tax avoidance tendencies.

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INTRODUCTION

Tax has been the main source of state revenue for Indonesia for decades. Tax revenues contributed more than 70% of state revenues in the State Budget over the past decade. This shows that taxes play a vital role in the economy and national development. The manufacturing sector has been the largest tax contributor in terms of revenue per sector. However, its contribution has decreased during the 2021-2023 period. This condition is in contrast to the Gross Domestic Product of the manufacturing sector which experienced growth in the same period. This condition requires further study to analyze the causes of the disparity between the GDP growth of the manufacturing sector and its contribution to tax revenues. Companies record tax payments as a burden that can reduce

company profits. Management is concerned that tax costs will impact the company's profitability and hinder the company from expanding (Yopie and Evilia, 2022). This triggers management to avoid taxes in order to minimize the company's tax costs.

In Indonesia, tax avoidance practices can be seen from several cases of tax avoidance carried out by public companies as shown in table 1.1, one of which is PT Bentoel Internasional Investama Tbk. The practice of tax avoidance by PT Bentoel Internasional Investama Tbk through payment of loan interest and royalties to its parent company, British American Tobacco, is estimated to cost the state up to USD 14 million (IDR 210 billion) per year. The loss was caused by the reduction of the company's tax obligations in Indonesia (Cobham, 2019). In this case, the Tax Court of the Republic of Indonesia has issued a decision number Put-014519/15/2020/PP/M.VIA of 2023, which stated that PT Bentoel Internasional Investama Tbk was proven to have avoided paying taxes amounting to IDR 77 billion. Previous studies have revealed several determinants of corporate tax avoidance, including: good corporate governance (GCG) mechanisms including ownership structure (Dakhli, 2022; Hasan et al., 2022), board of directors composition (Alkurdi and Mardini, 2020), and audit quality (Deslandes et al., 2020; Riquen et al., 2020); ESG practice performance (Yoon et al., 2021); and company characteristics such as profitability and business scale (Hossain et al., 2024). Previous studies specifically show a significant influence of ESG performance and ownership structure on corporate decisions related to tax avoidance (Yoon et al., 2021; Kovermann & Velte, 2019).

Tax avoidance is a practice carried out by taxpayers to minimize the amount of tax payable by exploiting loopholes in tax regulations through tax planning (Jones et al., 2020). Although legal, tax planning carried out by companies often deviates from the substance of tax law, thereby damaging the integrity of the system and creating injustice between taxpayers (Freedman, 2023). Tax avoidance is identified when the transaction or scheme designed does not have a substantial business basis or personal interest (Mappadang, 2021). This study examines the effect of ESG performance, institutional ownership, and foreign ownership on tax avoidance behavior of public companies in the manufacturing sector during 2019–2023. The period 2019–2023 was chosen in this study because it covers the COVID-19 pandemic period which significantly affected the financial and operational performance of companies, including fiscal strategies such as tax avoidance. The pandemic caused global and domestic economic pressures, prompting companies to adjust their business strategies to maintain sustainability. These changes can impact ESG performance, stock ownership, and corporate tax decisions. In addition, the post-pandemic economic recovery in the final years of the period allows researchers to analyze the dynamics of corporate adaptation to the crisis, making this period relevant and strategic to study.

The motivation for this study was motivated by the mixed findings in previous studies related to these factors. The manufacturing sector was chosen as a sample because this sector contributes significantly to tax revenue, although it has declined over the past three years. This study also tests company size as a moderator and expands the observation period as a differentiator from previous studies. This study selects 21 manufacturing companies that have ESG performance scores on Bloomberg. The following is the formulation of the research problem based on the background explained previously.

1. Does environmental, social, and governance (ESG) performance affect tax avoidance?

2. Does institutional ownership affect tax avoidance?
3. Does foreign ownership affect tax avoidance?
4. Does company size moderate the effect of environmental, social, and governance (ESG) performance on tax avoidance?
5. Does company size moderate the effect of institutional ownership on tax avoidance?
6. Does company size moderate the effect of foreign ownership on tax avoidance?

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory emphasizes the moral responsibility of corporate managers to consider and balance the interests of all stakeholders affected by business decisions (Freeman, 1984). Stakeholder theory explains how stakeholders reward a company's ESG performance, in the form of increased investor confidence and reduced risks faced by the company (Abdelfattah and Aboud, 2020). In the context of tax avoidance, managers need to balance financial gains with potential losses experienced by stakeholders such as the government and society, as well as maintain the integrity and sustainability of the company. Based on this theory, good ESG performance indicates a company's compliance with its tax obligations as a form of contribution to the government and society through the taxes paid. Therefore, this study uses stakeholder theory to explain the effect of ESG performance on tax avoidance practices.

Agency Theory

Agency theory proposed by Jensen and Meckling (1976) explains the relationship between principals (shareholders) and agents (company managers), where company managers have the responsibility to control the company to maximize shareholder wealth. The difference in the roles of owners (shareholders) and controllers (managers) of the company has the potential to create a conflict of interest, known as the agency problem. Company tax policy is driven by the interests of management and shareholders, so that tax avoidance practices depend on the interests of both parties. Tax avoidance by companies generally increases cash flow and company value. This motivates managers to avoid taxes so that the company's after-tax profit increases, both for the benefit of the managers themselves and to meet shareholder expectations (Duhoon and Singh, 2023). However, this has the potential to trigger opportunistic behavior of managers, hinder performance evaluation by shareholders, and increase agency costs. Therefore, external supervision is needed, especially through an ownership structure that can reduce the negative impact of tax avoidance on the company's reputation (Alkurdi and Mardini, 2020). Based on this, this study uses agency theory to analyze the influence of ownership structure, consisting of institutional ownership and foreign ownership, on tax avoidance practices.

Tax avoidance

Tax avoidance is a practice carried out by taxpayers to reduce tax liabilities through legal tax planning (Jones et al., 2020). The dependent variable is a variable that is of primary concern to researchers to understand and explain its variability (Sekaran and Bougie, 2016). The dependent variable in this study is tax avoidance. Effective tax rate (ETR) and book tax difference (BTD) are proxies that are often used in many studies to measure tax avoidance (Yoon et al., 2021). ETR is obtained from the result of dividing the total tax burden listed in the financial statements by profit before tax (Hanlon and

Heitzman, 2010). ETR has been modified to produce several variations of ETR that are often used in research, namely GAAP ETR, cash ETR and cash flow ETR (Aronmwan and Okaiwele, 2020). GAAP ETR is a widely used indicator and is most suitable for measuring corporate tax avoidance behavior (Gaaya et al., 2017) because it can show corporate tax avoidance strategies, both permanent and temporary (Dyrenge et al., 2017; Jarboui et al., 2020). This study uses the GAAP ETR indicator to measure tax avoidance.

ESG Performance

Several rating agencies such as MSCI, S&P Global, Bloomberg, Eikon Revinitiv, and Sustainalytics have offered special environmental, social and governance (ESG) performance rating services to evaluate corporate performance in the environmental, social and corporate governance fields. This study uses ESG performance scores provided by Bloomberg ESG Data Service to measure ESG performance. The selection of ESG performance scores uses Bloomberg data because the ESG performance score data produced has gone through a standardized and objective calculation process by a competent independent party, resulting in reliable data.

Institutional Ownership

Institutional ownership is the amount of share ownership in a company owned by institutions. These institutions can be investment companies, banking companies, insurance companies, or other companies (Tamrin and Maddatuang, 2019:72). Institutional ownership plays a role in supervising and influencing managers to avoid selfish behavior (Safitri and Oktris, 2023). Thus, a high proportion of institutional ownership is positively correlated with tax compliance of company management and reduces tax avoidance practices (Darsani and Sukarta, 2021). To measure institutional ownership, this study uses an indicator that is widely used in previous studies, namely the percentage of shares owned by institutional shareholders (Qawqzeh, 2023; Dakhli, 2022; Darsani and Sukharta, 2021; Alkurdi and Mardini, 2020).

Foreign Ownership

Foreign ownership is a form of share ownership in a company owned by individuals, institutions or foreign governments in a company (Try et al., 2021). Foreign ownership is considered to be used as an effective mechanism to monitor company activities because it has international scale experience and better independence in carrying out corporate governance in various countries (Egger et al., 2010). This study uses an indicator of the percentage of shares owned by foreign shareholders to measure foreign ownership, (Syukur and Jongsureyapart, 2023; Hasan et al., 2022; Maisaroh and Setiawan, 2021; Suranta et al., 2020).

Company Size

Company size is the scale of the company's size that can be classified in various ways, including revenue size, total assets and total equity (Brigham and Houston, 2018). Company size based on total asset value comes from the manager's assumption that companies with large total assets are relatively stable and able to generate large profits. Large companies have wider stakeholders, so company policies will have a greater impact on the interests of many parties compared to small companies. Company size is measured using the natural logarithm indicator of the company's total assets (Hossain et al., 2024; Paramita et al., 2022; Saragih et al., 2021).

METHOD

This study uses a causal quantitative method. The population in this study is all manufacturing sector companies listed on the Indonesia Stock Exchange for the period 2019 - 2023. The sample used in this study was selected using the purposive sampling method because this study requires specific data from selected samples based on criteria set by the researcher to achieve the research objectives.

Table 1. Research Sample Selection Process

Information	Amount
Number of manufacturing companies listed on the IDX for the period 2019 – 2023	148
Minus:	
Number of companies that do not have an ESG score for the 2019–2023 consecutive period in the Bloomberg database	120
Number of companies that reported a pre-tax loss between 2019–2023	7
Number of research samples	21
Number of years of observation	5
Amount of research data	105

RESULTS AND DISCUSSION

Result

Descriptive Statistics

Descriptive statistical analysis was used to provide an overview of the variables involved in this study.

Table 2. Descriptive Statistics

	TA	ESG	INST	FORE	SIZE
Minimum	0,015	21,145	0,267	0,011	27,382
Maximum	1,354	60,879	0,998	0,982	33,731
Mean	0,256	45,028	0,872	0,413	31,057
Std. Deviasi	0,148	11,416	0,190	0,348	1,444
Obs	105	105	105	105	105

Source: Data processed by researchers with Eviews 12 Lite. 2025

- 1) Tax Avoidance (TA). The indicator used to measure tax avoidance in this study is the effective tax rate (ETR). This study found the ETR value of PT Pabrik Kertas Tjiwi Kimia Tbk. in 2022 as the lowest ETR, which was 0.015 or 1.5%. The ETR value of PT Astra Otoparts Tbk. in 2020 of 1.354 or 135.4% was recorded as the highest ETR value. This very large range of ETR values indicates a variation in tax avoidance behavior among the companies that were the study samples. The average ETR value of 0.256 or 25.6% is almost the same as the corporate income tax rate in 2019 and 2020, which was 25%, and from 2021 to 2023, which was 22%, which leads to the conclusion that most companies in this study tend to comply with their tax obligations. The standard deviation of 0.148, which is lower than the average value, indicates that tax avoidance behavior (measured by ETR) among sample companies in this study tends to be homogeneous.

- 2) The lowest ESG performance in this study was 21.145, recorded by PT Tempo Scan Pacific Tbk in 2019, while the highest ESG performance of 60.879 was achieved by PT Astra International Tbk in 2022 and 2023. The average ESG performance of 45.028 indicates that the ESG performance of the sample companies in this study is still relatively low, with an assessment scale of 0 - 100. This is reinforced by the standard deviation of 11.416 which is smaller than the average value, indicating that the data tends to be centered around the average value.
- 3) The lowest institutional ownership was recorded at 0.267 or 26.7% by PT Barito Pacific Tbk in 2020, while the highest institutional ownership, namely 0.998 or 99.8%, was owned by PT Indofood CBP Sukses Makmur Tbk and PT Indocement Tungal Prakarsa Tbk in 2019. The average institutional share ownership in the companies studied was 0.872 or 87.2%, indicating that the majority of the company's shares in this study were owned by institutions.
- 4) The lowest foreign ownership of 0.011 or 1.1% was recorded by PT H.M. Sampoerna Tbk in 2023, while the highest foreign ownership of 0.982 or 98.2% was recorded by PT Darya-Varia Laboratoria Tbk in 2021. The significant difference between the minimum and maximum values indicates the existence of diversity in foreign ownership among the companies studied. The average ownership was recorded at 0.413 or 41.3% with a standard deviation of 0.348 or 34.8%. This confirms that the level of foreign ownership is very diverse.
- 5) The smallest company size in the sample, which is 27,382, was recorded at PT Indo Acidatama Tbk in 2019, while the largest company size, which is 33,371, was owned by PT Astra International Tbk in 2023. The average company size in this study was 31,057 with a standard deviation of 1.444 indicating that the sample companies in this study were relatively uniform.

Panel Data Estimation Model Selection

The selection of panel data estimation models aims to identify the most suitable model and produce more efficient estimates from three choices, namely the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). The following are the results of selecting panel data estimation models using the Chow Test, Hausman Test, and Lagrange Multiple (LM) Test.

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob
Cross-section F	10.748678	(20,80)	0.0000
Cross-section Chi-square	137.010203	20	0.0000

Source: Data processed by researchers with Eviews 12 Lite. 2025

The results of the chow test show a probability value (significance) of 0.0000 for Cross-section F, which is smaller than 0.05. Thus, this study is more suitable to use the Fixed Effect Model (FEM).

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
Cross-section random	58.684830	4	0.0000

Source: Data processed by researchers with Eviews 12 Lite. 2025

The Hausman test results show a probability value (significance) of 0.0000 in the Cross-section Random model, which is below the bar threshold of 0.05. This result indicates the selected Fixed Effect Model (FEM).

Table 5. Results of Panel Data Regression Analysis of Variance Test

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	1.139780	0.170013	6.704061	0.0000
ESG	-0.005875	0.001558	-3.770552	0.0003
INST	-1.327132	0.101405	-13.08745	0.0000
FORE	1.290496	0.375518	3.436578	0.0009

Source: Data processed by researchers with Eviews 12 Lite. 2025

Table 6. Results of Panel Data Moderation Regression Analysis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob
Cc	-10.01378	3.034820	-3.299629	0.0015
ESG	0.082889	0.030586	2.710050	0.0083
INST	6.367689	2.801199	2.273201	0.0258
FORE	-8.090491	2.926501	-2.764561	0.0071
SIZE	0.367885	0.098632	3.729890	0.0004
ESG_SIZE	-0.002943	0.000960	-3.065542	0.0030
INST_SIZE	-0.253517	0.090967	-2.786900	0.0067
FORE_SIZE	0.305532	0.097130	3.145610	0.0024

Source: Data processed by researchers with Eviews 12 Lite. 2025

Classical Assumption Test

Table 7. Multicollinearity Test Results

	ESG	INST	FORE
ESG	1,000000	0,321347	0,304520
INST	0,321347	1,000000	0,279593
FORE	0,304520	0,279593	1,000000

Source: Data processed by researchers with Eviews 12 Lite. 2025

The multicollinearity test results presented in the table above show that the correlation coefficient values between the independent variables are all below 0.8, which indicates that there is no multicollinearity problem in this study.

Table 8. Heteroskedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
Cc	0.023350	0.209264	0.111580	0.9114
ESG	-0.001339	0.001607	-0.833147	0.4072
INST	-0.150956	0.203195	-0.742912	0.4597
FORE	0.523152	0.399487	1.309559	0.1940

Source: Data processed by researchers with Eviews 12 Lite. 2025

The test results show the probability (significance) value for each independent variable is more than 0.05, which indicates the absence of heteroscedasticity in this research data.

Model Fit Test Uji Koefisien Determinasi (R²)

Table 9. Coefficient of Determination Test Results (R²)

Variable	Coefficient	Std. Error	t-Statistic	Prob
Cc	1.139780	0.170013	6.704061	0.0000
ESG	-0.005875	0.001558	-3.770552	0.0003
INST	-1.327132	0.101405	-13.08745	0.0000
FORE	1.290496	0.375518	3.436578	0.0009

Source: Data processed by researchers with Eviews 12 Lite. 2025

Based on the results of panel data regression analysis using the fixed effect model as presented in the table above, the Adjusted R-Squared value was obtained at 0.768073 or 76.80%. This figure indicates that 76.80% of the variation in tax avoidance can be caused by ESG performance, institutional ownership, and foreign ownership, while the remainder, namely 23.20%, is influenced by other factors not examined.

Model Feasibility Test (F statistical test)

Table 10. Model Feasibility Test Results (F statistical test)

Variable	Coefficient	Std. Error	t-Statistic	Prob
Cc	1.139780	0.170013	6.704061	0.0000
ESG	-0.005875	0.001558	-3.770552	0.0003
INST	-1.327132	0.101405	-13.08745	0.0000
FORE	1.290496	0.375518	3.436578	0.0009

Source: Data processed by researchers with Eviews 12 Lite. 2025

The panel data regression test with a fixed effect model as shown in the table above produces an F statistical probability value of 0.000000 which is smaller than 0.05. This indicates that ESG performance, institutional ownership and foreign ownership collectively have a significant impact on tax avoidance of companies in the research sample. Thus, the model is valid and further hypothesis testing can be carried out.

Hypothesis Testing

Individual Parameter Significance Test (T statistical test)

Table 11. Individual Parameter Significance Test (t statistical test)

Variable	Coefficient	Std. Error	t-Statistic	Prob
Cc	1.139780	0.170013	6.704061	0.0000
ESG	-0.005875	0.001558	-3.770552	0.0003
INST	-1.327132	0.101405	-13.08745	0.0000
FORE	1.290496	0.375518	3.436578	0.0009

Source: Data processed by researchers with Eviews 12 Lite. 2025

- 1) ESG performance has a significant influence on tax avoidance, as shown by the significance value of 0.0000 which is less than 0.05 and a negative coefficient of -0.001339. This negative coefficient indicates that increasing ESG performance will reduce the value of the Effective Tax Rate, which means it will further encourage tax avoidance practices.

- 2) Institutional ownership (INST) is proven to have a significant effect on tax avoidance, as shown by the significance value of 0.0000 which is lower than the threshold of 0.05 and a negative coefficient of -1.327132. Just like ESG performance, this negative coefficient shows that an increase in institutional ownership is correlated with a decrease in the effective tax rate, which means companies tend to be more active in avoiding tax obligations.
- 3) Foreign ownership (FORE) is proven to significantly influence tax avoidance practices, as shown by the significance value of 0.0000 which is lower than the threshold of 0.05, with a positive coefficient of 1.199595. In contrast to ESG performance and institutional ownership, an increase in foreign ownership is positively correlated with an increase in the effective tax rate, which means it can reduce tax avoidance practices

Moderated Regression Analysis Test (Moderated Regression Analysis)

Table 12. Moderated Regression Analysis Test Results (Moderated Regression Analysis)

Variable	Coefficient	Std. Error	t-Statistic	Prob
Cc	-10.01378	3.034820	-3.299629	0.0015
ESG	0.082889	0.030586	2.710050	0.0083
INST	6.367689	2.801199	2.273201	0.0258
FORE	-8.090491	2.926501	-2.764561	0.0071
SIZE	0.367885	0.098632	3.729890	0.0004
ESG_SIZE	-0.002943	0.000960	-3.065542	0.0030
INST_SIZE	-0.253517	0.090967	-2.786900	0.0067
FORE_SIZE	0.305532	0.097130	3.145610	0.0024

Source: Data processed by researchers with Eviews 12 Lite. 2025

- 1) The results of the analysis show that company size (SIZE) plays a role in influencing the relationship between ESG performance and tax avoidance, as evidenced by the interaction coefficient of -0.002943 and the significance level of 0.0030 which is lower than 0.05. The negative coefficient indicates that the larger the company, the stronger the impact of ESG performance on the company's efforts to avoid paying taxes.
- 2) The results of the analysis show that there is a significant interaction between company size (SIZE) and institutional ownership (INST) with a coefficient of -0.253517 and a probability of 0.0067 which is less than 0.05. This indicates that company size acts as a moderating variable in the relationship between institutional ownership and tax avoidance practices. This negative coefficient indicates that company size (SIZE) increases the impact of institutional ownership on the company's tendency to avoid tax.
- 3) The interaction between company size (SIZE) and foreign ownership (FORE) produces a coefficient of 0.305532 with a probability level of 0.0024, which is smaller than 0.005. This indicates that company size acts as a moderating variable that influences the relationship between foreign ownership and tax avoidance. The negative sign on the coefficient means that the larger the company size, the stronger the influence of foreign ownership on tax avoidance.

Discussion

Tax Avoidance from the Perspective of Agency Theory and Stakeholder Theory

Tax avoidance can be analyzed through two main perspectives, namely agency theory and stakeholder theory. Agency theory explains tax avoidance as a result of a conflict of interest between managers (agents) and owners (principals). Tax avoidance allows managers to hide financial performance and maximize personal profits, especially if oversight is weak (Desai and Dharmapala, 2006). Managers can exploit tax policies to increase short-term profits for their compensation. Research by Dyreng et al. (2010) supports this, showing the significant influence of managers on corporate tax avoidance policies, which is consistent in the long run. This suggests that tax avoidance reflects not only corporate policy, but also the individual motivations of decision makers. In contrast, the study of Chen et al. (2010) show that companies with family ownership structures or management with share ownership tend to be more prudent, because their incentives are aligned with long-term shareholder interests. Minnick and Noga (2010) added that board of directors' supervision is effective in reducing opportunistic tax avoidance practices. Stakeholder theory expands this perspective by considering the impact of tax avoidance on a company's relationships with society at large, including government, consumers, and the media. This theory emphasizes the importance of meeting social expectations and maintaining public legitimacy. Lanis and Richardson (2018) find that aggressive tax avoidance has a negative impact on a company's reputation. This could be seen as an indication of a lack of commitment to corporate social responsibility, as it is not making appropriate tax contributions to support economic growth. External pressure, such as from the media, civil society organizations and regulators (Bradshaw et al., 2018), also encourages companies to be more careful in tax planning. Therefore, aggressive tax avoidance creates a conflict between financial efficiency and social accountability, potentially threatening business continuity.

Agency theory and stakeholder theory complement each other in explaining tax avoidance. Agency theory focuses on internal conflicts that drive opportunistic behavior, while stakeholder theory emphasizes social impacts and the importance of public legitimacy. These two theories show that tax avoidance is not just a financial decision, but also a reflection of corporate governance, business ethics and commitment to social responsibility.

The Influence of Environmental, Social, and Governance (ESG) Performance on Tax Avoidance

Testing the data shows that ESG performance significantly influences tax avoidance practices in the sample companies, in accordance with the hypothesis of this research. However, this finding is different from most previous studies which concluded a negative influence of ESG performance on tax avoidance, such as the study of Jiang et al. (2024), Bressan (2023), Hidayat and Zuhroh (2023), Lee et al. (2021) and Yoon et al. (2021). The research argues that companies with good ESG performance tend to avoid tax avoidance practices due to management's focus on corporate sustainability through good governance, careful risk management, and consideration of long-term impacts caused by the specific characteristics of manufacturing companies in Indonesia, economic conditions during the COVID-19 pandemic, or differences in ESG score assessments. In addition, the pressure to maintain profitability amid economic uncertainty may cause companies to continue implementing tax efficiency strategies despite having high ESG commitments. Therefore, a deeper understanding of the internal dynamics of companies

and the macroeconomic context that influence tax decisions is needed.

This research proves a positive correlation between ESG performance and tax avoidance practices. This finding is consistent with agency theory (Jensen & Meckling, 1976), which describes a company as an agreement between capital owners and managers with the main goal of maximizing the capital owner's wealth. In this context, ESG practices are used by management to achieve profits, thereby encouraging a balance between social and environmental responsibility and the interests of shareholders. Management views reducing the tax burden as an effort that benefits shareholders. Despite being aware of the risks, the drive to minimize taxes motivates management to improve ESG performance to obscure tax avoidance practices, or even as a strategy to profit from the disclosure of ESG information (Elamer et al., 2024). In essence, companies that engage in tax avoidance tend to increase ESG transparency to reduce public suspicion and meet society's expectations.

The results of this study are consistent with the findings of Abdelfattah & Aboud (2020) and Mukhtaruddin et al. (2024), which shows the positive influence of ESG performance on tax avoidance practices. Mukhtaruddin et al. (2024) further explain that this practice is influenced by ESG activities because the allocation of funds for ESG initiatives can be used by management to minimize corporate tax obligations. In the context of taxation in Indonesia, companies can recognize costs related to ESG initiatives, such as donations for national disasters, research and development, social infrastructure development, and sports coaching as a deduction from taxable income. Thus, these expenses reduce the company's taxes owed.

The Effect of Institutional Ownership on Tax Avoidance

The results of data analysis indicate that institutional ownership significantly influences tax avoidance practices in the sample companies, so this research hypothesis is accepted. According to the results of this research, an increasing composition of institutional ownership in a company increases the possibility of the company avoiding taxes. This happens because institutional investors have sufficient resources and capabilities to determine corporate tax strategies in order to reduce the taxes paid by the company.

Theoretically, tax avoidance practices can increase the cash flow flowing into the company and will ultimately increase the returns (dividends) received by shareholders. Therefore, institutional shareholders will encourage tax avoidance practices by modifying resources for tax strategies in order to reduce the company's tax obligations, for example by implementing transfer pricing. In the context of taxation in Indonesia, since 2020, tax provisions regulate that dividends received by Indonesian companies are not subject to income tax. This provides an incentive for institutional investors to obtain large dividends (without being taxed) by encouraging company managers to reduce the company's tax burden.

The findings of this study support the research of Jiang et al. (2021), Alkurdi (2020) and Khan (2017) who concluded that institutional ownership can encourage companies to practice tax avoidance. Alkurdi (2020) argues that institutional investors ignore their monitoring function regarding the distribution of company profits to assist management and support them in reducing the tax burden borne by the company. On the other hand, the results of Qawqzeh's research (2023); Dakhli, (2022) and Boussaidi and Hamed-Sidhom (2021) conclude that institutional ownership influences a company's decision not to avoid tax.

However, contrary to the above results, among others, were conducted by Qawqzeh et al. (2023), Dakhli (2022), and Boussaidi & Hamed-Sidhom (2021). The three studies concluded that institutional ownership actually reduces the tendency of companies to engage in tax avoidance. The explanation is that institutional investors are considered to have a role as an effective monitoring mechanism for management practices, including in terms of tax compliance. They have an interest in the company's long-term reputation and tend to encourage transparency and good governance. In this context, institutions such as pension funds and mutual funds are more careful about the reputational risks that may arise from aggressive tax avoidance practices. Therefore, their presence actually creates pressure on management to comply with tax regulations. This difference in results could be due to variations in the characteristics of institutional investors, the context of tax jurisdictions, and the control structure in each country or company.

The Effect of Foreign Ownership on Tax Avoidance

The results of data testing show that foreign ownership significantly influences tax avoidance practices in the sample companies, the same as the hypothesis in this study. This study shows that the greater the proportion of share ownership by foreign investors, the less likely the company is to commit tax evasion. This finding is in accordance with research (Hasan et al., 2022) which concludes that foreign ownership structure plays an important role in the formation of company policies, including policies related to company tax strategies. Apart from corporate governance, foreign ownership can be an effective way to supervise company activities, because foreign investors are considered to have international scale experience and greater independence. The experience and resources they have will be used to supervise and force managers not to carry out tax avoidance practices. Furthermore, foreign investors also choose to comply with the rules and not avoid taxes, because foreign investors really consider the impact of tax avoidance practices such as administrative or criminal sanctions and damage to the company's reputation which will ultimately affect the value of the company in the long term.

The results of this study are in line with Hasan et al. (2022) and Maisaroh and Setiawan (2021) who conclude that foreign ownership influences corporate tax avoidance in a negative direction. Maisaroh and Setiawan (2021) argue that foreign shareholders (foreign investors) choose to obey the rules and avoid tax avoidance because they really consider the costs arising from tax avoidance practices. The costs in question are consultation fees in the field of taxation, legal risks, the possibility of a decline in the company's reputation. On the other hand, this research contradicts Syukur and Jongsureyapart (2023), Alkurdi and Mardini (2020), and Shi et al. (2020) who concluded that institutional ownership will actually increase a company's tax avoidance practices.

However, research results contradict the above results, including those conducted by Syukur and Jongsureyapart (2023), Alkurdi and Mardini (2020), and Shi et al. (2020). The three studies concluded that foreign ownership actually increases tax avoidance practices. The explanation is that foreign investors often have knowledge and access to cross-country tax strategies, including transfer pricing practices and the use of low-tax jurisdictions (tax havens). They use their influence to direct management in designing tax policies that can reduce tax liabilities, in order to maximize returns on their investments. In addition, in some cases, foreign investors have significant control but are not committed to the long term, thus encouraging short-term tax efficiency practices without considering long-term reputational risks. These differences in results indicate that the impact of foreign ownership on tax avoidance is greatly influenced by investor

characteristics, investment objectives, and the company's internal control system.

The Effect of Company Size as a Moderating Effect of ESG Performance on Tax Avoidance

The tests that have been carried out prove that company size can significantly moderate the relationship between ESG performance and tax avoidance practices in the sample companies studied, in accordance with the hypothesis in this study. This research shows that company size moderates the influence of ESG performance on tax avoidance. In other words, the larger the scale of a company, the more likely it is to improve its ESG performance in order to avoid its tax obligations.

This can be explained using legitimacy theory and agency theory. Legitimacy theory explains that companies that care about the environment and society can improve their image and reputation. Based on agency theory, company managers have the responsibility to control the company to maximize shareholder wealth. Large companies usually have high profitability and tend to carry out complex transactions. Company managers have an interest in carrying out tax avoidance actions through the complexity of these transactions in order to maximize shareholder wealth. A good reputation becomes an incentive for companies to cover up their tax avoidance actions. Companies tend to improve ESG performance so that positive perceptions of ethical behavior and the company's reputation in front of stakeholders increase, which is useful for covering ongoing tax avoidance practices.

In the context of taxation in Indonesia, large companies have large funds that can be spent on ESG-related activities. Costs incurred in relation to ESG activities such as donations in the context of national disasters, donations in the context of research and development, donations in the context of social infrastructure development, and donations in the context of sports development may be recognized as costs to determine income subject to tax, so that these expenditures will reduce the tax burden paid by the company. The findings of this study support the research of Hossain et al. (2024) which states that the larger a company is, the more likely it is to avoid tax.

However, studies that contradict the above results include those conducted by Lanis and Richardson (2015), Yoon et al. (2021), and Kovermann & Velte (2019). They concluded that large companies tend to be more compliant with tax obligations and do not use ESG performance as a tool to disguise tax avoidance. The explanation is that large companies are usually in the spotlight of the public, media, and regulators, so they have a strong incentive to maintain their reputation and avoid legal and social risks due to tax avoidance practices. In addition, large companies generally have more established governance systems and higher accountability, so that supervision of tax practices is stricter. In this context, high ESG performance reflects a real commitment to sustainable business practices, not as a shield to hide manipulative actions. Therefore, they prefer to comply with tax regulations to maintain public trust and maintain the long-term value of the company.

The Effect of Company Size as a Moderating Effect of Institutional Ownership on Tax Avoidance

The results of this research indicate that company scale functions as an important moderating variable in the relationship between foreign ownership and tax avoidance practices in sample companies, so that this research hypothesis is proven to be valid. This study shows that company size magnifies the impact of institutional ownership on tax

avoidance efforts; specifically, larger firms with a significant proportion of institutional ownership are more likely to engage in tax avoidance strategies. Theoretically, tax avoidance will increase cash inflow into the company which will ultimately increase the dividends that institutional shareholders can receive. In addition, large companies have sufficient resources and capabilities to determine tax strategies in the context of tax avoidance. Therefore, the larger a company, the majority of whose shares are owned by institutions, tends to practice tax avoidance in order to provide large dividends to shareholders. In the context of taxation in Indonesia, since 2020 there has been a provision that stipulates that dividends originating from within the country received by corporate taxpayers are not subject to income tax. This provision can be an incentive for management to try to provide large dividends to shareholders by avoiding the obligation to pay taxes. The findings of this study are in accordance with the findings of Hossain et al. (2024) who concluded that large companies have a tendency to avoid tax.

Studies that contradict the above results include those conducted by Chen et al. (2010), Minnick and Noga (2010), and Boussaidi and Hamed-Sidhom (2021). All three studies found that large companies with high institutional ownership tend to be more compliant with tax obligations. The explanation is that large companies are under stricter public, media, and tax authorities' scrutiny, so reputational and legal risks are the main considerations in tax decision-making. In addition, large institutions such as pension funds or global institutional investors tend to prioritize sustainability and legal compliance over short-term benefits from tax avoidance. They play an active role as monitors that encourage transparency and good governance. Therefore, the combination of large company size and dominant institutional ownership can actually reduce the tendency to engage in tax avoidance, as a form of maintaining the company's image and value in the long term.

The Effect of Company Size as a Moderating Effect of Foreign Ownership on Tax Avoidance

The test results show that company size acts as a moderating variable that significantly influences the relationship between foreign ownership and tax avoidance in the sample companies, in accordance with the hypothesis in this study. This research reveals that company size increases the impact of foreign ownership on tax burden reduction practices. Companies whose shares are mostly controlled by foreign investors tend to choose to carry out their tax obligations in accordance with applicable regulations.

The findings of this study are in line with Hasan et al. (2022) who conclude that foreign ownership structure plays an important role in the formation of company policies, including policies related to company tax strategies. Foreign ownership has international scale experience and greater independence in carrying out corporate governance in various countries. This experience and ability is useful as a form of effective supervision and forces company managers to comply with tax regulations. The larger the company, of course, has adequate resources to carry out good governance. This will make it easier for foreign investors to monitor and ensure company managers do not evade taxes. The decision of foreign investors to choose to comply with taxes is because they consider the impacts arising from tax avoidance practices.

However, studies that contradict the above results include those conducted by Desai et al. (2007), Shi et al. (2020), and Syukur and Jongsureyapart (2023). The three studies concluded that large companies with high foreign ownership are actually more likely to engage in tax avoidance practices. The explanation is that foreign investors often have

access to global tax strategies and tend to pursue tax efficiency through cross-border techniques such as transfer pricing, use of tax havens, or arrangement of royalty and interest charges to foreign affiliates. Large companies, with complex organizational structures and qualified professional resources, provide ample space for foreign investors to implement these strategies. In addition, the interest in maximizing investment returns can encourage foreign investors to pressure management to reduce tax liabilities, without paying too much attention to local regulations if government supervision is not strict enough. Thus, company size in this context strengthens the tendency to tax avoidance, not the other way around.

CONCLUSION

Based on the results of data analysis and discussion regarding the influence of ESG performance, institutional ownership and foreign ownership on tax avoidance before and after being moderated by company size, the following conclusions can be drawn:

1. Environmental, social and governance (ESG) performance influences a company's decision to avoid tax obligations. Corporations that have good ESG performance tend to gain trust and a good reputation among the public. Companies can use these incentives to cover up their tax avoidance practices. Tax avoidance practices are also influenced by ESG-related activities because management uses money spent on ESG initiatives to reduce the amount of taxes payable.
2. Institutional ownership influences a company's decision to avoid tax. Institutional shareholders encourage management to avoid taxes by modifying their resources for tax strategies in order to reduce the company's tax obligations to obtain greater returns in the form of dividends.
3. Foreign ownership influences tax avoidance. Foreign investors tend to avoid tax avoidance practices because foreign investors really consider the impacts arising from tax avoidance practices. The impact in question is administrative or criminal sanctions and damage to the company's reputation which will ultimately affect the company's value in the long term.
4. Company size can moderate the influence of environmental, social and governance (ESG) on tax avoidance.
5. Company size can moderate the effect of institutional ownership on tax avoidance.
6. Company size can moderate the effect of foreign ownership on tax avoidance.

Suggestion

This study shows the importance of supervision over the fulfillment of tax obligations for large companies that have a large composition of institutional shareholders and carry out ESG initiatives, especially for companies that perform well in ESG aspects. Tax authorities need to create appropriate regulations as a disincentive for companies to avoid taxes. On the other hand, companies are advised to manage tax strategies more ethically and consider the long-term impact on the company's reputation and value. Further research can use other proxies to measure corporate tax avoidance such as long-term ETR which can detect the avoidance practices of companies that experience losses in the long term.

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