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Tax avoidance practices: Effect of environmental, social, and governance, earning management, and company size as moderating variable (Study on LQ45 companies listed in Indonesia stock exchange)

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ABSTRACT

This study examines the effect of environmental, social, and governance factors, earning management, and company size as moderating variables. Tax avoidance (TA) is an action taken by taxpayers to legally avoid taxes that does not violate tax regulations. Taxpayers use TA to reduce their tax liability by taking advantage of loopholes in the tax code. For example, reporting net income is smaller than it actually is. This study investigates the factors that influence tax avoidance. The factors are environmental, social, and governance (ESG) and earnings management (EM), with company size (CS) as a moderating variable. This study employed a quantitative methodology and used secondary data as the data type. The population of study is LQ45 Company for the years 2017-2021. The samples are selected based on some criteria. Based on those criteria, thirty companies were selected for the sample. Multiple linear analysis methods and moderate regression analysis are used in hypothesis testing. The statistical testing of the study found that EM had no impact on TA, while ESG had a considerable beneficial impact on TA. The impact of EM on TA can be both moderated and strengthened by CS, whereas the impact of ESG on TA cannot be. The management decisions made by the business are connected to the ESG activities the business is engaged in. The company's ESG efforts need to be carefully monitored to prevent increased TA tactics.

Contribution/ Originality: The CS is used as a moderating variable in the relationship between ESG, EM, and TA. The effect of ESG on TA and EM on TA was controlled by CS. ESG and EM are influenced by business scale. The biggest company has high activity related to ESG and high transactions related to EM. In this condition, management has the highest probability of doing TA.

1. INTRODUCTION

Tax avoidance (TA) is the practice by a business of using a taxation strategy that is legally considered relevant. TA is a transaction plan that can reduce the tax burden by taking advantage of gaps in a nation's tax laws (Alam, 2019). Companies engage in TA because they believe it will lower their tax liability. TA is an action taken by a business to reduce or remove the tax burden while taking into account any potential tax repercussions (Anggraini & Wahyudi, 2022). TA is a legal income manipulation that nevertheless complies with tax laws and regulations in order to speed up the payment of the tax due (Astuti & Aryani, 2016). PT Adaro Energy used transfer pricing through its

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Singaporean company to conduct the TA lawsuit. The Directorate General of Taxes in Indonesia believes that enterprises paying less tax than they should have, totaling US$125 million or IDR 1.75 trillion, have engaged in TA (Nyman, Kaidun, & Lingga, 2022). This took place as a result of the corporation selling coal to its Singaporean subsidiary, Coaltrade Services International, at a lower price by abusing tax law gaps. In order for business owners to avoid paying taxes or pay them in a minimal amount, TA is practiced by taking advantage of legal loopholes. The issue with TA is not just a problem of one nation because it affects numerous countries before international tax authorities become aware of it (Jecky & Suparman, 2021).

Three theoretical pillars—agency theory, legitimacy theory, and stakeholder theory—are used in this work. The concept of agency theory explains the connection between the agent and the principle. The principal is entrusted with giving the agent a reward while the agent completes specific tasks set for the principal. A contract between one or more individuals (employer or principal) to provide a variety of services and delegate decision-making authority to a third party is described as an agency relationship by Jensen and Meckling (1976). According to agency theory, agents will work to boost business earnings in order to receive more compensation from principals. The relationship between businesses and society is a key component of legitimacy theory. In order to prevent its legitimacy from being withdrawn at any time because it is not abiding by predetermined provisions, a company will work to strengthen the bonds that have already been formed in the social environment in which it operates. As a result, it must adhere to all applicable laws in order for its business operations to function properly. Stakeholder theory, which emphasizes that businesses, must repay ESG investments to stakeholders. The commitment of the corporation to society through ESG consideration will offer long-term benefits, in accordance with stakeholder theory. According to the notion of corporate social responsibility known as "stakeholder theory," a company's stakeholders have an impact on its ability to survive (Alexander, Rahayu , & Gunadi, 2023). Businesses that engage in TA are thought to have not fully adopted good corporate governance (GCG) and have not optimized the adoption of social and environmental responsibility. The goal of this study is to investigate how ESG disclosure affects TA. Disclosure of ESG is a component of company information disclosure that emphasizes ESG performance (Triyani & Setyahuni, 2020). It is impossible to separate the roles played by ESG and GCG from the level and scope of information disclosure. In terms of business operations and reporting accountability, the boards of directors and CEO have experienced their own effects as a result of the integration of environmental and social factors (Triyani & Setyahuni, 2020). The occurrence of these effects then fuels speculation that board features may have an impact on ESG disclosure standards.

The issue of ESG disclosure has been the subject of numerous studies with a range of objectives. The majority of research focuses on how ESG disclosure affects firm performance (Atan, Alam, Said, & Zamri, 2018). The existence of governance structures that contribute to the support of ESG public disclosure practices has been overlooked, as the focus of ESG research has been on business performance. To get more evidence about ESG information, research on the effects of ESG information disclosure policies on TA is required.

The separation between owners and managers causes agency issues, which lead to EM. Managers engage in EM activities in an effort to influence the amount of tax that the company must pay by decreasing the amount of profit. The business paid the tax to reduce it. Engineering accounting practices that manipulate financial statements in an effort to increase profits are the target of EM. Non-tax incentives are one of the concepts that encourage taking TA. Non-tax incentives can take the form of services offered instead of paying taxes, such as financial strain, debt levels, firm size, and managerial ownership, all of which try to lessen the tax burden by modifying the amount of current profits. With EM, a business reduces income to lower tax revenue. Because profit becomes a baseline for gauging the magnitude of the firm's tax burden, the corporation also exhibits aggressive behaviour towards corporate taxes as the income is dropping. Due to the division between owners and managers of the business, agency issues are a common cause of EM. Aiming to reduce earnings so that the tax rate that must be paid is not too high, managers engage in EM activities to influence the amount of tax that the company must pay (Sofiya, 2019). The impact of ESG and EM on TA is expected to be moderated by CS. Because big companies are a public concern, their managers are more

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compliant and open when giving financial reports. Larger businesses take risks into account more when managing their taxes. In general, larger businesses produce more consistent earnings than smaller ones. Large businesses frequently have adequate resources for managing their taxes. Companies will tend to avoid taxes if they have sufficient resources and consistently high revenues (Rahmadani, Muda, & Abubakar, 2020). TA is unaffected by ESG (Anggraini & Wahyudi, 2022). However, Yoon, Lee, and Cho (2021) demonstrate that ESG has a detrimental impact on TA. According to some prior studies conducted in Indonesia, EM has no impact on TA (Alam, 2019). This is in opposition to the claims made by Rifai and Atiningsih (2019) and Sofiya (2019) that EM negatively affects TA.

The inconsistent findings of other studies and the fact that there is still a significant amount of TA occurring in Indonesia served as the motivation for this study. Corporate social responsibility (CSR) and GCG have both been extensively studied. However, there hasn't been much research done on ESG disclosure related to TA. Because the LQ45 corporate is an index that evaluates the price performance of 45 stocks of firms with high liquidity, significant market capitalization, and strong corporate fundamentals, it is used in this study. From the perspective of the corporation, lowering taxes will help it reach its intended level of profitability and liquidity. Many businesses avoid paying taxes due to this. The authors aim to further investigate whether Liquid45 (LQ45) companies have the ability to avoid taxes because, on average, LQ45 companies have substantial liquidity. The researcher expects that by doing this study, all LQ45 companies listed on the Indonesia Stock Exchange will be better able to perform their tasks competently and always adhere to the law's requirements.

2. THEORITICAL FRAMEWORK

2.1. Grand Theory

2.1.1. Agency Theory

According to agency theory, management's (agents') and owners' (principals') competing interests lead to conflicts of interest that have an impact on EM practices. The agency theory perspective serves as the foundation for comprehending the EM issue. The concept of agency theory describes the contractual arrangement between principals and agents. When acting in their capacity as decision-makers, principals are the parties who direct agents to carry out all tasks on their behalf. Agency theory states that each person is only driven by his or her own welfare and interests (Jensen & Meckling, 1976). The motivation for the principals to sign agreements is to boost their well-being through dividend payments or a rise in the value of the company's stock. Agents are encouraged to enhance their welfare by receiving higher pay. Due to the principal's inability to keep track of the activities of the company's agents, who are more knowledgeable about their own capabilities, the workplace, and the company as a whole, the conflict of interest worsens when the principal lacks sufficient information about the performance of the agents.

Setiorini, Indrian, and Midiastuty (2021) argued that the agency theory that develops when each party strives to obtain and maintain the level of wealth it desires cannot be separated from an explanation of the concept of EM. Policies made by management may have an impact on the existence of divergent interests between owners and management.

2.1.2. Legitimacy Theory

According to the legitimacy theory, they disclose ESG in order to earn credibility from the community in which they are based. Companies must be transparent about their ESG management practices for the community to accept them as legitimate. Companies, according to Ruan and Liu (2021) want some sort of legitimacy or acknowledgment from creditors, investors, customers, the government, and the community in order to preserve their survival. Companies boost stock returns for investors to acquire credibility with investors. The corporation increases its capacity to repay loans in order to acquire credibility with creditors. The business continually enhances the quality of its goods and services to acquire consumer trust. The business abides by all rules and laws imposed by the government to receive recognition from it. The corporation engages in social responsibility initiatives and makes all

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of its ESG information public in an effort to acquire credibility with the community. Dowling and Pfeffer (1975) are credited with originally introducing the concept of legitimacy theory, which focuses on how businesses and society interact. The business aims to reinforce and legitimate existing connections in the community in which it operates. The validity of the company may be revoked at any time if the community rejects it as a result of the firm failing to adhere to specified provisions: thus, the company must follow the relevant rules. As a result, the community rewards the company for establishing a balance between its own values and norms and those of the community, which will improve the company's sustainability and lead to better performance (Dowling & Pfeffer, 1975).

2.1.3. Stakeholder Theory

ESG disclosure can be seen as a way for management and stakeholders to communicate. In essence, the stakeholder theory holds that businesses not only have an obligation to maximize profits for shareholders and owners but also to benefit the government, society, and the environment. Accountability to stakeholders drives stakeholder theory, whereas the desire to fit in with society drives legitimacy theory. The outcomes of ESG disclosure show how concerned a firm is with society and the environment. With the help of this reporting, stakeholders will be able to judge the company's commitment to fulfilling its social and environmental obligations. Additionally, stakeholders will give the business more credibility.

Freeman (1984) is credited with coining the term stakeholder theory. According to this concept, a company's capacity to align the interests of its numerous stakeholders is a key factor in determining its profitability and success. This stakeholder theory places a strong emphasis on the rights that stakeholders have to learn from business about organizational activities that include stakeholders. According to the stakeholder theory, businesses must ensure that their ESG investments provide profits for stakeholders. This idea contends that a company's commitment to society through ESG consideration will result in long-term gains. A company's stakeholders have an impact on whether it survives. This concept is related to the idea of CSR. In addition to maximizing profits and serving shareholders' interests, a company's obligations also include taking care of society, its clients, and its suppliers.

2.2. Literature Review

2.2.1. Environmental, Social, and Governance

ESG are three principles or factors that a firm uses as part of its investment strategies. Businesses that incorporate ESG principles into their operations and investment decisions will also integrate and put into effect corporate policies that are in line with the long-term viability of these three components. The company will prioritize environmental factors in order to achieve high financial and operational performance that is sustainable and does not harm the environment. Social criteria aim to investigate positive relationships between third parties and businesses, as well as between employees, suppliers of goods, customers, communities, etc. Corporate governance standards address a firm's legitimacy, internal relationships, internal controls, investor rights, and other issues (Ruan & Liu, 2021).

ESG disclosures cover three important areas. The first is the environment, which covers issues with pollution, climate change mitigation, and sustainability. The second is social, and it deals with how the company interacts with its customers, employees, and community members, as well as its commitment to diversity, fighting corruption, and upholding human rights all throughout the supply chain. The final element is governance, which has to do with balancing shareholder and stakeholder interests and adhering to GCG (Dewi, Murhadi, & Sutejo, 2023). The ability of a business to utilize natural resources effectively and lower environmental emissions is referred to as the environmental dimension. The social dimension puts into practice moral principles, worker confidence, and respect for human rights. Through efficient corporate management systems and procedures, the governance component benefits shareholders (Fuadah, Mukhtaruddin, Andriana, & Arisman, 2022). With an emphasis on sustainability, or what is known as sustainable investing, the world of finance and investments is undergoing renovation. Yoon et al.

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(2021) explained that sustainable investing is an investment that considers the ESG factor before selecting whether to give money to a company or business initiative (Kuybida et al., 2023). ESG can increase earnings while having a good effect on society. ESG can contribute value in a number of ways, one of which is with a significant value benefit (Henisz & McGlinch, 2019). ESG may help businesses enter new markets and broaden their existing ones, which will inevitably increase their profitability as a going concern. The incorporation of ESG into businesses might draw in investors who are interested in sustainability-related investments. ESG disclosure can aid in improving a company's reputation. Enhancing the brand's reputation and image has the potential to draw in customers, which could influence the company's ability to retain customers (Atan et al., 2018).

2.2.2. Earning Management

EM is management's engagement in the external financial reporting process with the intention of enhancing its own interests. One of the elements that can make financial reports less credible is EM. Users of financial accounts may be troubled by EM if they feel that engineered profit figures are actually manipulated profit figures (Gunawan, Ishak, & Prabowo, 2021).

Rahmadani et al. (2020) stated that EM is a strategy used to alter corporate profitability in the short-term without affecting future economic performance. As stated by Setiorini et al. (2021) management constantly aims to demonstrate its successes through financial success. In reality, perks like pay bonuses and other appointments, when these advantages are offered for the company's performance, are incentives for executives to pursue personal benefits. If management receives this incentive, management may feel pressured to act against its better judgment in order to impress stakeholders with EM's impressive performance (Folajimi et al., 2023). Taking a bath, income reduction, income maximization, and income smoothing are the four patterns of EM (Rahmadani et al., 2020).

2.2.3. Tax Avoidance

Syuhada, Yusnaini, and Meirawati (2019) explained that TA is an act to reduce the tax burden legally, which is carried out by optimally utilizing legal provisions in the field of taxation and weaknesses in the applicable tax regulations. As a result, TA is an effort to minimize or even eliminate the company's tax debt by abiding by the law.

In multinational companies, TA can be carried out by, among others: (1) transferring tax subjects and/or tax objects to countries that provide special tax treatment or tax relief for a type of income; (2) TA efforts by maintaining economic substance from transactions through formal elections that provide the lowest tax burden; (3) anti-avoidance provisions for transfer pricing, thin capitalization, treaty shopping, and controlled foreign corporation transactions (specific anti-avoidance); as well as transactions that have no business substance (Dewi & Noviari, 2017).

2.2.4. Company Size

According to the CS scale, a company can be categorized as large or small depending on its total assets, market value, average sales, and total sales (Irianto, 2017). The corporation's larger total assets are a sign of its size. The complexity of the transactions will increase with the size of the company (Nyman et al., 2022).

CS can affect a business's ability to comply with its tax duties and is a factor that can lead to TA. Company size is a measure that can divide businesses into large and small businesses (Dewi & Noviari, 2017). Compared to small businesses, larger businesses have a stronger incentive to smooth out their income since they face higher tax burdens. Due to the company's profitability, which might grab the attention of the media and customers, the tax burden looks excessive. Due to the diversity of their stakeholders, major corporations' policies will affect the public interest more than those of small corporations. The established policies are effective and sufficiently protect the community (Mukhtaruddin, Saftiana, Putri, & Ferina, 2017).

The complexity of the transactions will increase as the organization grows. As a result, it enables businesses to take TA actions from each transaction by utilizing already-existing loopholes. When a company grows in size, it

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implies that its fixed assets grow as well, which means that as fixed assets grow, so does the depreciation expense, which must be taken into account and might lower a company's earnings (Rahmadani et al., 2020).

2.3. Hypothesis

2.3.1. The Effect of Environmental, Social and Governance to Tax Avoidance

Regulations and ESG disclosures are now available, which has improved public awareness of sustainable investment. A firm can entice investors to place money in the company as a destination for investment by publishing ESG data. Anggraini and Wahyudi (2022) have demonstrated that ESG has a negative impact on TA. The findings of this study suggest that corporations are not motivated to evade taxes through ESG activity. Anggraini and Wahyudi (2022) findings defy those of Yoon et al. (2021) study, which discovered that ESG affects TA. H1: Disclosure of Environmental, Social, and Governance Information has a positive effect on Tax Avoidance

2.3.2. The Effect of EM on Tax Avoidance

Agency conflicts arise because owners and managers have separate interests (Jensen & Meckling, 1976). This division leads to information asymmetry, as manager's act to their own advantage by engaging in EM activities since they have a better understanding of the data and future prospects of the company. Since EM's profits won't reflect current economic conditions, the quality of reported earnings will be subpar. As a result of management's attempt to report the profit in a way that makes its performance appear strong, it may not accurately reflect economic reality. How are EM and TA related to one another? This is consistent with the business's motivation for performing EM being tax-related (Devanka, Dewa, & Kumalasari, 2022).

Because EM affects taxable revenue and impacts the amount of taxes that businesses must pay, it can have an impact on tax planning (Marselawati, Titisari, & Masitoh, 2018). Managers anticipate lower payments because they might result in a less optimal allocation of funding sources. Managers, therefore, engage in tax planning. Tax planning is a tax incentive that encourages business managers to control profits (Wijayani, 2016). Through the use of tax law loopholes, businesses attempt to minimize the amount of tax that is actually paid (Sandy & Lukviarman, 2015). From some of the earlier studies, it can be deduced that the more EM activities a corporation performs, the lower its ETR value and the higher its TA. Taxes are one of the reasons businesses control their earnings. Taxes can lower a company's net profit, which is a concern for their ability to make a profit. EM is a tool used to evade taxes. The more aggressive and tax avoidance-related behavior a corporation engages in, the more its income declines. The second defined hypothesis is H2: Earning Management has a positive effect on Tax Avoidance.

2.3.3. The Moderating Effect of CS on the Relationship between ESG and TA

Several factors, including total assets, profitability, equity, sales volume, and personnel count, are used as proxy measures of company size. A company's ability to provide information is frequently correlated with its size (Kolamban, Murni, & Baramuli, 2020). The more a firm grows, the more stakeholders want to get mandated and voluntary information in a transparent manner. Due to the significant expenses associated with these disclosures, large organizations are better equipped to reveal voluntary information to a greater extent (Arvidsson & Dumay, 2022).

Large businesses are more closely watched by stakeholders and even come under the government's scrutiny for tax collection (Bhattacharyya & Agbola, 2018). Large firms are required to offer transparent and accountable information to company stakeholders, one of which is voluntary disclosure information, as a result of strict oversight and investigative referrals. According to stakeholders, large corporations that voluntarily add information will boost their legitimacy (Cahyoputro & Hadiprajitno, 2022). Stakeholders can easily learn about the company's concern for ESG thanks to its ESG disclosure. It implies that as the company grows, ESG disclosure will happen more frequently. The likelihood of a corporation engaging in TA increases with CS. The third articulated hypothesis is H3: Company size moderates environmental, social, and governance relationships to avoid tax avoidance.

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2.3.4. The Moderating Effect of CS on the Relationship between EM and TA

EM is described as the management's efforts to use their judgment in generating financial reports in order to influence the income that has been calculated based on those data. By purposefully boosting expenses through the use of specific accounting practices and policies, management reduces reported earnings while avoiding taxes. Rahmadani et al. (2020) claim that the purpose of TA is to reduce the tax burden by reducing profits, which may increase EM. Company size may act as a moderating variable to enhance or mitigate the impact of EM on TA. The fourth formulated hypothesis is H4: Company size moderates earnings management relationship to tax avoidance.

3. METHODOLOGY

3.1. Population and Sampling

All companies listed in LQ45 between 2017 and 2021 represent the study's population. Every semester, the IDX releases the list of companies, resulting in two lists of LQ45 companies in one year. The LQ45 company, which meets the criteria picked by the researcher, serves as the study's sample. The requirements are: (1) companies listed on the LQ 45 stock index on IDX continuously from 2017 to 2021; and (2) companies disclosing ESG performance for 2017–2021 in annual reports or sustainability reports. For a total of 150 samples of data, 30 companies were selected for five years based on these criteria.

3.2. Variable Definition

3.2.1. Environmental, Social, and Governance (X_1)

ESG is a measurement technique used to create information about the effects of ESG practices adopted by businesses. When monitoring and evaluating the company's performance during the course of its operational activities and the influence on these three criteria, the disclosure of non-financial information can be used as a key indication. The global reporting initiative (GRI) indicator framework's ESG Guide Reporting 2.0 indicator is used in this study to measure ESG. Measurements for ESG Guide Reporting 2.0 will be done by assigning a number of 1 for indicator disclosure and a number of 0 for indicators that are not disclosed, and then dividing the number of indicators disclosed by the total number of items in ESG Guide Reporting 2.0 (Ruan & Liu, 2021). The ESG disclosure evaluation at each company concentrates on the following: (1) Has the company issued a sustainability report?; (2) When was the sustainability report published?; (3) Does the sustainability report go through an assurance process by an independent third party (AA1000 or ISAE3000?); (4) Disclosure from companies based on an assessment of 33 ESG factors?; and (5) How does the company prepare its sustainability report and how detailed is the information disclosed in the report in an acquittal format?. The following indications are used for each item:

Table 1. Tabel ESG disclosure.

Environmental	Social	Governance
Greenhouse gases emition (E1)	CEO pay ratio CEO (S1)	Board diversity (G1)
Greenhouse gases intensity (E2)	Gender pay ratio (S2)	Board independence (G2)
Energy used (E3)	Employee turnover (S3)	Incentivized pay (G3)
Energy intensity (E4)	Gender diversity (S4)	Collective bargaining (G4)
Energy mix (E5)	Temporary worker ratio (S5)	Supplier code of conduct (G5)
Water used (E6)	Non discriminant (S6)	Ethics and anti-corruption (G6)
Environmental operations (E7)	Injury rate (S7)	Data privacy (G7)
Climate oversight/Board (E8)	Global health and safety (S8)	ESG reports (G8)
Climate oversight/Management (E9)	Child and forced labor (S9)	Disclosure mechanism (G9)
Climate risk mitigation (E10)	Human right (S10)	External assurance (G10)
CSR in forestry (E11)	CSR in society commutation (S11)	Tax transparency (G11)

Source: GRI's disclosure standards (2017).

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Based on Table 1, according to GRI's disclosure standards, there are 33 items to disclose. Every indicator in GRI's disclosure standard is traced in the company's annual report. If the company discloses it, it receives a score of one; otherwise, it receives a score of zero. The number of indicators successfully reported by a company is compared to the total number of indicators in each GRI module for each element of ESG in order to calculate ESG disclosure.

ESG = Sum of Company Dislosure Item/Total of GRI's Disclosure Standard Item

3.2.2. Earning Management (X_2)

EM is an action taken by management with the intention of reducing earnings as desired. The value of discretionary accruals is used as an EM proxy in this study, utilizing a modified version of DSS (Dechow, Sloan, & Sweeney, 1995; Jones, 1991) model. Conflicts occur more frequently and at higher levels in organizations with higher EM. The method for determining discretionary accruals is:

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

3.2.3. Tax Avoidance (Y)

By abiding by the law, TA seeks to minimize or even completely eliminate the company's tax liability. The formula for the effective tax rate (ETR) is used to approximate this variable. Because it is thought to reflect the fixed difference between book profit and tax profit, ETR is employed as a measurement. ETR is determined by dividing the company's overall tax burden by its earnings before income tax (Sandy & Lukviarman, 2015). The total of current and deferred tax expenses is the income tax expense. Net profit before income tax is subtracted is known as pre-tax income. The company's TA increases as the ETR value decreases, and vice versa; as the ETR value increases, the TA decreases. The range of ETR values is greater than 0 and less than 1.

$$ETR = \frac{Tax\ Expenses_{it}}{Pretax\ income_{it}}$$

3.2.4. Company Size (X_3)

CS is a scale that can classify the size of the company in various ways, including the company's total assets, market value, average sales, and total sales. The natural logarithm (Ln) of the company's total assets serves as a proxy for CS.

Company Size = Ln (TA).

3.3. Data Analysis Technique

3.3.1. Multiple and Moderating Regression Analysis

Using the multiple analysis test, determine how many independent factors have an impact on the dependent variable. To examine the impact of moderation, Frucot and Shearon (1991) devised a regression model, the absolute difference value model of the independent variables. Because the preceding expectations were linked to the interaction of X_1 and X_2 and had an impact on Y, this interaction is preferred. Solimun (2010) determined the criteria must be known in order to ascertain whether the moderating variable we are utilizing is actually moderating the variable X to Y:

Table 2. The moderating variable type.

No	Moderation type	Coefficient
1	Pure moderation	b_2 insignificant and b_3 significant
2	Quasi moderation	b_2 significant and b_3 significant
3	Homologiser moderation	b_2 insignificant and b_3 insignificant
4	Predictor	b_2 significant and b_3 insignificant

Source: Solimun (2010).

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The regression equation to test the hypothesis is as follows:

$$ETR = \alpha + \beta_1 ESG + \beta_2 EM + e \quad (1)$$

$$ETR = \alpha + \beta_1 ESG + \beta_2 EM + \beta_3 CS + \beta_4 ESG.CS + \beta_5 EM.CS + e \quad (2)$$

3.3.2. Coefficient Determination

This test evaluates the contribution of the independent factors to the dependent variable in the research model. There is a range of 0 to 1 for the coefficient of determination. The low value of R2 indicates that the independent variable's capacity to explain the dependent variable is still somewhat constrained. Because it uses multiple regression analysis and includes numerous numbers of variables, the adjusted R2 test was conducted (Ghozali, 2021).

3.3.3. F and T Test

The F statistic test is used to examine the interaction between the independent and dependent variables. The F test was used to determine the model's significance and determine whether it can be utilized to forecast how the independent variables will interact with the dependent variable (Ghozali, 2021). The t test was used to determine if each independent variable had a significant impact on the dependent variable or not (Ghozali, 2021). The following criteria must be met in order to test the hypothesis: (1) If the significant value is less than 0.05, the independent variables have a simultaneous and partial effect on the dependent variable; and (2) If the significant value is greater than 0.05, the independent variables have no simultaneous and partial effect on the dependent variable.

4. RESULT AND DISCUSSION

4.1. Research Result

4.1.1. Models 1 Testing

The result of testing the models 1 can be seen in the following Table 3:

Table 3. Result of models 1 testing.

Indicators	β	t	Significant	Conclusion
ESG	0.107	2.477	0.014	Significant
EM	0.016	0.192	0.848	Insignificant
Constant			0.202	
Prob F-value			73.013	
Significant			0.000	
R square			0.498	
Adj R square			0.492	
significant 5%				

Source: Result of data processing (2023).

Table 2 showed that adjusted R square (R^2) value was 0.492, or 49.2%. This suggests that 49.2% of the impact of ESG and EM on ETR. This indicates that factors other than the variables examined in this study have an impact on ETR for the remaining 50.8%.

Results from simultaneous tests had a significance level of 0.000, or less than 0.05. Conclusion: ESG and EM simultaneously affect ETR. The test results partially indicate that

1) The significance level for ESG is 0.014, which is lower than 0.05. This implies that ESG influences ETR. The results of this test also indicate that ESG has a positive value; it can be said that ESG significantly and positively affects tax avoidance, and so H1 is accepted.
2) The significance level of EM is 0.848, which is higher than 0.05. In other words, partly EM has no impact on ETR. H2 is rejected because it can be inferred that EM has no impact on ETR.

Model 1 of the regression equation in this study can be seen as follows:

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$$ETR = 0.202 + 0.107\,ESG + 0.016\,EM$$

The regression equation model above shows that

1) The α is 0.202, indicating that if ESG and EM are constant or have a value of 0, then the ETR is 20.2.
2) The coneffiecient regression of EGS is 0.107. These results showed that which every increase in ESG, the ETR has increased by 10.7%. The coefficient that has a positive value means that there is a positive relationship between the ESG value and the ETR; the more the ESG increases, the more the ETR also increases.
3) The regression coefficient of EM is 0.016. These results indicate that with every increase in EM, the ETR has increased by 1.6%. This positive coefficient indicates that there is a positive relationship between EM and ETR; the higher the EM, the higher the ETR.

4.1.2. Models 2 Testing

The result of models 2 testing in this research can be seen in the following Table 4:

Table 4. The result of models 2 testing.

Indicators	β	T	Significant	Conclusion
ESG	0.121	2.812	0.006	Significant
EM	0.030	0.340	0.730	Insignificant
CS	-0.003	-0.560	0.577	Insignificant
ESG.CS	0.001	0.686	0.494	Insignificant
EM.CS	0.009	3.236	0.002	Significant
Constant	0.266			
Prob F-value	30.625			
Significant	0.000			
R square	0.515			
Adj R square	0.499			
Significant 5%				

Source: Result of data processing (2023).

The table above demonstrates that the addition of the moderating variable, CS, raises the adjusted R square (R^2) value by approximately 0.7% to 49.9%. This demonstrates that independent variables can account for up to 49.9% of the variation in ETR after controlling for CS and interaction.

The impact of CS on the link between ESG and EM on ETR is significant to the extent of 0.000, which is less than 0.05. Conclusion: CS can have an impact on how ESG and EM are related to ETR.

The following are the moderator regression equation's findings for this study:

$$ETR = 0.266 + 0.121ESG + 0.30EM - 0.003CS + 0.001ESG.CS + 0.009EM.CS$$

The following can be deduced from the regression equation model's findings:

1) The α of 0.266 implies that the ETR has increased by 26.6% if the variables ESG, EM, and their interactions are assumed to be constant or have a value of 0.
2) ESG has a 0.121 coefficient of regression. According to these findings, the ETR has increased by 12.1% for every increase in the ESG.
3) The EM regression coefficient is 0.030. These findings suggest that the ETR has increased by 3% for every increase in EM.
4) CS's coefficient of regression is -0.003. These findings suggest that the ETR has fallen by 0.3% for every increment in company size.
5) The interaction between CS and ESG has a regression coefficient value of 0.001. These findings suggest that the ETR rises by 0.1% when ESG and CS interact.

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6) The company size and EM interaction regression coefficient have a value of 0.009. These findings suggest that the ETR rises by 0.9% when ESG interacts with CS.

The moderated regression analysis (MRA) test shows the interaction of the moderating variable, CS multiplied by ESG and EM can be concluded that:

1) Company size is moderate in terms of environmental, social, governance, and tax avoidance.
   According to the study's findings, company size has a significant value of 0.494, or higher than 0.05, which indicates that CS has not been able to moderate the relationship between ESG and TA. According to the study's findings, the CS exhibited an insignificant regression coefficient (β3) and an insignificant regression coefficient (β4) for the interaction between ESG and CS. CS functions as a moderator homologist in this relationship, which means that CS does not interact with TA and does not have a significant relationship with ESG.
2) Company size moderates earnings management for tax avoidance.
   It can be concluded from this study's findings that CS may reduce the relationship between EM and TA when it interacts with EM and has a significance of 0.002, or less than 0.05. The outcomes also demonstrate a positive regression coefficient of 0.009 for CS interacted with EM. According to the study's findings, the CS regression coefficient (β2) is not significant, and the interaction regression coefficient (β5) between EM and CS is significant. It is possible to conclude that CS functions as a pure moderator. In this context, CS is a variable that can moderate the relationship of EM to TA but cannot function as an independent variable.

4.2. Discussion

4.2.1. The Effect of ESG on Tax Avoidance

The findings of this study suggest that ESG significantly and positively affects TA. According to legitimacy theory, a business aims to strengthen and legitimize ties in the social environment in which it conducts business. ESG data published in an organization's annual report is not always accurate and cannot be relied upon as proof that a socially conscious organization won't engage in tax fraud. A lack of regulatory oversight of ESG reporting cannot account for the accuracy of the data provided by businesses regarding ESG disclosure. The results of this study show a connection between TA and having a corporation manage an ESG (Lee, Ng, Shevlin, & Venkat, 2021; Yoon et al., 2021).

ESG has connections to legitimacy theory and stakeholder theory, which help mitigate the harmful consequences of TA. According to the principle of stakeholders, ethical businesses must take into account the interests of all those who may be impacted by their decisions. According to the legitimacy theory, organizational differences and social ideals may endanger legitimacy, which results in the demise of the enterprise. Companies need stakeholders' support in order to continue existing in society; hence, they must uphold the community's values.

The findings of this study differ from those of Yoon et al. (2021) and Anggraini and Wahyudi (2022). ESG has no impact on TA since companies that do well in this area should be able to avoid engaging in TA activities since paying taxes is the primary way for businesses to participate in society. Therefore, companies that perform well in this area are less likely to engage in TA. Variations in the sample type, study year, and ESG disclosure index items used were most likely to blame for this study's inconsistent findings. Companies can reduce their fiscal earnings and pay less in taxes because some ESG operations are sometimes the same as CSR activities, which can lower corporate income taxes. This serves as the foundation for how ESG affects corporate TA behavior. Companies can use ESG in their TA strategies to their advantage. ESG serves both as a tax break and a defense against the harmful consequences of aggressive TA activities.

4.2.2. The Effect of Earning Management on Tax Avoidance

The study's findings demonstrate that EM has no impact on TA. In accordance with the agency theory, which states that information asymmetry between shareholders and managers affects EM decisions. Each party attempts to

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pursue competing aims, which leads to conflicts of interest. By taking advantage of the informational inequity between managers and shareholders, EM is not usually conducted in the context of managers' opportunistic activities (Ghazali, Shafie, & Sanusi, 2015; Scott, 2015). To reduce the tax burden, TA is a type of tax planning. Due to discrepancies between various arrangements regarding financial accounting standards and Indonesian tax laws, EM does not engage in tax avoidance activities. The amount of EM used by the company solely affects the persistence of company profits, which are meant to benefit stakeholders, and earnings persistence, which has no bearing on tax planning.

The findings of this study are consistent with those of Rahmadani et al. (2020); Hutapea and Herawaty (2020) and Ferdiawan and Firmansyah (2017). The findings of this study suggest that managers do not use EM to reduce their tax obligations. Although managers are free to select particular accounting practices, these decisions are not made to reduce the company's tax liability. By taking advantage of gaps in Indonesia's tax laws, tax avoidance is accomplished. TA and EM activities, therefore, follow different patterns. Additionally, EM activities are performed for reasons other than TA. This demonstrates that EM is carried out to indicate stakeholders' success rather than to generally reduce the tax burden. But in contrast to Thalita, Hariadi, and Rusydi (2022); Setiorini et al. (2021) and Sofiya (2019) this outcome is different. A manager who uses EM to minimize income will notice expenses like marketing and R&D spending more rapidly when the business generates a big profit with the intention of attracting less political attention (Sofiya, 2019). When the business makes large profits, this will be done to reduce profits. It can be used as a benchmark for determining the tax rate to be paid in order to maximize profits so that a management can report the amount of profit in accordance with utility-based regulations that would influence TA activities.

4.2.3. The Moderating Effect of Company Size on the Relationship between ESG and Tax Avoidance

CS has not been able to moderate the association between ESG and TA. According to the findings of this study, CS serves as a homologous moderator. It denotes that neither the dependent variable nor the CS are significantly correlated with one another or with the independent factors. Due to the fact that everyone, including corporate and individual taxpayers, must pay taxes, ESG is unable to increase the level of TA regardless of CS. As a result, CS has no bearing on the strength or weakness of the ESG link to TA. The decision-making process in TA is unaffected by the size of the organization because both large and small businesses must pay taxes to the state.

This study's findings concur with (Ginting, 2016). Ginting (2016) found that CS does not affect GCG and instead shows a stronger corporate condition and higher share sales. These findings suggest that CS cannot influence the association between ESG and TA because TA is not always practiced, even when there is adequate ESG disclosure and a sizable company. Large organizations will always be a worry, making it difficult for corporate management to be compliant and honest when providing financial reports. As a result, CS cannot attenuate the impact of ESG on TA. Large businesses will take risk into account more when managing their taxes. CS cannot moderate the ESG on TA in LQ45 companies listed on the Indonesia Stock Exchange. This demonstrates that the impact of ESG on TA is independent of CS. It implies that both big and small businesses may engage in TA.

These finding are contrary to those of Yoon et al. (2021). ESG and taxes both aim to improve people's welfare, yet both are costly for businesses. Business scale has an effect on the relationship between ESG and TA. The biggest has high activity and transaction business. Due to this commonality, businesses with substantial ESG activities can use TA strategies to lower their tax obligations. According to the study's findings, a corporation is more accountable for its tax duties the more ESG activity it engages in. Additionally, CSR has a greater impact on lowering TA if big businesses practice ESG. Companies with a high level of ESG activity tend to think of tax payments as a component of ESG rather than as separate from or replacing it.

4.2.4. The Moderating Effect of Company Size on the Relationship between EM and Tax Avoidance

CS can both moderate and strengthen the relationship between EM and TA. In this study, CS serves as a pure moderator, not an independent variable, which indicates that it can moderate the association between EM and TA.

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Because CS has an impact on TA, particularly the function of managers in EM to maintain control over decision-making, CS can have an impact on EM on TA. It will be simpler to obtain profit if the firm gets bigger, and this could have an effect on EM behavior by encouraging more TA.

Companies are taxpayers; therefore, it stands to reason that their size could have an impact on how they handle their tax obligations and contribute to TA. The motivation for income smoothing, a type of EM, is greater for larger organizations than for smaller ones because of the higher tax burden. Due to the company's profitability, which might grab the attention of the media and customers, the tax burden looks excessive. Due to the diversity of their stakeholders, major corporations' policies will affect the public interest more than those of small corporations.

This study's findings are consistent with those of Rahmadani et al. (2020) and N. L. P. P. Dewi and Noviari (2017). This implies that the complexity of the transactions will increase with the growth of the company. Allow businesses to utilize currently open loopholes to derive TA actions from each transaction. It is evident that when a firm gets bigger, its fixed assets grow along with it. It implies that a depreciation charge must be paid when fixed assets rise. If that occurs, it may lower the EM; subsequently, if profits fall, the amount of taxes paid may also fall; at this point, the business is engaged in TA. Rizka and Rahayu (2023) findings do not correspond with those of this study. These findings suggest that the relationship between EM and CS reduces the prevalence of TA activities. The more resources and revenues a corporation has, the more it can benefit from them. Large profits and assets will increase the amount of taxes owed by the corporation, increasing its propensity to pay them. It increased the likelihood that regulators or the government would become aware of the company, which would have required it to be more compliant. This reduces the likelihood that businesses will use TA. It is recommended for large organizations to carefully weigh all of their options. The business is expected to base its decisions on the relevant tax laws and rules. The business must follow regulations and engage in sound tax planning. Then, in order to boost state tax revenue and decrease TA practices, the government is anticipated to strengthen tax scrutiny under firm oversight.

5. CONCLUSSION

5.1. Conclusions

The purpose of this study is to investigate the variables that affect TA strategies. ESG and EM are the two independent variables used. A moderating variable is CS. The study's findings indicate that while EM has no effect on TA, ESG has a positive and significant impact on TA. CS has not mitigated the impact of ESG on TA. By enhancing the impact of EM on TA, CS is able to moderate. These findings suggest that CS is a type of homology, or pure moderation. The values of β2 ESG and β4 ESG*CS, both of which are insignificant. It can be concluded that CS is of the pure moderation type because β2 and β4 value the interaction between CS and EM.

It is clear from testing with the moderating variable that ESG affects TA since a good firm's ESG cannot be a compelling justification for a corporation not to engage in TA. In contrast to EM, EM has no impact on TA because it only enhances the persistence of profits owned by the firm, which is designed to benefit stakeholders, as EM is carried out to a greater extent by the company. Although managers are free to select particular accounting practices, these decisions are not made to reduce the company's tax liability.

5.2. Research Limitation

This research has several limitations, namely:

1) To determine the TA strategies used by companies, this study uses two independent variables, namely ESG and EM. The TA activities that corporations undertake can be influenced by a wide range of additional factors.
2) Because only companies in the LQ45 Company were used in this study, the findings may not apply to other sectors that aren't listed there.
3) This study employs ESG disclosure elements for which there are no formal regulations or standards for ESG disclosure; therefore, there may be differences in ESG disclosure.

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5.3. Remarks

Based on the limitations of this study, some suggestions for getting better results for future research are:

1) To get the best study findings, future researchers can use all of the companies listed on the IDX.
2) Use additional criteria, such as e-commerce, firm performance, leverage, fiscal loss compensation, institutional ownership, and company risk, to identify potential TA.
3) The following researcher may also decide to extend the study's time frame so that the sample's representativeness of the total population is maximized.
4) Additional research can expand the list of ESG disclosure issues by changing the circumstances that exist.
5) The government has decided that there should be uniformity in the rules governing ESG disclosure and ESG information disclosure items.

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