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Environmental, Social and Governance Disclosure Scores and Tax Avoidance

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Abstract

This paper aims to understand the effect of Environmental, Social, and Governance (ESG) disclosure scores on tax avoidance. The sample consists of public firms listed on the Indonesia Stock Exchange, excluding those in the financial services industry, for the period 2015-2021. We employ panel data regression methods, with the dependent variable being the total of deferred tax assets and liabilities and the independent variable being the Bloomberg ESG disclosure scores. The effect of Bloomberg ESG disclosure scores on tax avoidance is controlled by firm leverage, profitability, growth, and size. Our findings indicate that higher Bloomberg ESG disclosure scores have a positive effect on deferred tax assets relative to deferred tax liabilities. This suggests that firms with high Bloomberg ESG disclosure scores contribute to indirect stakeholders, reflecting a broader commitment beyond direct stakeholders. Additionally, we do not find statistical evidence of a significant effect of a firm's financial constraints and growth opportunities on the deferred tax assets relative to deferred tax liabilities. These results imply that tax avoidance is more influenced by a firm's commitment to ESG principles rather than its financial capabilities and growth opportunities. This research provides valuable insights for policymakers and corporate managers, highlighting the importance of ESG disclosure in shaping tax-related strategies and demonstrating a firm’s commitment to broader stakeholder engagement.

Keywords: deferred tax assets; deferred tax liabilities; ESG disclosure scores; tax avoidance

INTRODUCTION

Indonesia’s Tax-to-GDP (Gross Domestic Product) ratio is among the lowest in the world. OECD (2022) reports that Indonesia’s Tax-to-GDP was 10.1% in 2020. The ratio is significantly lower than the Asia and Pacific average of 19.1% and OECD 35.5%. Indonesia’s Tax-to-GDP also experienced a steady decline from

12.2% in 2007 to 10.1% in 2020. Fathoni (2024) report that Tax-to-GDP experience lowest level in 2021 that reached 9.21% and then improved to 10.08% in 2022 and 10.21% in 2023.

The low Indonesia Tax-to-GDP results from tax evasion and avoidance from the open and shadow economy (Chandrasari, 2023; Indira Yuni & Setiawan, 2019). Ramadhan (2019) estimates that tax evasion from the shadow economy averaged IDR 56.23 trillion or 0.95% of GDP annually from 2000-2017. Safuan, Habibullah, and Sugandi (2021) estimate that Indonesian shadow economy for the period of 2018-2020 are 74.7%, 71.5%, and 69.0%, respectively. Damian and Tobing (2023) report that Indonesia's tax evasion case number is steadily rising and lead to tax disputes. The Indonesian tax authority issued 18,045 objections for tax paid. The Indonesian tax court received 17,654 cases in 2021. Kadin (2024) report that there were 16.278 tax disputes cases in 2023. There was no information regarding the value of the disputed tax.

Corporate income and value-added tax contribute the largest share of government tax revenue. OECD (2022) reported that Indonesia's corporate income tax contribute 27.4%, and value-added tax contribute 28.4% to total tax revenue valued at IDR 1555.3 trillion in 2020. Value-added tax is relatively straightforward and collected directly by the tax authority. A straightforward methods of value-added tax calculation and collection still experience tax evasion, an illegal tax activity. Kartiko (2020) estimates that value-added tax evasion from illegal logging activities for 2003-2014 is IDR 8.8 to IDR 23.5 trillion.

The tax authority provides firms loopholes to pay in advance or delay tax obligations payment. The firm may reduce its tax obligation payment using debt financing. The interest expenses are treated the same as firm production and operational costs. The interest expenses may reduce the amount of tax obligation. The firm may delay its tax obligation payment by holding dividends from subsidiaries within the firm, using depreciation methods, such as double decline depreciation method and the sum of the year digit depreciation methods, that results in higher depreciation expenses in the current year and lower depreciation expenses in the future relative stable depreciation expenses from the straight-line depreciation methods. When a firm pay its tax obligation in advance, it will be reported as deferred tax assets. When a firm

delays its tax obligation payment, it will be reported as deferred tax liabilities.

Tax avoidance and tax evasion also can be seen as corruption activities performed by private sectors. A lot of Indonesian taxpayers involve in tax evasion and tax avoidance. They create economic activities that cannot be tracked by the government or create a shadow economy (Indupurnahayu & Walujadi, 2019). Safuan, Habibullah, and Sugandi (2021) estimate shows that Indonesia has a a very high shadow economy, i.e., more or less 70.0% of total GDP. Tax Justice Network (2023) estimate Indonesia's tax revenue loss from global tax abuse reached USD 2.8 billion. Tax evasion and tax avoidance is a negative activity that inhibit countries economic growth. Tax authorities reacted by designing policies to reduce loopholes and impose stricter penalties for tax evasion (Probowulan & Zulkarnnaeni, 2022).

There have been movements to encourage firms to broaden their objective from a myopic view, i.e., the firm sole purpose of serving shareholders only, to a broader view, i.e., the firm purpose of serving internal and external stakeholders. The movement were called Environmental, Social, and Governance (ESG).

ESG were built under the mindset that firms are good corporate citizen and can be trusted to choose their best actions for the benefits of environment, society, and shareholders. ESG proponents and adopters have strengthened (Tsang et al., 2023).

Studies on ESG mostly focused on firm performance. The studies mostly find ESG activities positively contributes to firm financial performance stability. Fafaliou et al. (2022) report that ignoring ESG issues results in higher reputational risks and lower firm longevity. Schiemann and Tietmeyer (2022) report that ignorance of ESG issues results in volatile performance. Yu and Luu (2021) found firms with international exposure tend to have a higher commitment to ESG activities to mitigate the liability of foreignness.

The research on ESG measures their effect on improving the environment quality and society welfare. Bătae et al. (2021) urge the bank to cease financing firms that do not treat their pollution properly. In doing so, banks contribute positively to improving the environment quality. Drempetic et al. (2020) explain the importance of society's acceptance for firm sustainability. The society

components are employees and communities. Society scrutinizes the firm action to promote and improve employee welfare, such as working conditions, diversity, inclusion, equality, and community health and safety through product responsibility from sourcing until the product reaches the end of its life (Lee & Suh, 2022). The analysis focuses on the firm direct effect on improving environment quality and society's welfare.

To the best of our knowledge, the study on the firm indirect effect on society's welfare is limited. Existing research does not yet analyze the effect of ESG disclosure scores on firm tax avoidance activities in provisional and self-assessment policy environment. The paper focus on self-assessment policy environment on the considerations higher tax avoidance risks.

Tax revenue will be higher when firms fully pay their tax obligation within the fiscal year. Higher tax revenue enables the government to invest more in public goods, such as health and education, electricity, port, and railroads, to benefit the environment and society (Akitoby, 2018). Based on this reasoning, if firms willing to contribute more to the investments in public goods, then firm should pay their tax obligations in advance. Firm that pays their tax obligation in advance will record the activities as deferred tax assets.

The study aims to add to the literature on the effect of ESG disclosure scores on firm tax avoidance activities. The study's merit is to provide empirical evidence on the effect of ESG disclosure scores on tax avoidance. The closest study was performed by Ling and Liu (2023), which studied the effect of Corporate Social Responsibility (CSR) on tax avoidance activities.

ESG is not the same as CSR. ESG is an improvement from CSR by standardizing the disclosure for investors (Chen & Xie, 2022). Semantic analysis also suggests that CSR and ESG have different philosophies. CSR views the firm as a bad actor that should responsible for their action, while ESG views the firm as a good actor. CSR implies that the firm has harmed the environment and society. The firm was responsible for mending the damage. ESG implies that the firm can do more, as a good actor, to improve the quality of the environment, increase society's welfare, and provide adequate returns for shareholders. CSR is a flexible concept, while ESG is a more rigid and standardized concept. CSR puts limits, while ESG puts no limits on

the firm contributions to Environment, Social, and Governance.

Based on the research problem identified, the research question offered, "What is the effect of ESG disclosure on tax avoidance?" Davis et al. (2016) report two conflicting firms' view on tax obligation: firm that take and firm that not take advantage of tax regulation loophole. The firm that takes advantage of tax regulation loophole believe that it is not their responsibility to improve stakeholders' welfare (de Freitas Netto et al., 2020; Pucker, 2021; Sheehan et al., 2023). The firm that does not take advantage of tax regulation loophole believe that it is firm privelege to improve stakeholders' welfare and embedded environmental and social responsibility considerations into their business strategy (Alstadsæter et al., 2022; Armstrong et al., 2015). There will be differences regarding firms' behaviour toward tax avoidance activities. Based on the aformentioned studies, the hypothesis is firm ESG disclosure scores have effect on tax avoidance. The chosen method to test the effect of ESG disclosure scores on tax avoidance is panel data regression. The samples are Indonesian firms, excluding the financial sector industry, listed on the Indonesia Stock Exchange from 2015 to 2021.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Information Asymmetry and Firm Disclosure

In the perfect capital market, information will be received by all market participants without delay (Fama, 1970). The information is processed, and the value of the information is instantly reflected in the market price. Implicit in the statement is that information can be produced and disseminated without incurring costs to the producer, and the information disseminated is accurate and trustworthy. Implicit in the statement also information can be fully understood by the market participants.

Information dissemination will incur costs for the producer. It is normal for the information producer to consider the costs and benefits of disseminating the information. Akerlof (1970) show that information producer has more inclination to disseminate positive than negative information. Firms are involved in window dressing activities to make their performance look better (Zaidi et al., 2018). Firms tend to exaggerate their performance in managing environmental issues (Mateo-Márquez et al., 2022). Hence, information will never be the same between the producer and the user (Löfgren et al.,

2002). The producer always has an information advantage relative to the user.

Firm tendencies to disclose only positive information will put stakeholders at a disadvantage position. The government uses agency theory on firm disclosure (Jensen & Meckling, 1976). The firm is required to disclose information, both good and bad. It has independent directors in one tier corporate governance system or independent commissioners in two tier corporate governance system to monitor the agents or managers activities. Yekini et al. (2015) find that board independence contributes to higher information quality disclosure. Gurol and Lagasio (2023) and Husted and Sousa-Filho (2019) find that a larger proportion of independent board members improve ESG (Environmental, Social, and Governance) disclosure scores.

Information also incurs costs for the user. They must develop competencies to understand the information and assess its validity. Firms are required to disclose audited financial reports from registered auditors. The stock analyst is required to help investors understand the implications of complex information on the stock prospect, such as IPO stock (Chatalova et al., 2016), partial acquisition (Ying & Miao, 2020), and the effect of ESG disclosure scores on earnings volatility (Schiemann & Tietmeyer, 2022). A reputable rating and underwriter company must certify the firm bond rating (Ji, 2020) and other valuable assets (Pollrich & Wagner, 2016).

Sheehan et al. (2023) stress the importance of firms becoming more transparent by calculating and reporting hidden costs and disclosing the calculation methods. In doing so, profit has more meaning than monetary value. Transparency helps in educating and changing the mindset of stakeholders, including shareholders. Transparency helps in balancing the shareholder and the stakeholder interest.

The advancement of digital technology helps reduce the cost of gathering and disseminating information. In the past, we deal with information asymmetry that results from a lack of information. Government, Shareholders, Self-Regulatory Organizations, and Non-Governmental Organizations require the firm to invest in technology that enables the firm to collect and disseminate information (Abdel-Rahim & Stevens, 2018; Leipziger, 2015). As firms follow the information requirements, the user must deal with information asymmetry that results from information overload. Analysts

are also prone to error because they cannot understand all available information (Guo et al., 2020). Fortunately, digital technology also gives rise to artificial intelligence technology that may help users understand the meaning of complex information (Peres et al., 2023). The existence of artificial intelligence suggests that more information is always desirable.

Firm Behaviour on Stakeholders

In 1970, Milton Friedman suggested that maximizing firm profits simultaneously serves shareholders and society. Milton Friedman's conclusion is based on the government's responsibility, management responsibility, and capability (Mulligan, 1986). The government is responsible for investing in infrastructure to improve environmental quality and social welfare. As the firm increases its profits, the government gains larger tax revenue, enabling larger investments. The government may decide on the investment based on location urgency. Government investment enables equality, and equal welfare opportunity is reached (Arneson, 1989).

Milton Friedman does not find that firm management receives a formal mandate from society to invest in public goods. Firm management will be undemocratic if they take actions without society's mandate. Firm management will also violate shareholder mandate if the shareholder assigns management only to make profits but take activities that reduce firm profits. Firm management tends to invest in a location that is near or profitable. In doing so, firm management cannot be expected to give equal welfare opportunities. Based on the argument, it is unwise and futile for the management to deviate from the objective of maximizing profits.

Milton Friedman's opinion is at odds with the concept of firm responsibility from Andrew Carnegie's 'Gospel of Wealth' (Carnegie, 1889). Firms have a responsibility beyond the world to God. If the owner is enlightened, they will contribute more to the society welfare. A quotation also sums up the philosophy: "The man who dies thus rich dies disgraced."

Milton Friedman's opinion led to a great debate and increased stakeholder awareness. The stakeholder concludes that firm contributions to society by maximizing profit and tax payments are insufficient. The stakeholder demands that the government change the concept of firm responsibility from voluntary to mandatory. The

movement gained more traction when James Hansen gave testimony to US Senate regarding global warming and their causes (Hansen et al., 1988). There is vast empirical evidence that global warming relates to human activities, mostly business activities (Yoro & Daramola, 2020).

The popular view on government and firm responsibility is changing. In the Milton Friedman era, the government and firm responsibility are clearly segregated. In the last three decades and onward, the government has acknowledged its limitations and changed its policy accordingly. The government encourages businesses to actively contribute to investing in public goods for the benefit of society. Governments enact laws that make corporate social responsibility mandatory and incentivize the firm by permitting corporate social responsibility costs to reduce tax obligations (Kacem & Brahim Omri, 2022).

Studies show that firms behave differently regarding stakeholder responsibility. First, firm that saw a responsibility to stakeholders as a privilege to do good deeds. They embed environmental and social responsibility into their strategy (Alstadsæter et al., 2022; Brammer & Millington, 2010; Brammer & Pavelin, 2004). The United States government allowed philanthropic costs used to reduce firm tax obligations. Carroll and Joulfaian (2005) find that C-Corporation maximize their philanthropy activities and S-Corporation philanthropy activities independent of their earnings. Firm in the United States actively involved in philanthropic activities. Implicit in the study is that there are two methods to contribute to the stakeholders: the firm directly contributes to the stakeholders through investment to improve environmental quality and society welfare, and the firm indirectly contributes to the stakeholders through government by paying taxes.

Second, firms saw a responsibility to stakeholders as a burden to do business. They try to find loopholes. Firm report their responsibility performance without substance. Pucker (2021) finds that responsibility disclosure not supported by business philosophy and process does not contribute to improving environmental quality and societal welfare. Fatemi et al. (2018) finds that disclosure of firm responsibility without substance receives investors' negative perception, which is reflected in lower firm value. Stakeholders may go far by accusing disclosure without substance as greenwashing (de Freitas Netto et al., 2020). Firm

responsibility disclosure is costly and reduces profitability (Jiang et al., 2022). Some firms try to lessen the burden by compensating bad deeds with philanthropy activities. Brammer and Pavelin (2004) find that philanthropy activities improve firm reputations. Sheehan et al. (2023) report that philanthropy activities without clear objectives have a small contribution to Environment, Social, and Governance (ESG) performance.

Third, firms that are attracted to the benefits of fulfilling stakeholder responsibility. Fafaliou et al. (2022) create customer loyalty and attract new customer segments, invest in more resource-efficient capabilities to increase the efficiency of natural resources usage and pollution processing, and attract more talent that demands purposeful work. Derwall et al. (2005) find that firms with higher efficiency in managing natural resources have higher stock return performance.

Hypothesis Development

There are different types of relations between shareholders and stakeholders. First, shareholders that believe in their role in improving stakeholders' welfare (Alstadsæter et al., 2022; Brammer & Millington, 2010; Brammer & Pavelin, 2004; Carroll & Joulfaian, 2005). Second, shareholders that believe it is not their role to improve stakeholders' welfare (de Freitas Netto et al., 2020; Pucker, 2021; Sheehan et al., 2023). And third, shareholders that believe improving stakeholders' welfare is a means to gain a higher benefit (Brammer & Pavelin, 2004; Derwall et al., 2005; Fafaliou et al., 2022; Kanno, 2023; Schiemann & Tietmeyer, 2022). Relations number one and three results in firm changing their business process to accommodate higher contributions to the stakeholders. Firm in relation number two will maintain their business process for the benefit of shareholders only.

The relations between shareholders and stakeholders will also determine their ESG activities and disclosure scores. The firm, that receives a mandate to contribute to improving environmental quality and society's welfare while maintaining good corporate governance, will have inclinations to disclose more than regulations requirements. The firm that focuses only on shareholders' benefits will spend its resources to maximize firm profits, including minimizing disclosure costs. The implication is higher disclosure scores reflects the firm and shareholders' concern and activities for the stakeholders' benefits.

Government is a firm's important stakeholder. Government has the authority to collect value-added tax, corporate and dividend income tax. The government uses the tax revenue to invest in infrastructure that contributes to achieving Sustainable Development Goals (Kouam & Asongu, 2022; Rahman, 2022). However, the government provides tax regulations loopholes that enable firms to plan and delay tax obligation payments (Gamannossi degl'Innocenti et al., 2022). The tax loopholes reduce the government's tax revenue and ability to maximize investments to achieve Sustainable Development Goals (SDG) targets.

Carroll and Joulfaian (2005) report that in the United States, it is common for firms to give charity without needing tax returns. Gavious et al. (2022) firm chooses to reduce their tax avoidance activities to reduce tax office scrutiny. Patten (2008) study shows that investors can differentiate charity with good intentions and the motive of money. Even though tax avoidance is legal, tax avoidance is not necessarily perceived as ethical by the stakeholders. If the stakeholders perceive tax avoidance as unethical, the firm's reputation will be tarnished, reducing its sustainability significantly (Fafaliou et al., 2022). Ling and Liu (2023) report that some firms' philanthropy activities are based on goodwill, not to compensate for harm.

Davis et al. (2016) report two conflicting views. First, some firms believe that paying taxes to the government wastes resources. They believe they should delay the payment of tax obligation and use the tax money for innovation and contribute. In doing so, they believe they could contribute more to the environment and society through better products and pollution management. Second, some firms view tax as part of social responsibility, and firms voluntarily pay tax to help the government to speed up investment in public goods for greater coverage of goods.

Firm current growth and profitability, financial constraints, future growth opportunity, and size influence a firm's tax avoidance. Chen and Xie (2022) studied the relationship between ESG disclosure scores and financial performance. They find that firms with stronger financial performance tend to have higher ESG disclosure scores. Mohammad and Wasiuzzaman (2021) report that ESG disclosure scores has strong relations with firm performance. The firm with higher financial performance has more

opportunities to engage in tax avoidance activities.

Myers and Majluf (1984) propose the pecking order theory to explain the effect of information asymmetry on a firm source of financing. They suggest cost of capital is increasing with the level of information asymmetry. The source of capital with the highest information asymmetry will have the highest cost of capital. Optimal capital structure is obtained when the firm uses the source of financing with the lowest cost of capital. Tax avoidance is an activity to delay tax obligation payments. Tax avoidance is a source of financing with the lowest cost of capital and, at the same time, with large information asymmetry. Tax authorities do not build the capacity to assess the firm prospects. Tax authorities focus on firm compliance to pay taxes. As long it is legal to do tax avoidance, the tax authority will do nothing. Firms with large uses of debt financing tend to maximize the fund obtained from tax avoidance activities to lower their financial constraints.

Studies show that firms engage in tax avoidance to finance firm growth. Zheng (2017) finds that a stand-alone firm is more inclined to tax avoidance than a diversified firm. Stand-alone firm has more limited sources of financing than diversified firms. Shams et al. (2022) find that firm with weak governance mechanisms use money from tax avoidance activities to finance firm growth. Firms with larger growth opportunities tend to have larger tax avoidance.

Firms with larger sizes tend to attract global investors. Chauhan and Kumar (2019) report the increasing scrutiny from global investors for firm ESG disclosure. The information gathered from ESG disclosure helps the investor to assess firm growth and risk potential beyond the reported financial statements. Other stakeholders, such as media, Non-Governmental Organizations, regulators, and ESG rating agencies, increase their scrutiny of firm ESG performance (Neureiter & Bhattacharya, 2021). Gavious et al. (2022) report firm speed up tax obligations payments to reduce scrutiny from tax authority.

Based on the above discussion, the hypothesis offered is:

H1: ESG disclosure scores influences tax avoidance.

METHOD

Research Design

We perform descriptive and panel data regression to estimate the effect of ESG score disclosure scores on tax avoidance. The descriptive

Table 1. Variable Notation and Measurement

Variable	Notation	Formula	Source
Dependent Variable			
Total Deferred Tax to Total Asset	$TaxAvoid_{it}$	$TaxAvoid_{it}$ = (Short Term Deferred Tax $Asset_{it}$ + Long Term Deferred Tax $Asset_{it}$) - (Short Term Deferred Tax $Liabilities_{it}$ + Long Term Deferred Tax $Liabilities_{it}$)/Total $Asset_{it}$	S&P Capital IQ
Independent Variable			
ESG Disclosure	ESG_{it}		Bloomberg
Control Variables			
Firm growth and profitability			
Earnings Before Interest Tax Depreciation and Amortization Margin	$EBITDA_{it}$	EBITDA $Margin_{it}$ = $EBITDA_{it}$/$Revenue_{it}$	S&P Capital IQ
Revenue Growth One Year	Rev_{it}		S&P Capital IQ
Financial constraints			
Leverage	Lev_{it}	Debt to Total $Assets_{it}$ = Total $Debt_{it}$/Total $Asset_t$	S&P Capital IQ
Firm future growth opportunity			
Capital Expenditure to Total Assets	$CapexTA_{it}$	$CapexTA_{it}$ = Capital $Expenditure_{it}$/Total $Asset_{it}$	S&P Capital IQ
Price to Book Value	PBV_{it}		S&P Capital IQ
Firm size			
Firm Asset	$lnAsset_{it}$	$lnAsset_{it}$ = ln (Total $Asset_{it}$)	S&P Capital IQ
Firm	i		
Time	t		

analysis describes standard data characteristics, such as mean, standard deviation, and correlation among variables.

Data Collecting

Data needed to estimate the effect of ESG disclosure scores on firm tax avoidance are ESG score and financial data. The ESG (Environment Social Governance) scores for all Indonesian public companies, excluding the financial sector, are obtained from Bloomberg Terminal. The total complete data from 2015-2021 is 104 firm data or 728 observations. Bloomberg ESG disclosure scores is calculated using public data, such as media disclosure, annual report, and ESG reports (Yoo & Managi, 2022). The Bloomberg ESG disclosure scores was chosen because the ESG disclosure scores do not differentiate between good and bad disclosure. As firm disclose more ESG related activities, both good and bad, firm will have higher ESG disclosure scores. Hence, Bloomberg ESG disclosure scores is more prone to manipulation, which is consistent

with tax avoidance characteristic. The financial data, such as current growth and profitability, financial constraints, future growth opportunities, and size, is obtained from S&P Capital IQ.

Data Analysis

We test the hypothesis using the panel data regression method. There are three-panel data regression models: Pooled Least Square Model (PLS), Fixed Effect Model (FE), and Random Effect Model (RE). We perform several tests to choose the best model. Chow Test to choose between PLS and FE. Hausman Test to choose between FE and RE. Lagrange Multiplier test to choose between RE and PLS. After the best model is decided, we perform partial and simultaneous regression models. The method enables us to estimate the significance and contribution of each independent variable and the control variables on the dependent variable. The panel-data regression models are:

$$TaxAvoid_{it} = \alpha 0 + \beta 1ESG_{it} + \varepsilon_{it} \quad (1)$$

$$TaxAvoid_{it} = \alpha 0 + \beta 2EBITDA_{it} + \beta 3Rev_{it} + \beta 4Lev_{it} + \beta 5CapexTA_{it} + \beta 6PBV_{it} + \beta 7lnAsset_{it} + \varepsilon_{it} \quad (2)$$

$$TaxAvoid_{it} = \alpha 0 + \beta 1ESG_{it} + \beta 2EBITDA_{it} + \beta 3Rev_{it} + \beta 4Lev_{it} + \beta 5CapexTA_{it} + \beta 6PBV_{it} + \beta 7lnAsset_{it} + \varepsilon_{it} \quad (3)$$

RESULTS AND DISCUSSION

Results

The focus of our study is the Bloomberg Environmental, Social, and Governance (ESG) disclosure scores influence to tax avoidance. The descriptive statistics of independent, dependent, and control variables is presented in Table 2. The positive value of total deferred tax to total asset ratio suggest firm paying its tax obligation in advance or deferred tax asset is larger than deferred tax liabilities. The descriptive statistics shows that public firm in Indonesia for 2015-2021 paying their tax obligation in advance as shown by the positive value of the total deferred tax to total asset ratio 0.0022. The range of total deferred tax to total asset ratio is -12.92% to 18.42%. The findings suggest that there are firm that choose to delay its tax obligation payments or tax avoidance and firm that choose to pay its tax obligation in advance.

The Bloomberg ESG disclosure scores is an average value of Environmental, Social, and Governance disclosure score. The weight is the same for all disclosures, i.e., 33.33%. The Bloomberg ESG disclosure scores is dominated by the Governance disclosure scores. There are many firms that have low or not reporting Environment and Social

Table 2. Descriptive Statistics

Description	Obs	Mean	Standard Deviation	Minimum	Maximum
TaxAvoid	714	0.0022	0.0022	- 0.1292	0.1842
ESG	650	36.9945	11.6858	12.5239	70.2444
EBITDA	586	0.1657	0.1657	- 13.0862	0.8135
Rev	717	20.0823	20.0823	- 84.3928	6,302.0370
Lev	713	0.2280	0.2280	0.0000	1.4791
CapexTA	714	0.0404	0.0404	0.0000	0.3767
PBV	677	2.0251	2.0252	0.5516	35.6336
lnAsset	714	7.5757	7.5757	3.7280	11.7045

disclosure scores. The method to measure corporate governance disclosure scores has a longer history and relatively established (Gompers et al., 2001) than environment and social disclosure scores. Average Bloomberg ESG disclosure scores is 36.9945 with the lowest value of 12.5239 and the highest value 70.2444.

The correlation between total deferred tax to total assets and Bloomberg ESG scores is -0.00437. Total deferred tax to total assets ratio is relatively volatile for 2015-2021. However, within the same period, Bloomberg ESG disclosure scores is steadily increasing.

Descriptive Statistics

TaxAvoid represent Total Deferred Tax to Total Asset ratio. ESG represent Environment, Social, and Governance Disclosure Scores. EBITDA represent Earnings Before Interest Tax Depreciation and Amortization margin. Rev represents one year revenue growth in percentage. Lev represent Debt to Total Assets ratio. CapexTA represent Capital Expenditure to Total Asset ratio. PBV represent Price to Book Value ratio. lnAsset represent natural logarithm of Total Assets. Obs refers to number of observations.

We perform Chow Test and Hausman Test to choose the best model for panel data regression. The tests show that fixed effect model is the best model for panel data regression.

The fixed effect model is shown in Table 3. The model 1 analyze the relations of Bloomberg ESG disclosure scores and total deferred tax to total assets. The beta coefficient of Bloomberg ESG disclosure scores is negative 0.0001 and significant at alpha 10%. The model 2 analyze the relations of total deferred tax to total assets and firm's current growth and profitability, financial constraints,

Table 3. Regression Analysis

TaxAvoid	Model 1		Model 2		Model 3	
ESG	-0.0001	*			0.0004	***
EBITDA			0.0023	**	0.0020	*
Rev			0.0000		0.0000	
Lev			0.0074		0.0103	*
CapexTA			0.0241		0.0397	**
PBV			-0.0005		-0.0006	
lnAsset			-0.0065	***	-0.0135	***
Constant	-0.0027		0.0470	***	0.0835	***
R-Square	0.0050		0.0317		0.0763	

Note: ***,**,* mean significant at 1%, 5%, and 10%.

future growth opportunity, and size. There are two variables that significant: firm profitability that represented by EBITDA margin results in coefficient 0.0023 and significant at alpha 5% and firm size that represented by natural logarithm of fixed assets results in coefficient -0.0065 and significant at alpha 1%.

The model 3 analyze the relations between Bloomberg ESG disclosure scores to total deferred tax to total assets, controlled by current growth and profitability, financial constraints, future growth opportunity, and size. The effect of Bloomberg ESG disclosure scores to total deferred tax to total assets is getting stronger, from negative 0.0001 and significant at alpha 10% to 0.0004 and significant at alpha 1%. The findings provide empirical evidence to support hypothesis one that Bloomberg ESG disclosure scores influence tax avoidance. The control variables that statistically significant increased from two variables, i.e., firm profitability as represented by EBITDA margin and firm size as represented by natural logarithm of firm assets, to four variables, i.e., firm profitability, firm financial constraints as represented by debt to total assets, firm future growth opportunity as represented by capital expenditure to total assets, and firm size. The model 3 has higher R-Square, i.e., 0.0763, than model 1 and model 2 combined, i.e., 0.0050 and 0.0317, respectively.

Discussion

The paper relates two grand theories: stakeholders' capitalism and information economics. The stakeholder's capitalism discusses the different shareholders, i.e., firms, believe regarding their relations with stakeholders. There are shareholders that believe in 1. the importance of improving stakeholders' welfare without considering benefits and costs; 2. the costs of not contributing

to stakeholders' welfare; and 3. the benefits of contributing to stakeholders' welfare. The shareholders believe influence their ESG activities, including Environmental, Social, and Governance (ESG) disclosure scores.

We found evidence that firm with high Bloomberg ESG disclosure scores, after controlling for firm growth and profitabilities, financial constraints, future growth, and asset, did not involve in tax avoidance activities. The firm with high Bloomberg ESG disclosure scores has higher deferred tax asset relative to deferred tax liabilities. Our findings support the study of Alstadsæter et al. (2022), Brammer and Millington (2010), Brammer and Pavelin (2004) and Carroll and Joulfaian (2005) that found shareholder have sincere concern toward its stakeholder's welfare, and the study of Jiang et al. (2022) that found firm with higher Corporate Social Responsibility (CSR) reduce their tax avoidance activities.

Firm consider benefits and costs for ESG disclosure scores. Firm provides more positive ESG related information that supported by real positive ESG related activities. Our findings consistent with the study of Fafaliou et al. (2022) that found firm avoiding activities that could be perceived negative activities by stakeholders eventhough the activities, such as tax avoidance, is legal and Ling and Liu (2023) that found firm activities were based on goodwill, not to gain benefits or compensate for harms. Our findings contradict Mateo-Márquez et al. (2022) that found firms tend to exaggerate their performance in managing environmental issues and Davis et al. (2016) that found firm with higher CSR scores tend to have higher tax avoidance activities.

Our study results suggest that efforts to promote ESG disclosure scores already successful in changing firm behaviour towards stakeholders. However, there are rooms for improvements because of a relatively small nett value of deferred tax asset relative to deferred tax liabilities. Government can contribute more by enacting law and regulations to attract global investors with ESG mandate. The investors with ESG mandate should perform two tasks: provide financing for firm to improve their competencies to contributes to the achievement of ESG performance target and provide incentives through higher firm value for firm with high ESG performance. Government through tax authority also need to provide incentives for firm to embrace deferred tax assets activities as

opposed to current practice that prohibit deferred tax liabilities only.

The model 3 results suggest that firm financial constraints and growth opportunity do not contribute either to deferred tax asset or liabilities. Firm debt to total asset and capital expenditure to total asset ratio have positive relations with total deferred tax. Table 2 shows that average firm have positive total deferred tax. The findings imply firms tax avoidance activities is not influenced by firm's financial constraints and growth opportunity but influenced by firm's commitment to the ESG related activities.

CONCLUSION, IMPLICATION AND LIMITATION

Philanthropy activities have been around since ancient times. Start from individual and now permeates into firm philanthropy activities. Consensus will always adapt to current circumstances. In the past, the consensus is government and firm have clear and separate responsibility. It is the government responsibility to invest in public goods to improve the environment quality and society welfare. It is the firm responsibility to maximizing profits and in doing so, firm will pay larger tax obligation. Firm that maximizes profit help government to have larger public goods investments. In the last three decades and in the foreseeable future, the responsibility segregation is blurring. Firms are encouraged and willing to help government to contribute directly to Environmental, Social, and Governance (ESG) related activities.

The firm contributions to the ESG related activities may be motivated by purely philanthropy, avoiding negatives, and gaining benefits. Firm that is motivated by philanthropy have higher deferred tax asset relative to deferred tax liabilities. Firm that is motivated by avoiding negatives will maximizing tax avoidance activities. Firm that is motivated by gaining benefits will engage in low tax avoidance activities. The descriptive statistics shows that firms in Indonesia for 2015-2021 on average have larger deferred tax asset relative to deferred tax liabilities. The panel data regression analysis shows that firm with high Bloomberg ESG disclosure scores have higher deferred tax assets relative to deferred tax liabilities. The findings support the hypothesis ESG disclosure score influence tax avoidance. We also find that the deferred tax assets and liabilities values were not affected by their financial constraints and growth opportunities. Hence, tax avoidance activities are a matter of firm's

commitment not capabilities and opportunities.

There are four major ESG rating agencies: Bloomberg, Refinitiv, Morgan Stanley Capital International (MSCI), and Sustainalytics. The ESG disclosure scores from Bloomberg focuses on number of disclosures. More disclosure will result in higher ESG disclosure scores. The Bloomberg ESG disclosure scores focus on the basic firm disclosure that do not differentiate between good or bad activities disclosure. We need more research that study a more complex ESG rating. Refinitiv and MSCI focuses on the firm's ESG performance number. For instance, board diversity score will be higher if the proportion of woman and independent directors is higher. Sustainalytics focuses on the firm's activities on avoiding negative, i.e., manageable, and unmanageable risks. Lower ESG scores means firm possess high ability to manage the ESG related risks. The future research should be directed to compare the effect of different ESG rating from different provider on the firm tax avoidance activities.

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