

**THE EFFECT OF ESG PERFORMANCE, EXECUTIVE
COMPENSATION, AND CAPITAL INTENSITY
ON TAX AVOIDANCE****Yulia Eva Listiani¹⁾, Richo Diana Aviyanti²⁾, Anggita Langgeng Wijaya³⁾**¹Accounting Department, Faculty of Economics and Business, Universitas PGRI Madiun
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gonggeng14@gmail.com***Abstrak***

Penelitian ini bertujuan menguji pengaruh ESG Performance, Kompensasi Eksekutif, dan *Capital Intensity* terhadap *Tax Avoidance* pada perusahaan sektor *Consumer Non-Cyclical* periode 2021–2024. Sampel penelitian berjumlah 53 perusahaan dengan total observasi sebanyak 212 data setelah eliminasi outlier. Penelitian menggunakan purposive sampling dalam pemilihan sampel. Analisis data dilakukan dengan regresi linier berganda menggunakan SPSS 25. Penelitian ini berlandaskan teori agensi yang menggambarkan konflik kepentingan antara Direktorat Jenderal Pajak sebagai prinsipal dan perusahaan sebagai agen. Hasil pengujian menunjukkan bahwa *ESG Performance*, Kompensasi Eksekutif, dan *Capital Intensity* berpengaruh signifikan terhadap *Tax Avoidance*. Sebagai saran, penelitian selanjutnya dapat menambahkan variabel moderasi untuk memperluas pemahaman mengenai faktor-faktor yang memengaruhi praktik *Tax Avoidance*.

Kata Kunci: *ESG Performance, Kompensasi Eksekutif, Capital Intensity, Tax Avoidance*

Abstract

This study aims to examine the effect of ESG Performance, Executive Compensation, and Capital Intensity on Tax Avoidance in consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The research sample consists of 53 companies with a total of 212 observations after eliminating outliers. The sample was selected using the purposive sampling method. Data analysis was conducted using multiple linear regression with SPSS 25. This study is based on agency theory, which describes the conflict of interest between the Directorate General of Taxes as the principal and companies as the agent. The results show that ESG Performance, Executive Compensation, and Capital Intensity have a significant effect on Tax Avoidance. For further research, it is suggested to include moderating variables to provide a deeper understanding of the factors influencing Tax Avoidance practices.

Keywords: *ESG Performance, Executive Compensation, Capital Intensity, Tax Avoidance*

A. INTRODUCTION

Taxes are a major component of state revenue, playing an important role in supporting development and improving public welfare. However, not all taxpayers demonstrate optimal compliance. One of the strategies often employed by companies to reduce their tax burden is tax avoidance, a legal yet aggressive effort to minimize tax obligations by exploiting loopholes in tax regulations (Khan & Nuryanah, 2023).

The phenomenon of tax avoidance has become a serious concern as it potentially reduces state revenue and creates unequal tax burdens among entities. This practice is also found in the Consumer Non-Cyclical sector, which is an essential sector in supporting the national economy. According to the Ministry of Industry, the food and beverage, pharmaceutical, and healthcare subsectors contributed more than IDR 4,200 trillion to the national Gross Domestic Product (GDP) during 2021–2023 (Ruhlessin & Alexander, 2024). However, their tax contributions remain relatively low compared to the value added generated. This indicates the potential existence of tax avoidance practices in sectors directly related to basic public needs.

Tax avoidance practices can be identified through the low effectiveness of tax payments by an entity. For example, several consumer non-cyclical sector companies listed on the IDX recorded Effective Tax Rate (ETR) values below 10% during 2021–2023, far lower than the corporate income tax rate of 22% under Law No. 7 of 2021 (Martin & Indrati, 2024). The OECD (2021) classifies consistent ETR values below 15% as an indication of tax avoidance practices. Such tax avoidance behavior is influenced by various internal and external factors of companies. One internal factor is executive compensation, where managers receiving high incentives tend to be motivated to pursue tax efficiency strategies to increase corporate profits (Firmansyah & Pratiwi, 2024). Another factor is capital intensity, namely the proportion of fixed assets to total assets, which opens opportunities for tax planning through depreciation (Pratiwi & Oktaviani, 2021). In

addition, ESG Performance is also believed to play an important role, as companies with strong commitments to environmental, social, and governance aspects tend to maintain legitimacy and public reputation by being more compliant with tax regulations (Khan & Nuryanah, 2023; Supriono, 2024).

Based on this background, this study aims to examine the effect of ESG Performance, Executive Compensation, and Capital Intensity on Tax Avoidance in consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the contractual relationship between the principal and the agent, where the principal acts as the authority provider and the agent as the party carrying out tasks on behalf of the principal. In the taxation context, the Directorate General of Taxes (DGT) acts as the principal responsible for overseeing tax compliance, while companies or management act as the agent responsible for tax reporting and payment (Jensen & Meckling, 1976). Differences in interests and the existence of information asymmetry between DGT and companies can lead to conflicts of interest. In such situations, management may engage in tax avoidance practices to minimize tax burdens, which can be seen as an effort to manage tax obligations (Dewi & Yasa, 2020).

Tax Avoidance

Tax avoidance is a legal but intensive strategy employed by companies to minimize tax obligations by exploiting loopholes in tax regulations, thus formally not violating the law but reducing tax contributions that should be paid (Rahman, 2021). Based on agency theory, the difference in interests between the principal (DGT) and the agent (management) encourages managers to engage in tax avoidance to increase net profit and obtain greater incentives (Martin & Indrati, 2024).

ESG Performance

ESG Performance refers to a company's performance in environmental, social, and governance aspects, reflecting its level of concern for sustainability. From the perspective of agency theory, managers focusing on ESG compliance tend to suppress tax avoidance practices as they relate to legitimacy and corporate reputation (Khan & Nuryanah, 2023).

Previous studies have shown that companies with good ESG performance are more compliant with tax regulations. Safitri, Zirman, & Supriono (2024) found that ESG performance is associated with tax planning strategies. In the Consumer Non-Cyclical sector, ESG factors are particularly relevant because companies in this sector (e.g., food, beverage, and healthcare companies) directly interact with consumers and the public, making sustainability and tax compliance crucial for consumer trust.

H₁ : ESG Performance has a significant effect on Tax Avoidance

Executive Compensation

Executive compensation is the reward given to top management as recognition for their performance. Based on agency theory, executives are motivated to improve financial performance because their compensation and incentives are directly linked to net income.

Previous research indicates that executive compensation can influence tax avoidance practices. Firmansyah & Pratiwi (2024) found that executive compensation is associated with a company's tendency to engage in tax avoidance. Syaputra & Yurniwati (2022) also noted that executives with higher incentives are more likely to adopt aggressive policies, including tax management strategies. In the Consumer Non-Cyclical sector, this is important as competitive pressure pushes management to maintain profitability through tax efficiency to meet shareholder expectations and sustain profit margins.

H₂ : Executive Compensation has a significant effect on Tax Avoidance

Capital Intensity

Capital Intensity is the ratio of fixed assets to total assets of a company. High capital intensity provides opportunities for tax efficiency through depreciation expenses. Within agency theory, managers may use this strategy to minimize tax burdens and increase net income.

Previous studies support the view that capital intensity influences tax policies. Pratiwi & Oktaviani (2021) argued that companies with high capital intensity tend to have greater flexibility in tax management. Supriyatno, Kismanah, Kimsen, & Pagandi (2024) also confirmed that capital intensity correlates with tax avoidance levels. This variable is particularly relevant in the Consumer Non-Cyclical sector since industries such as food, beverage, and pharmaceuticals are asset-intensive (factories, warehouses, production machinery), opening opportunities for depreciation-based tax planning.

H₃ : Capital Intensity has a significant effect on Tax Avoidance

B. METHOD

This study employs a quantitative approach with samples from consumer non-cyclical sector companies listed on the Indonesia Stock Exchange during 2021–2024. Samples were selected using the purposive sampling method with criteria including consistent listing in the sector, annual report publication, and availability of complete data related to the research variables. A total of 53 companies were obtained, and after eliminating outliers, 212 observations were used for testing.

Operational Variable Measurement

Tabel 2.1 Operational Variable Measurement

Variabel	Measurement	Reference
ESG Performance (X1)	ESG = ESG score (0–100) or ESG Disclosure Index	(Khan & Nuryanah, 2023; Safitri et al., 2024)
Executive Compensation (X2)	KOMP = ln(Total Executive Compensation)	(Firmansyah & Pratiwi, 2024)
Capital Intensity (X3)	$CI = \frac{\text{Fixed assets}}{\text{Total assets}}$	Pratiwi & Oktaviani, 2021; Supriyatno et al., 2024)
Tax Avoidance (Y)	$ETR = \frac{\text{Tax expense}}{\text{Profit before tax}}$	(Martin & Indrati, 2024; Rahman, 2021)

C. RESULTS AND DISCUSSIONS

Based on the results of data processing, the following test results were obtained:

1. Descriptive Statistics

Tabel 3.1 Descriptive Statistical Test Results

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
ESG	212	3.03	42.42	15.7091	6.88048
Kompensasi Eksekutif	212	.11	14.49	3.7116	1.92481
Capital Intensity	212	.01	.77	.3364	.16466
Tax Avoidance	212	.16	.31	.2216	.02917
Valid N (listwise)	212				

Descriptive statistics show that ESG Performance has a minimum value of 3.03, maximum 42.42, mean 15.7091, and standard deviation 6.88048. Executive Compensation has a minimum value of 0.11, maximum 14.49, mean 3.7116, and standard deviation 1.92481. Capital Intensity has a minimum value of 0.01, maximum 0.77, mean 0.3364, and standard deviation 0.16466. Tax Avoidance, proxied

by ETR, has a minimum value of 0.16, maximum 0.31, mean 0.2216, and standard deviation 0.02917.

2. Classical Assumption Tests

1) Normality Test

Tabel 3.2 Normality Test Result

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		212
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.02807397
Most Extreme Differences	Absolute	.041
	Positive	.037
	Negative	-.041
Test Statistic		.041
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

The significance value is $0.200 > 0.05$, so the data is normally distributed.

1) Multicollinearity Test

Table 3.3 Multicollinearity Test Results

Coefficients ^a		
Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
ESG	.999	1.001
Kompensasi Eksekutif	.982	1.018
Capital Intensity	.983	1.017

a. Dependent Variable: Tax Avoidance

The results of the multicollinearity test show that all independent variables have a tolerance value > 0.10 and $VIF < 10$, so there is no multicollinearity problem in the regression model.

2) Heteroscedasticity Test

Table 3.4 Heteroscedasticity Test Results

Coefficients ^a			
Model		t	Sig.
1	(Constant)	5.859	.000
	ESG	-1.923	.056
	Kompensasi Eksekutif	.430	.668
	Capital Intensity	.500	.618

a. Dependent Variable: ABS_RES

The results of the Glejser test show that the significance value of the ESG Performance (0.056), Executive Compensation (0.668), and Capital Intensity (0.618) variables is > 0.05 , so that heteroscedasticity does not occur and the assumption of homoscedasticity is met.

3) Autocorrelation Test

Table 3.5 Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.272 ^a	.074	.061	.02828	1.865

a. Predictors: (Constant), LAG_X3, LAG_X2, LAG_X1
b. Dependent Variable: LAG_Y

The Durbin-Watson value of 1.865 is above the lower limit and still below the upper limit (1.7872) and below 4 minus the upper limit (2.2128), indicating no autocorrelation in the regression model. Thus, the assumption of residual independence is met.

2) Multiple Linear Analysis

Table 3.6 Multiple Linear Analysis Test Results

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		Sig.
Model		B	Std. Error	Beta	t	
1	(Constant)	.218	.007		31.218	.000
	ESG Performance	-.001	.000	-.230	-3.515	.001
	Kompensasi Eksekutif	.002	.001	.137	2.078	.039
	Capital Intensity	.032	.012	.182	2.771	.006

a. Dependent Variable: Tax Avoidance

The results of multiple linear regression indicate that ESG Performance ($\beta = -0.230$; $p = 0.001$), Executive Compensation ($\beta = 0.137$; $p = 0.039$), and Capital Intensity ($\beta = 0.182$; $p = 0.006$) significantly influence tax avoidance. Simultaneously, these three variables contribute significantly to explaining variations in tax avoidance in companies in the Consumer Non-Cyclical sector.

3) F test

Tabel 3.7 F Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.013	3	.004	5.539	.001 ^b
	Residual	.166	208	.001		
	Total	.180	211			

a. Dependent Variable: Tax Avoidance
b. Predictors: (Constant), Capital Intensity, ESG, Kompensasi Eksekutif

The F-test results showed a value of 5.539 with a significance level of $0.001x(p < 0.05)$, indicating that ESG Performance, Executive Compensation, and Capital Intensity simultaneously significantly influence tax avoidance. This regression model is suitable for predicting the dependent variable and is able to explain variations in tax avoidance in companies in the consumer non-cyclical sector.

4) T-Test

Tabel 3.8 T-Test Results

Model		Coefficients ^a		Beta	t	Sig.
		Unstandardized Coefficients	Standardized Coefficients			
1	(Constant)	.218	.007		31.218	.000
	ESG Performance	-.001	.000	-.230	-3.515	.001
	Kompensasi Eksekutif	.002	.001	.137	2.078	.039
	Capital Intensity	.032	.012	.182	2.771	.006

a. Dependent Variable: Tax Avoidance

a) The Effect of ESG Performance on Tax Avoidance (H1)

The t-test results show a regression coefficient of -0.001 for ESG Performance with a significance level of 0.001 ($p < 0.05$). This indicates that ESG Performance significantly influences tax avoidance. H1 is accepted.

This finding is consistent with agency theory, which explains that the implementation of ESG principles increases transparency and accountability, which ultimately influences corporate tax policy. Companies with high ESG scores tend to be more cautious about tax avoidance to maintain their reputation and stakeholder trust. This finding aligns with research by Khan & Nuryanah (2023) and Safitri et al. (2024), which states that ESG practices influence corporate tax avoidance strategies.

b) The Effect of Executive Compensation on Tax Avoidance (H2)

The t-test results show a regression coefficient of 0.002 for Executive Compensation with a significance level of 0.039 ($p < 0.05$). This indicates that Executive Compensation has a significant effect on Tax Avoidance. H2 is accepted.

These results support agency theory, where executives, as agents, have an incentive to increase company profits because it is directly related to the

compensation they receive. Higher compensation can influence executive decisions regarding tax strategies, including engaging in tax avoidance to reduce the tax burden. This finding aligns with research by Firmansyah & Pratiwi (2024) and Syaputra & Yurniwati (2022), which showed that executive compensation is associated with management's tendency to engage in tax avoidance.

c) The Effect of Capital Intensity on Tax Avoidance (H3)

The t-test results show that Capital Intensity has a regression coefficient of 0.032 with a significance value of 0.006 ($p < 0.05$). This indicates that Capital Intensity has a significant effect on Tax Avoidance. H3 is accepted.

This finding suggests that companies with a high proportion of fixed assets have a greater opportunity to utilize depreciation expenses as a reduction in taxable income. This situation opens up opportunities for companies to implement tax avoidance strategies. These results align with research by Pratiwi & Oktaviani (2021) and Supriyatno et al. (2024), which found that capital intensity is a significant factor influencing tax avoidance rates in capital-intensive companies.

5) R Square Test

Tabel 3.9 R Square Test Results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.632 ^a	.400	.391	.02277

a. Predictors: (Constant), Capital Intensity, ESG, Kompensasi Eksekutif

The regression results show a coefficient of determination (R^2) of 0.400, meaning that ESG Performance, Executive Compensation, and Capital Intensity together explain 40.0% of the variation in Tax Avoidance. The Adjusted R^2 value of 0.391 indicates that approximately 39.1% of the variation

in Tax Avoidance can be explained by the model, while the remaining 60.9% is influenced by factors outside this study.

D. CONCLUSION

This study shows that ESG Performance, Executive Compensation, and Capital Intensity have a significant influence on Tax Avoidance in Consumer Non-Cyclical sector companies. The implementation of ESG encourages companies to be more transparent and prudent in their tax strategies, while the amount of executive compensation provides incentives for management to manage tax burdens to maximize profits. Furthermore, high capital intensity, reflected in the large amount of fixed assets, allows companies to utilize depreciation expenses as a tax efficiency measure. However, this study has limitations because it does not test moderating variables or control variables that could potentially enrich understanding of the influence of ESG Performance, Executive Compensation, and Capital Intensity on Tax Avoidance.

E. SUGGESTIONS

Further research is recommended to add the moderating variable Audit Quality to see its influence in limiting Tax Avoidance practices that are influenced by ESG Performance, Executive Compensation, and Capital Intensity.

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