

# **Do Profits Drive Tax Behavior? An Empirical Analysis of CSR and Green Accounting in the Tax Avoidance Landscape**

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## ABSTRACT

Tax avoidance in the consumer goods industry poses a significant challenge for sustaining national revenue, despite this sector being a major contributor to Indonesia's tax income. This study aims to analyze the influence of financial performance and green accounting on tax avoidance with Corporate Social Responsibility (CSR) as a mediating variable in companies in the consumer goods industry sector on the IDX in 2020-2023. A total of 30 companies in the consumer goods industry sector were obtained as samples for this study using purposive-sampling techniques. This study's methodology is quantitative research, which includes explanatory research. The variables in this study were measured using Return on Assets (ROA) toward financial performance, dummy approach toward green accounting, GRI index toward CSR, and Effective Tax Rate (ETR) toward tax avoidance. The analysis used panel data regression and the Sobel test through Interactive Mediation Tests. The study's findings indicated that financial performance significantly impacts tax avoidance. Meanwhile, tax avoidance is not much impacted by CSR or green accounting. Green accounting and financial performance also have little bearing on CSR. Furthermore, CSR acts as an intervener between the impact of green accounting along with tax avoidance, but not between the influence of financial performance and tax avoidance. These insights contribute to a deeper understanding of the interplay between financial health, sustainability practices, and tax strategies in the consumer goods sector.

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## **1. Introduction**

In recent decades, the issue of tax avoidance has garnered increasing attention within the discourse on sustainable corporate governance. Numerous multinational and domestic companies frequently exploit legal loopholes to minimize their tax burdens, even while reporting strong financial performance and substantial profits (Ajmal et al., 2025; Ali et al., 2024; Djolafo, 2022). Such practices raise ethical concerns and pose reputational risks, particularly when companies fail to demonstrate fiscal responsibility that aligns with their profitability. In response to growing pressure from stakeholders, the emergence of sustainability reporting practices such as green accounting

and Corporate Social Responsibility (CSR) is expected to enhance transparency and reinforce corporate accountability in addressing environmental and social issues (Ali et al., 2024).

Green accounting is regarded as a reporting approach that assesses financial performance and considers the environmental impact of business activities. Meanwhile, Corporate Social Responsibility (CSR) plays a vital role in social legitimacy, reflecting a company's commitment to public values and adherence to social norms. However, the literature reveals mixed and often contradictory findings regarding the effectiveness of these two approaches in curbing tax avoidance practices (Cao et al., 2024). Some studies suggest that firms with strong CSR engagement exhibit more ethical fiscal behavior. In contrast, other studies highlight that CSR is often employed symbolically to project a socially responsible image without being accompanied by substantive actions—a phenomenon commonly called CSR decoupling (Velte, 2025; Wahab et al., 2022).

Given the existing theoretical and empirical uncertainties, this study aims to systematically examine the causal relationship between financial performance and green accounting on tax avoidance, with Corporate Social Responsibility (CSR) as a mediating variable. The research focuses on companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) during 2020–2023, employing a quantitative approach and panel regression modeling to identify both direct and indirect effects among the variables. This study contributes to bridging the gap in the literature, which remains characterized by inconsistent findings, while enriching academic discourse with empirical evidence from a developing country context that has received limited scholarly attention. The findings are further expected to offer practical implications for policymakers and investors in evaluating the integrity of corporate sustainability strategies and the honesty with which firms fulfill their fiscal responsibilities (Gerged et al., 2025).

This research relies on related theories to better understand the correlation between financial performance, green accounting, tax avoidance, and CSR. The following theories serve as a reference for this research.

#### **a) Agency Theory**

Agency theory explains the conflict of interest that arises between the principal (company owners) and the agent (management) due to differing objectives and information asymmetry, which can trigger opportunistic behavior such as tax avoidance. In this context, managers have incentives to maximize their personal utility, including through aggressive tax avoidance strategies, even if these actions do not align with shareholders' long-term interests (Ajmal et al., 2025). The information imbalance allows managers to manipulate financial reports or engage in aggressive reporting practices to reduce the company's tax burden (Kusumawati et al., 2024). Moreover, corporate governance structures such as board independence and ownership concentration can moderate the relationship between managerial behavior and tax avoidance (Shaukat Malik et al., 2025). Additionally, corporate social responsibility (CSR) practices can serve as symbolic tools to obscure the true intent behind tax strategies, as discussed in the literature on CSR decoupling (Velte, 2025). This indicates that a company's tax behavior results from a complex interplay between agency dynamics, monitoring mechanisms, and legitimacy strategies (Ali et al., 2024; Gulzar et al., 2018), all of which are relevant for understanding how and why firms engage in tax avoidance.

#### **b) Legitimacy Theory**

Legitimacy theory explains that companies strive to ensure their operations are socially accepted by aligning organizational values with prevailing societal norms. In the context of taxation, this theory is used to understand how companies manage tax avoidance practices while maintaining public legitimacy. Firms engaged in tax avoidance strategies may face social pressure and reputational risks, leading them to enhance corporate social responsibility (CSR) disclosures as a symbolic legitimacy mechanism (Velte, 2025). Such symbolic CSR disclosures can serve to divert public attention from aggressive tax behaviors (Xu et al., 2022). However, this strategy heavily depends on the institutional quality of a country, where regulations and social norms influence the effectiveness of using CSR to preserve legitimacy (Gerged et al., 2025). Therefore, legitimacy

becomes a strategic tool in navigating the relationship between CSR and tax aggressiveness (Issah & Rodrigues, 2021).

## **1.1 Hypotheses Development**

### **Financial performance affects tax avoidance.**

The relationship between financial performance and tax avoidance remains a subject of ongoing debate among academics and practitioners. On one hand, firms with strong financial performance tend to possess greater resources and flexibility to exploit loopholes in tax regulations, thereby increasing the likelihood of engaging in aggressive tax avoidance practices (Ajmal et al., 2025; Kusumawati et al., 2024). This is supported by the view that highly profitable firms have more substantial incentives to minimize their tax burden to preserve net income. On the other hand, firms with sound financial performance are also often associated with better corporate governance and stronger corporate social responsibility (CSR) practices, which may reduce the likelihood of tax avoidance due to reputational concerns and stakeholder expectations (Amelio et al., 2025; Chouaibi et al., 2022). Several studies further indicate that financially healthy companies are better positioned to comply with tax obligations in their broader sustainability strategy and efforts to maintain social legitimacy (Ali et al., 2024; Van & Ly, 2021). Therefore, the hypothesis that financial performance affects tax avoidance warrants empirical examination to gain a more comprehensive understanding of the direction and strength of this relationship.

H1: Financial performance affects tax avoidance

### **Green accounting affects tax avoidance.**

The green accounting approach reflects a company's commitment to sustainability reporting and social responsibility and is believed to have the potential to reduce tax avoidance practices. Several studies indicate that firms that thoughtfully implement CSR or ESG exhibit greater transparency and aim to protect their reputations by avoiding aggressive tax strategies (Cao et al., 2024; Chouaibi et al., 2022). As part of sustainability practices, green accounting may embody ethical values and adherence to regulations, including tax obligations (Amelio et al., 2025). However, a more skeptical view suggests that green accounting can be used symbolically or merely as a legitimacy tool to conceal sophisticated tax avoidance strategies (Velte, 2025; Wahab et al., 2022). In such cases, companies may appear environmentally responsible while still engaging in tax avoidance through legal loopholes. The debate surrounding the influence of green accounting on tax avoidance remains ongoing, thus necessitating empirical investigation. This study tests whether green accounting genuinely affects tax avoidance or serves as a cosmetic mechanism.

H2: Green accounting affects tax avoidance

### **CSR affects tax avoidance**

The relationship between Corporate Social Responsibility (CSR) and tax avoidance has become contentious in academic literature. CSR reflects a company's commitment to ethics and transparency, which should reduce the firm's tendency to engage in tax avoidance. Several studies have shown that companies with higher levels of CSR are less likely to engage in tax avoidance practices, driven by the desire to protect their reputation and maintain social legitimacy (Almutairi & Abdelazim, 2025; Chouaibi et al., 2022; Goerke, 2019). In addition, mandatory CSR disclosure requirements have been found to curb tax avoidance practices (Cao et al., 2024; Ding et al., 2022). However, there is also a contrasting view that CSR may be used symbolically to conceal aggressive tax avoidance behavior. Velte (2025) and Wahab et al. (2022) argue that CSR decoupling—i.e., the discrepancy between what is disclosed and what is practiced—can serve as symbolic legitimacy for aggressive tax behavior. Moreover, some companies utilize CSR as a form of reputational insurance to mitigate risks associated with tax avoidance (Li et al., 2019). Therefore, it is essential to

empirically examine whether CSR genuinely affects tax avoidance or merely functions as a symbolic tool. This study tests the following hypothesis:

H3: CSR affects tax avoidance

#### **Financial performance affects CSR.**

The impact of a company's financial performance on Corporate Social Responsibility (CSR) activities remains a compelling issue in the literature. On one hand, it is argued that firms with strong financial performance possess greater resources to allocate toward social responsibility programs. With healthy cash flows, such firms are considered more capable of implementing CSR initiatives on a broader scale as a means of gaining social legitimacy and protecting their reputation, and even as a risk mitigation strategy, including in the context of tax avoidance (Amelio et al., 2025; Metwally et al., 2024). On the other hand, some scholars argue that strong financial performance does not necessarily translate into greater CSR engagement, as CSR decisions are often symbolic and influenced by external factors such as regulatory pressure, institutional quality, or earnings management strategies (Gerged et al., 2025; Velte, 2025). Furthermore, there is a view that CSR may be used to obscure aggressive behaviors such as tax avoidance (Xu et al., 2022). Therefore, this study aims to test the following hypothesis:

H4: Financial performance affects CSR

#### **Green accounting affects CSR.**

The relationship between green accounting and Corporate Social Responsibility (CSR) has emerged as a relevant topic for investigation due to ongoing scholarly debates. The green accounting approach promotes environmental transparency and accountability, strengthening a company's commitment to CSR practices (Sastroedjo et al., 2025). It is argued that green accounting can improve public perception and enhance stakeholder trust, motivating firms to be more proactive in disclosing and implementing CSR initiatives (Gerged et al., 2025). However, some scholars contend that adopting green accounting does not necessarily correspond to a genuine commitment to CSR. In some cases, companies use CSR symbolically to obscure tax avoidance practices and other forms of opacity, a phenomenon called CSR decoupling (Velte, 2025; Wahab et al., 2022). This suggests that environmental disclosures do not always reflect a company's substantive social responsibility. Therefore, it is essential to empirically examine whether green accounting truly influences CSR or merely serves as a symbolic legitimacy tool without producing meaningful changes in corporate social behavior.

H5: Green accounting affects CSR

#### **CSR mediates financial performance on tax avoidance**

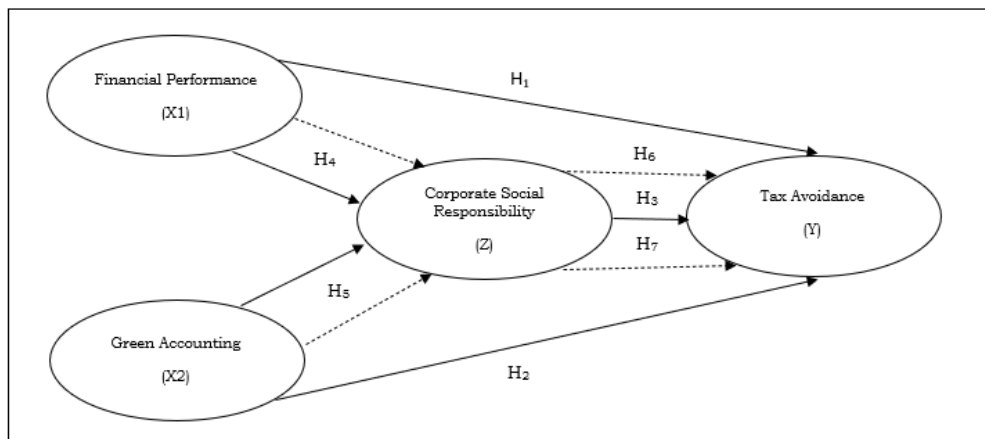
The relationship between financial performance and tax avoidance has long been a subject of interest, with findings suggesting that high-performing firms tend to possess greater resources to engage in tax avoidance strategies (Ajmal et al., 2025; Shaukat Malik et al., 2025). However, the ethical dimension of the firm—reflected through Corporate Social Responsibility (CSR)—is considered capable of moderating or mediating this relationship. Several studies argue that firms with strong financial performance are more likely to allocate resources to CSR programs, reducing the tendency to avoid taxes due to reputational pressure and public expectations (Amelio et al., 2025; Van & Ly, 2021). Conversely, contradictory views suggest that CSR is often used symbolically (CSR decoupling), whereby companies appear socially responsible on the surface while continuing to engage in tax avoidance behind the scenes (Velte, 2025; Wahab et al., 2022). Given these two opposing perspectives, it is important to empirically test the hypothesis that CSR mediates the relationship between financial performance and tax avoidance better to understand CSR's authentic role in corporate tax behavior.

H6: CSR mediates financial performance on tax avoidance

### **CSR mediates green accounting's effect on tax avoidance**

The relationship between green accounting and tax avoidance has sparked debate when Corporate Social Responsibility (CSR) is positioned as a mediating variable. On one hand, several studies suggest that CSR can strengthen the effect of green accounting in reducing tax avoidance practices, as companies that are genuinely committed to sustainability tend to fulfill their fiscal obligations ethically (Amelio et al., 2025; Chouaibi et al., 2022; Saragih et al., 2023). CSR is believed to generate reputational pressure and enhance transparency, limiting the scope for tax avoidance strategies (Gazzola et al., 2023; Goerke, 2019). On the other hand, some scholars argue that CSR is merely used symbolically to conceal aggressive corporate practices, including tax avoidance, thus failing to effectively mediate the influence of green accounting on tax avoidance (Velte, 2025; Wahab et al., 2022). Some companies engage in "CSR decoupling," where there is a disconnect between CSR rhetoric and actual practices (Xu et al., 2022). These divergent perspectives underscore the importance of empirically testing whether CSR mediates the relationship between green accounting and tax avoidance or merely serves as a symbolic tool for legitimacy.

H7: CSR mediates green accounting's effect on tax avoidance



**Figure 1. Conceptual Framework**

Figure 1 presents the formulated conceptual framework for this study.

- H1: Financial performance affects tax avoidance
- H2: Green accounting affects tax avoidance
- H3: CSR affects tax avoidance
- H4: Financial performance affects CSR
- H5: Green accounting affects CSR
- H6: CSR mediates financial performance on tax avoidance
- H7: CSR mediates green accounting's effect on tax avoidance

## **2. Methods**

This study adopts a quantitative approach to analyze the causal relationship between financial performance, green accounting, and tax avoidance, with Corporate Social Responsibility (CSR) as a mediating variable. The quantitative approach was chosen because it allows for a systematic and objective analysis of phenomena through measurable data that can be statistically examined. Classified as explanatory research, this study aims to empirically test specific hypotheses and theoretical frameworks (Fauziah et al., 2020; Novitasari et al., 2022).

The object of this research is consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period, which are part of the broader manufacturing industry. The independent variables consist of financial performance, measured using Return on Assets (ROA) as the primary indicator of profitability, and green accounting, assessed using a dummy variable based on the reported implementation of environmental policies. The dependent variable, tax avoidance, is measured using the Effective Tax Rate (ETR) ratio, which reflects the efficiency of a company's tax obligations over a given period.

The mediating variable, CSR, is also measured using a dummy approach based on the reporting standards set by the Global Reporting Initiative (GRI), encompassing six economic responsibility indicators, nineteen social indicators, and nine environmental indicators. This study reinforces the argument that CSR plays a significant role in mediating the relationship between financial strategies and corporate tax behavior (Salhi et al., 2019; Widijaya & Lianty, 2023), although empirical results may vary depending on the industrial context and applicable legal jurisdictions (Zeng, 2019).

### **Population and Sample**

The population in this study comprises 259 annual reports from companies in the consumer goods industry sector from 2020 to 2023. The researcher set the total population in 2022 at 78 companies, considering that if a new company is established in 2023, it will certainly not have financial statements from the previous year. Purposive sampling is the sample technique used in this study. Purposive sampling is a method in which researchers select samples from a population based on specific desired criteria. The following criteria were applied in this study: (1) companies in the consumer goods industry sector listed on the IDX during 2020-2023, (2) companies that publish their annual reports completely and consistently during 2020-2023, (3) companies in the consumer goods industry sector that use the rupiah currency in the annual report during 2020-2023, and (4) companies that did not lose money during 2020-2023. Through these criteria, 30 companies in the consumer goods sector listed on the IDX between 2020 and 2023 were selected as a research sample, resulting in 120 data points over 4 years, or 30 per year.

### **Data Collection Techniques**

This study utilizes secondary data obtained from two primary sources. The first source comprises the annual reports of companies operating in the consumer goods sector and listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023, accessed through the official IDX website at [www.idx.co.id](http://www.idx.co.id). This site is a primary reference for economics, finance, and investment research in Indonesia. The second source includes relevant literature, such as books, scholarly journals, undergraduate theses or dissertations, symposium proceedings, and other online resources related to the research topic. This study examines the influence of financial performance and green accounting on CSR and investigates the impact of financial performance, green accounting, and CSR on tax avoidance. The causal relationships among these variables are analyzed using two panel regression equations structured to estimate both the direct and indirect effects within the established conceptual framework.

$$\text{CSR} = \alpha + \beta_1\text{ROA} + \beta_2\text{GA} + e \quad (\text{I})$$

Description:

CSR = Mediating Variable

$\alpha$  = Constant or intercept

$\beta_1\text{ROA}$  = Regression coefficient of financial performance variable

$\beta_2\text{GA}$  = Regression coefficient of green accounting variable

$e$  = Error

$$\text{ETR} = \alpha + \beta_1\text{ROA} + \beta_2\text{GA} + \beta_3\text{CSR} + e \quad (\text{II})$$

Description:

ETR = Independent Variable

$\alpha$  = constant

$\beta_1\text{ROA}$  = Regression coefficient of financial performance variable

$\beta_2\text{GA}$  = Regression coefficient of green accounting variable

$\beta_3\text{CSR}$  = Regression coefficient of CSR variable

$e$  = Error

### 3. Results

#### 3.1 Descriptive Statistics

**Table 1. Descriptive Statistics**

	<b>ROA</b>	<b>GA</b>	<b>CSR</b>	<b>ETR</b>
Mean	0.140578	0.750000	0.781194	0.235013
Median	0.115950	1.000000	0.758050	0.221350
Maximum	0.448400	1.000000	1.000000	0.806900
Minimum	0.004300	0.000000	0.606700	0.000000
Std. Dev	0.095316	0.434828	0.100901	0.081794
Skewness	1.164084	-1.154701	0.122239	3.858823
Kurtosis	4.181189	2.333333	2.169011	26.68821
Jarque-Bera	34.07788	28.88889	3.751560	3103.467
Probability	0.000000	0.000001	0.153235	0.000000
Sum	16.86940	90.00000	93.74330	28.20160
Sum Sq Dev.	1.081129	22.50000	1.211537	0.796147
Observations	120	120	120	120

Source: Data processed by researchers using Eviews 13, 2025

Table 1 presents a descriptive statistical analysis that can be explained as follows:

a) Financial Performance

The mean of the financial performance variable is 0.140578, with a median value of 0.115950. In addition, the study's sampled financial performance ranges from 0.004300 to 0.448400, encompassing both the minimum and maximum values. The standard deviation obtained was 0.095316.

b) Green Accounting

The mean of the green accounting variable is 0.75, with a median value of 1. The study sampled green accounting, which ranges from 0 to 1 for minimum and maximum values. The standard deviation obtained is 0.434828.

c) CSR

The mean of the CSR variable was 0.781194, with a median value of 0.758050. In addition, the study's sampled CSR ranges from 0.6067 to 1 for both minimum and maximum values. The standard deviation obtained is 0.100901.

d) Tax Avoidance

The mean tax avoidance variable was 0.235013, with a median value of 0.221350. In addition, the study's sampled tax avoidance ranges from 0 to 0.8069 for both minimum and maximum values. The standard deviation obtained is 0.081794.

### 3.2 Panel Data Regression Model Selections

**Table 2. Redundant Fixed Effects Tests**

Effects Test	Statistic	d.f	Prob.
<b>Chow Test for Equation I</b>			
Cross-Section F	25.654281	(29.88)	0.0000
Cross-Section Chi-Square	269.575746	29	0.0000
<b>Chow Test for Equation II</b>			
Cross-Section F	2.547576	(29.87)	0.0004
Cross-Section Chi-Square	73.769858	29	0.0000

Source: Data processed by researchers using Eviews 13, 2025

Based on the results of the Chow test presented in Table 2, it can be concluded that the appropriate model for both equations is the Fixed Effect Model (FEM). In Equation I, the test yields a Chi-Square probability value of 0.0000, below the 0.05 significance threshold. This indicates the presence of significant fixed effects across cross-sections (companies), thus supporting the use of the Fixed Effect Model over the standard effect model. Similarly, in Equation II, the Chi-Square probability value is also 0.0000, suggesting that the variation across cross-sections is statistically significant and cannot be ignored.

Therefore, the Fixed Effect Model selection is statistically justified for both equations. The FEM approach allows for the control of unobserved heterogeneity among entities in panel data, thereby providing more accurate and reliable estimates of the effects of the independent variables. This model also reflects the importance of accounting for firm-specific characteristics that remain constant over the observation period to avoid bias when drawing conclusions about the relationships among variables.

#### Correlated Random Effects – Hausman Test

The Hausman Test is conducted to determine the most appropriate panel data model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The primary objective of this test is to assess whether the differences across individual entities (cross-sections) in the panel model are correlated with the independent variables.

**Table 3. Correlated Random Effects – Hausman Test**

Test Summary	Chi-Sq Statistic	Chi-Sq D.f	Prob.
<b>Hausman Test for Equation I</b>			
Cross-Section Random	6.327547	2	0.0423
<b>Hausman Test for Equation II</b>			
Cross-Section Random	1.316456	3	0.7252

Source: Data processed by researchers using Eviews 13, 2025

Based on the results of the Hausman test presented in Table 4, it can be concluded that the appropriate model differs for each equation. In Equation I, the Chi-Square probability value of 0.0423 falls below the 0.05 significance level, indicating a significant difference between the fixed and random effect estimators. Therefore, the Fixed Effect Model (FEM) is deemed suitable for Equation I, as it assumes that the individual effects of each company are correlated with the independent variables. In contrast, for Equation II, the Hausman test yields a probability value of 0.7252, well above the 0.05 threshold. This suggests no significant difference between the fixed and random effect estimators, making the Random Effect Model (REM) the more appropriate for Equation II. Accordingly, the model selection for each equation must align with the results of the Hausman test to ensure efficient and unbiased parameter estimation.

### 3.3 Panel Data Regression Tests

The regression model of the data in equation panel I, after being proxied using EViews 13.

$$CSR = 0.767 + 0.097 * ROA(-1) + 0.004 * GA(-1) + [CX = F] \quad (III)$$

The equation indicates that the value of Corporate Social Responsibility (CSR) is approximately 0.767 without any influence from financial performance or green accounting. This suggests that, even without considering these two variables, companies maintain a baseline CSR level of 76.73%. Furthermore, if financial performance—as measured by Return on Assets (ROA)—increases by 1%, CSR is expected to rise by approximately 9.75%, assuming other variables remain constant. Conversely, a 1% decrease in ROA would result in a 9.75% decline in CSR. In comparison, a 1% increase in green accounting leads to a modest 0.44% increase in CSR, while a 1% decrease in green accounting results in a 0.44% reduction in CSR, again assuming all other variables are held constant. In other words, financial performance substantially influences CSR more than green accounting within this model.

The regression model of the data from equation panel II, after being proxied using EViews 13.

$$ETR = 0.149 - 0.209 * ROA - 0.035 * GA + 0.182 * CSR + [CX = R] \quad (IV)$$

The equation IV shows that the level of tax avoidance, as measured by the Effective Tax Rate (ETR), is estimated at 14.91% when financial performance, green accounting, and CSR are not considered. This is reflected in the constant value of 0.149. Furthermore, a 1% increase in financial performance (ROA) is associated with a 20.91% decrease in tax avoidance, assuming other variables remain constant. Conversely, a 1% decrease in ROA would lead to a 20.91% increase in tax avoidance. In addition, a 1% increase in green accounting results in a 3.53% reduction in tax avoidance, while a 1% decrease in green accounting leads to a 3.53% increase in tax avoidance. Interestingly, the model shows that a 1% increase in CSR corresponds to an 18.16% increase in tax avoidance, whereas a 1% decrease in CSR is associated with an 18.16% reduction in tax avoidance. This suggests a dual role of CSR in the model, indicating that firms projecting a socially responsible image may still engage in tax avoidance practices. The model employs a random effect approach, which assumes that the differences across firms are random and uncorrelated with the explanatory variables under investigation.

### 3.4 Hypothesis Testing

**Table 4. Panel Regression Analysis for Equation I and Equation II**

Dependent Variable	Independent Variable	Coefficient	Std. Error	t-stat	Prob
<b>Result of the Test for Equation I</b>					
CSR	C	7672.642	361.2938	21.23657	0.0000
	ROA(-1)	0.097489	0.109154	0.893133	0.3755
	GA(-1)	43.82135	415.3282	0.105510	0.9163
R-squared		0.927521			
Adjusted R-squared		0.888782			
<b>Result of the Test for Equation II</b>					
ETR	C	1490.519	742.0162	2.008743	0.0469
	ROA	-0.209140	0.097141	-2.152946	0.0334
	GA	-353.3768	226.4854	-1.560263	0.1214
	CSR	0.181600	0.099335	1.828161	0.0701
<b>R-squared</b>		<b>0.071990</b>			
<b>Adjusted R-squared</b>		<b>0.047990</b>			

Source: Data processed by researchers using Interactive Mediation Tests, 2025

The regression analysis for Equation I was conducted using the Panel Least Squares method to examine the influence of independent variables on Corporate Social Responsibility (CSR) as the

dependent variable. The test was performed using a balanced panel dataset consisting of 90 observations, covering 30 companies (cross-sections) over three years from 2021 to 2023. This approach allows for the control of heterogeneity across firms while accounting for the time dimension, thus providing a more comprehensive understanding of the factors influencing CSR practices during the observation period.

Similarly, panel regression analysis was carried out for Equation II to investigate the determinants of the Effective Tax Rate (ETR) as the dependent variable. The estimation model applied was Panel EGLS (Cross-section random effects) using the Swamy and Arora estimator of component variances. This method enables the control of random variations across firms. The data spans 2020 to 2023, involving 30 cross-sections (companies) over four periods, resulting in 120 balanced panel observations. The random effects approach was selected based on the assumption that firm-specific differences are random and uncorrelated with the independent variables in the model, thereby producing more efficient estimations than the fixed effects model in this context.

The results of hypothesis testing indicate mixed effects among the observed variables. In the Equation I, financial performance does not have a significant impact on CSR ( $p = 0.3755 > 0.05$ ), and green accounting also does not significantly influence CSR ( $p = 0.9163 > 0.05$ ). Therefore, H1 and H2 are rejected. However, in the Equation II, financial performance significantly affects tax avoidance ( $p = 0.0334 < 0.05$ ), indicating that H3 is supported. In contrast, green accounting ( $p = 0.1214 > 0.05$ ) and CSR ( $p = 0.0701 > 0.05$ ) do not significantly influence tax avoidance, thus H4 and H5 are rejected.

In terms of explanatory power, the adjusted R-squared value for Equation I is 0.8888, suggesting that financial performance and green accounting explain 88.88% of the variance in CSR. In comparison, other factors account for the remaining 11.12%. Conversely, the adjusted R-squared for Equation II is only 0.048, indicating that financial performance, green accounting, and CSR collectively explain merely 4.8% of the variation in tax avoidance, with 95.2% explained by other factors. These findings suggest a weak mediating role of CSR between green accounting and tax avoidance.

**a) Sobel Mediator Test**

The Sobel Mediator Test is a statistical method used to determine whether a variable truly functions as a mediator in the relationship between an independent variable (X) and a dependent variable (Y). The mediation effect is considered statistically significant if the p-value is less than 0.05. Conversely, if the p-value exceeds 0.05, the mediation effect is deemed insignificant.

**Table 5. The result of the Sobel mediator test**

Path of Independent-mediating-dependent variable	Sobel z-value
ROA-CSR-ETR	0.80248602
GA-CSR-ETR	0.1053312

Note: if the Sobel z-value is greater than 1.987, the mediating effect is significant  
 Source: Data processed by researchers using Interactive Mediation Tests, 2025

Financial performance does not significantly affect tax avoidance through CSR, or indirectly, CSR cannot mediate the correlation between tax avoidance and financial performance, as determined by the findings of the Sobel test I. This is explained by the t calculation of 0.80248602 being smaller than the t table of 1.987. This indicates that H6 is rejected.

Green accounting does not significantly affect tax avoidance through CSR, or indirectly, CSR cannot mediate the correlation between tax avoidance and green accounting, as determined by the findings of the Sobel test II. This is explained by the fact that the t calculation, 0.1053312, is smaller than the t table, 1.987. This indicates that H7 is rejected.

## **4. Discussion**

### **H1: Financial Performance Affects Tax Avoidance**

H1 in this study states that financial performance affects tax avoidance. Based on the t-test results, the probability value obtained was 0.0334, lower than the 0.05 significance level. Therefore, H1 is accepted, indicating that financial performance significantly influences tax avoidance practices. This finding suggests that the better a company's financial performance, the greater its tendency to avoid tax. Conversely, when financial performance declines, the likelihood of tax avoidance also decreases. This result aligns with the view that firms with strong financial performance possess more resources and incentives to develop sophisticated tax avoidance strategies, including exploiting regulatory loopholes or structuring cross-border transactions (Ajmal et al., 2025). In addition, companies aiming to maintain high profitability levels may be driven to reduce tax burdens through legally permissible yet fiscally aggressive means (Ali et al., 2024). Several other studies also support that higher financial performance is often associated with greater tax avoidance, as management is motivated to maximize net income by minimizing tax expenses (Abdelfattah & Aboud, 2020; Shaukat Malik et al., 2025). However, such practices may pose reputational risks and attract regulatory scrutiny, particularly without transparency and sound corporate governance. Thus, the relationship between financial performance and tax avoidance warrants further investigation, including the potential mediating role of CSR or corporate governance variables.

### **H2: Green Accounting Affects Tax Avoidance**

H2 in this study proposes that green accounting affects tax avoidance. However, based on the t-test results, the probability value was 0.1214, which exceeds the 0.05 significance threshold. This indicates that, statistically, green accounting does not significantly impact tax avoidance, leading to the rejection of H2. Nevertheless, from a theoretical perspective, green accounting is expected to encourage greater transparency in reporting environmental activities, which in turn is anticipated to reduce the tendency for tax avoidance practices. Several studies have indicated that companies implementing sustainability practices and environmental reporting tend to demonstrate higher levels of social and ethical awareness, and are thus more likely to avoid aggressive behaviors, including in taxation (Goerke, 2019; Sastroredjo et al., 2025). However, in specific contexts—particularly in emerging markets—green accounting often remains symbolic or is not yet fully integrated into core business strategies, limiting its influence on tax-related behavior (Ajmal et al., 2025). Moreover, the literature also suggests that the effectiveness of green accounting in curbing tax avoidance is highly dependent on institutional quality and legal enforcement (Gerged et al., 2025). In environments where regulations are weak and there are no clear incentives or penalties for unreliable environmental reporting, firms may still have the opportunity to engage in tax avoidance, even if they formally adopt green accounting practices. Therefore, although the empirical results in this study indicate no significant effect, it remains crucial to advocate for more substantive implementation of green accounting as a potentially effective control mechanism in reducing tax avoidance practices.

### **H3: Corporate Social Responsibility (CSR) Affects Tax Avoidance**

H3 in this study posits that Corporate Social Responsibility (CSR) affects tax avoidance. However, based on the t-test results, the probability value was 0.0701, which exceeds the 0.05 significance level. This indicates that, statistically, CSR does not significantly influence tax avoidance, leading to rejecting H3. Conceptually, CSR helps curb tax avoidance practices by encouraging companies to act more ethically, transparently, and accountably in fulfilling their fiscal obligations. Previous studies have suggested that CSR can serve as a form of social and reputational control over managerial behavior, including taxation (Abdelfattah & Aboud, 2020; Almutairi & Abdelazim, 2025). However, the insignificant empirical result in this study implies that CSR implementation, in specific contexts, remains largely symbolic and does not fully reflect a company's commitment to ethical financial conduct. This phenomenon is called CSR decoupling, in which companies engage

in CSR activities primarily for image-building purposes while pursuing aggressive tax avoidance strategies (Velte, 2025; Wahab et al., 2022). In some cases, firms may use CSR to reinforce their public legitimacy and obscure their tax avoidance behavior (Gerged et al., 2025).

Therefore, while CSR is theoretically expected to function as a mechanism for limiting tax avoidance, its effectiveness is highly dependent on the quality of implementation, the extent of external oversight, and the company's genuine commitment to sustainability. A more in-depth approach is thus needed to reveal whether CSR truly serves as a control mechanism against tax avoidance practices, or is instead strategically used to mask such behavior.

#### **H4: Financial Performance Affects Corporate Social Responsibility (CSR)**

H4 in this study proposes that financial performance influences Corporate Social Responsibility (CSR). However, the t-test results show a probability value of 0.3755, which exceeds the 0.05 significance threshold. Therefore, this H4 is rejected, indicating that, statistically, financial performance does not have a significant effect on CSR. This finding suggests that changes in financial performance—whether improvement or decline—are not necessarily followed by changes in the level of CSR implementation within companies. In fact, in some cases, when firms face financial pressure or declining profitability, they may become even more proactive in showcasing their commitment to CSR to preserve their reputation in the eyes of the public and investors (Abdelfattah & Aboud, 2020). This aligns with the concept of CSR decoupling described by Velte (2025), in which companies use CSR symbolically to divert attention from practices that contradict social responsibility, such as tax avoidance or operational inefficiencies. Additionally, in developing markets, social and regulatory pressures related to CSR implementation remain relatively weak, allowing companies to engage in CSR programs inconsistently and without necessarily aligning them with their financial conditions (Gerged et al., 2025).

Thus, this study's results offer insight that CSR is not solely driven by financial performance but also by external factors such as stakeholder demands, reputational pressure, or strategic efforts to build social legitimacy. Accordingly, it is important to view CSR from a financial standpoint and through strategic and ethical lenses within the broader corporate governance framework.

#### **H5: Green Accounting Affects Corporate Social Responsibility (CSR)**

H5 in this study proposes that green accounting influences Corporate Social Responsibility (CSR). However, based on the t-test results, the probability value was 0.9163, far above the 0.05 significance level. This indicates that green accounting does not have a statistically significant effect on CSR, and therefore, H5 hypothesis is rejected. As such, insufficient statistical evidence exists to conclude that enhancing green accounting practices leads to increased CSR activities. The empirical relationship appears weak and inconsistent. This finding suggests that the implementation of green accounting has not yet become a strategic foundation for planning and reporting corporate social responsibility, but rather remains primarily administrative or symbolic. As noted by Gerged et al. (2025), in the context of developing countries, institutional quality and adherence to sustainability reporting standards are often low, which limits the impact of green accounting on corporate CSR policies. Furthermore, according to Amelio et al. (2025), companies may pursue CSR initiatives for reputational purposes or in response to social pressure, without being grounded in strong environmental accountability.

Also, this finding reinforces the argument concerning decoupling between sustainability activities and formal reporting, whereby the implementation of green accounting and CSR occurs in isolation and without mutual influence (Velte, 2025). Therefore, to strengthen the linkage between green accounting and CSR, it is essential to improve the quality of environmental reporting by integrating it strategically with CSR policies and enhance regulatory frameworks that clearly connect environmental performance with overall corporate sustainability practices.

### **H6: CSR Mediates the Relation of Financial Performance on Tax Avoidance**

H6 in this study posits that financial performance influences tax avoidance through Corporate Social Responsibility (CSR) as a mediating variable. Based on the results of the Sobel test, the calculated t-statistic was 0.8024, while the critical t-value at the 5% significance level is 1.987. Since the t-statistic is lower than the t-table value, H6 is rejected. This means that CSR does not significantly mediate the relationship between financial performance and tax avoidance. The result indicates that although financial performance may directly affect tax avoidance practices, this effect is not transmitted through CSR activities. This finding aligns with studies suggesting that, in many cases, CSR is employed symbolically or as a tool for legitimacy, without genuinely reflecting a company's ethical practices in the fiscal domain (Velte, 2025; Wahab et al., 2022). In other words, a company may present a socially responsible image through CSR programs while engaging in tax avoidance strategies (Goerke, 2019; Junaidi et al., 2023). This is further supported by Abdelfattah and Aboud (2020), who emphasize that the relationship between CSR and tax avoidance is highly dependent on the quality of corporate governance and the integrity of management.

Moreover, Ajmal et al. (2025) highlight that agency pressure to maximize firm value often drives tax avoidance practices, even when a company demonstrates strong financial performance. Therefore, the failure of CSR to function as a mediator in this relationship suggests that CSR is not yet sufficiently robust in shaping ethical corporate behavior in the context of taxation—particularly in the absence of intense external pressure and effective oversight mechanisms.

### **H7: CSR Mediates the Relation of Green Accounting on Tax Avoidance**

H7 in this study posits that the effect of green accounting on tax avoidance is mediated by Corporate Social Responsibility (CSR). However, based on the results of the Sobel test, the calculated t-value was 0.105, which is lower than the critical t-value of 1.987. Therefore, H7 is rejected, indicating that CSR does not significantly mediate the relationship between green accounting and tax avoidance. This finding suggests that, although companies may adopt green accounting practices, the presence of CSR does not necessarily strengthen or weaken its impact on tax avoidance behavior. The result aligns with the views of several researchers who argue that CSR in the context of taxation is often symbolic and does not reflect genuine changes in corporate fiscal behavior (Velte, 2025; Wahab et al., 2022). In some cases, CSR may even be used as a tool for legitimacy to obscure aggressive tax avoidance practices (Chouaibi et al., 2022; Goerke, 2019). This is further supported by Saragih et al. (2023), whose findings indicate that CSR disclosures in Indonesia are not yet fully correlated with a genuine commitment to ethical tax compliance.

Moreover, in developing markets, institutional quality and the effectiveness of law enforcement are crucial factors that help explain CSR's weak mediating role (Gerged et al., 2025). In other words, even when companies adopt green accounting and report CSR activities, these efforts may not curb tax avoidance, particularly when CSR is performed primarily for reputational purposes. Therefore, a more substantive and integrated approach is needed to ensure that CSR can effectively bridge green accounting and corporate tax compliance.

## **5. Conclusion**

This study examines the influence of financial performance and green accounting on tax avoidance, with Corporate Social Responsibility (CSR) serving as a mediating variable. Based on the findings presented in the previous chapter, it can be concluded that financial performance significantly impacts tax avoidance. At the same time, green accounting, CSR, and the indirect effects through CSR do not demonstrate statistical significance. More specifically, financial performance does not significantly affect CSR, green accounting also shows no significant influence on CSR, and CSR itself does not significantly impact tax avoidance. Additionally, CSR does not mediate the relationship between financial performance, green accounting, or tax avoidance. Based on these results, the researcher offers several practical recommendations. First, investors are advised not to rely solely on assessing a company's financial performance but also to consider the extent to which CSR is integrated into the company's business strategy. Strong financial performance without

corresponding CSR initiatives may signal poor corporate reputation and elevated ethical risk. Investors should also pay close attention to the implementation of green accounting, as it reflects the company's commitment to transparency and sustainability and serves as an early indicator of potential tax avoidance.

Second, corporate management must align CSR programs with the company's tax policies to avoid perceptions of manipulation or superficial image-building. Such alignment can help maintain the company's credibility in the eyes of tax authorities and the public. Third, future research is encouraged to include additional variables such as corporate governance, audit quality, or regulatory pressure, as well as to broaden the study population and extend the observation period. These steps will enhance statistical robustness and enrich the diversity of findings. The implications of this study indicate that financial performance remains a key indicator for understanding corporate tax behavior. At the same time, CSR and green accounting have yet to serve as effective control mechanisms against tax avoidance practices. Therefore, future research should explore contextual and institutional factors that strengthen the role of CSR and green accounting in fostering more ethical and sustainable tax governance.

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