

# Tax Compliance as a Governance Outcome: Systematic Evidence on ESG Integration in Corporate Fiscal Behavior

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## ABSTRACT

Global scrutiny pressures firms toward responsible tax and sustainability. This study investigates the role of ESG practices on corporate tax compliance behavior. This study employs a qualitative approach using a systematic literature review of 30 Scopus-indexed articles published between 2021 and 2025. The findings reveal a mixed pattern, most evidence suggests that strong ESG performance and disclosure reduce tax avoidance and foster transparency, although variations emerge across ESG dimensions, governance mechanisms, and institutional environments. Key enabling determinants include disclosure specificity (adherence to GRI tax standards), board oversight strength, well-aligned fiscal-environmental incentive structures, ethical organizational culture, and robust internal control systems. Conversely, the impact of ESG on tax compliance weakens due to heterogeneous ESG and tax measurement proxies, a lack of reporting standard integration, and inconsistencies in legal enforcement across jurisdictions. The gap analysis highlights the urgent need for standardization of corporate tax responsibility indicators, the application of virtue-ethics governance models in emerging markets, and more rigorous causal testing using IV or DID approaches to address simultaneity and endogeneity. This study contributes to advancing sustainability-driven fiscal governance frameworks and offers actionable insights for corporations aiming to integrate ESG commitments into accountable tax governance.

**Keywords:** Corporate Governance, Corporate Tax Responsibility, Environmental, Social, and Governance, Fiscal Governance, Tax Avoidance, Tax Compliance.

## INTRODUCTION

The global rise in sustainability awareness has urged companies across industries to incorporate Environmental, Social, and Governance (ESG) principles into corporate strategy and modern governance frameworks. ESG has evolved beyond philanthropic initiatives, becoming a critical benchmark for assessing corporate integrity and long-term sustainability (Alateeg & Alhammad, 2024). Effective implementation of ESG reflects an organization's commitment to environmental stewardship, social responsibility, and transparent governance (Braicu, 2024). Investor and regulatory pressure for greater accountability has further intensified the role of ESG as a key component of responsible business conduct (Sari, 2023). This trend underscores the growing expectation for firms to balance financial performance with ethical, social, and governance responsibilities.

Parallel to this, corporate tax compliance plays a fundamental role in sustaining national fiscal systems and supporting economic development (Marioli et al., 2024). Corporate tax compliance behavior is shaped by both internal drivers, such as ethical values and governance structures, and external factors, including regulatory clarity and enforcement effectiveness (Li et al., 2022). In this context, ESG practices can potentially reinforce corporate ethical orientation, heighten social responsibility, and ultimately enhance tax compliance behavior.

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The scholarly interest in the ESG–tax nexus stems from their shared theoretical foundation as indicators of corporate morality and governance integrity. Prior studies suggest that companies with high ESG performance are less likely to engage in aggressive tax avoidance due to reputational concerns and legitimacy considerations (Ma et al., 2024; Lee et al., 2025). Conversely, firms with weak ESG commitments exhibit greater tendencies toward opportunistic tax behavior aimed at short-term profit maximization (Shafanur & Ratnasari, 2024). Despite these observations, empirical findings remain inconsistent. Some research reports that high ESG scores do not necessarily curb tax avoidance and may even serve as reputational shielding for aggressive tax strategies (greenwashing) (Carolina et al., 2023). Other studies indicate that ESG rating disagreement across assessment agencies increases tax avoidance risk, particularly in environments with weak reporting regulations (Ma et al., 2025). In emerging economies, including Indonesia, limited scholarly attention has been devoted to examining ESG influence on corporate tax compliance, as prior studies have predominantly focused on firm value or financial performance rather than tax behavior (Kovermann & Velte, 2019).

Despite these positive associations, the literature also identifies several challenges and limitations. Variations in ESG and tax measurement proxies, lack of standardized reporting, and differences in legal enforcement across jurisdictions contribute to inconsistent findings (Chen, 2023). Moreover, most studies rely on correlational designs, limiting causal inference. Scholars emphasize the need for advanced econometric approaches, such as Instrumental Variables (IV) or Difference-In-Differences (DID), to address simultaneity and endogeneity concerns. These methodological constraints highlight the difficulty in establishing definitive causal relationships between ESG practices and tax compliance behavior.

Several important research gaps remain. First, the standardization of Corporate Tax Responsibility (CTR) indicators is necessary to enhance comparability across firms and regions, enabling more consistent evaluation of tax practices. Second, the application of virtue-ethics governance models in emerging markets remains underexplored, particularly in contexts where institutional environments and regulatory frameworks differ significantly from developed economies. Third, causal testing of ESG–tax compliance linkages is limited, making it challenging to generate strong policy or managerial recommendations. In sum, while the current literature provides theoretical and empirical support for the idea that ESG can enhance corporate tax compliance, heterogeneity in measurement, methodology, and institutional context underscores the need for a systematic review to consolidate existing evidence and provide actionable insights.

A systematic literature review is therefore employed in this study to map existing evidence, identify research trends and gaps, and synthesize findings across diverse institutional and industry contexts (Nurhayati, 2024). In addition, this study is guided by three primary research questions. First, it investigates how ESG practices influence corporate tax compliance behavior. Second, it examines the organizational, governance, and contextual factors that may facilitate or hinder the impact of ESG on corporate tax compliance. Third, it identifies and synthesizes existing research gaps in the ESG and tax compliance literature across conceptual, methodological, and contextual dimensions, while proposing directions for future research. Accordingly, the study aims to critically examine the influence of ESG practices on corporate tax compliance behavior, elucidate the mechanisms through which ESG affects fiscal accountability, and provide both theoretical and policy-relevant insights for corporations, regulators, and other stakeholders seeking to integrate ESG commitments into accountable tax governance frameworks.

## **LITERATURE REVIEW**

### **ESG and Tax Compliance**

The relationship between ESG practices and corporate tax compliance has garnered growing interest among scholars in recent years. ESG, as a multidimensional framework, encompasses environmental stewardship, social responsibility, and governance quality,

providing a comprehensive lens through which corporate behavior can be evaluated (Elamer et al., 2024; Mohamad et al., 2024). Firms that prioritize ESG principles are generally perceived as more transparent, ethical, and proactive in managing both operational and financial risks. These attributes are particularly relevant in the domain of taxation, where corporate decisions can significantly affect public trust, regulatory perception, and long-term sustainability. Organizations with strong ESG performance are often hypothesized to engage in responsible tax practices, as ESG-oriented cultures emphasize ethical conduct, accountability, and stakeholder trust, all of which create an internal incentive to comply with tax regulations (Arieftiara et al., 2025).

Empirical evidence supports this hypothesis, indicating that firms with higher ESG scores tend to exhibit lower levels of aggressive tax avoidance and greater adherence to statutory obligations (Gabrielli et al., 2024; Hashfi, 2024). The environmental and social dimensions shape corporate tax behavior indirectly by influencing organizational culture, employee norms, and stakeholder expectations, encouraging companies to adopt fair and transparent practices. Meanwhile, governance mechanisms such as the independence of boards, active audit committees, and robust internal control systems have a more direct impact on tax risk management and regulatory compliance (Russo, 2019; Dewani & Setiyawati, 2025). These mechanisms ensure that financial reporting, risk assessment, and decision-making processes incorporate ethical considerations and align with legal requirements. In this way, ESG practices not only reflect a firm's commitment to broader societal values but also play a crucial role in promoting responsible tax compliance behavior and strengthening the credibility of corporate governance structures.

### **Determinants of ESG Impact on Tax Compliance Behavior**

Several key factors have been identified as critical determinants that enhance the influence of ESG practices on corporate tax compliance. Among these, disclosure specificity plays a particularly significant role. Firms that adopt structured reporting frameworks, such as the Global Reporting Initiative (GRI) tax standards, tend to exhibit higher transparency in financial and tax-related activities, which in turn reduces the likelihood of engaging in aggressive tax planning (Partanen, 2023). Such structured disclosures provide stakeholders with clearer insights into corporate tax practices, fostering accountability and trust.

Board oversight is another essential determinant. Active monitoring by independent directors and fiscal committees ensures that corporate tax strategies are aligned with governance objectives and comply with regulatory requirements (Efunniyi et al., 2024; Manrejo & Larasati, 2025). This oversight not only mitigates potential tax risks but also strengthens the firm's ethical and strategic alignment. Complementing governance structures, aligned incentive systems such as integrated fiscal, environmental, and social rewards encourage managers to prioritize responsible financial decision-making, reinforcing ethical tax behavior (Muttiwijaya et al., 2025).

Equally important is the cultivation of an ethical organizational culture. When internal norms promote integrity, transparency, and accountability, employees are less likely to pursue opportunistic tax strategies, and compliance becomes embedded across all levels of the firm (Musah et al., 2025). Robust internal controls, supported by effective internal auditing and comprehensive risk assessment mechanisms, serve as a safeguard against non-compliance, ensuring that tax practices adhere strictly to regulatory standards (Udoh, 2024). Taken together, these determinants illustrate the multifaceted ways in which ESG practices influence corporate tax compliance behavior. By integrating transparent reporting, strong oversight, incentive alignment, ethical culture, and rigorous control systems, firms not only strengthen their governance structures but also enhance the consistency and integrity of their tax compliance efforts.

### **RESEARCH METHODS**

This study employs a qualitative research design, utilizing a Systematic Literature Review (SLR) to investigate the role of ESG practices and corporate tax compliance

behavior. A qualitative approach is particularly appropriate for this study, as it allows for a deeper and more nuanced understanding of the contextual, organizational, and behavioral factors that shape corporate tax practices, beyond what can be captured through purely quantitative measures (Creswell, 2019). By synthesizing insights from multiple studies, this design enables the identification of underlying patterns, mechanisms, and gaps in the existing literature.

The SLR methodology was systematically applied to consolidate theoretical frameworks, empirical findings, and methodological approaches across peer-reviewed studies. The literature search was conducted using the Scopus database for publications between 2021 and 2025. Boolean search strings included terms such as “Environmental Social Governance,” “ESG practices,” and “sustainability disclosure” in combination with “tax compliance,” “taxpayer behavior,” or “tax avoidance.” The initial search produced a broad set of articles, which were then screened for relevance, quality of indexing, and methodological rigor. After eligibility assessment, 30 studies were selected for inclusion, covering topics across accounting, corporate governance, social responsibility, and fiscal policy.

Data extraction involved coding each article based on key characteristics, including research focus, methodology, ESG proxies, tax compliance behavior indicators, and main findings. Thematic analysis was employed to identify recurring concepts, patterns of relationships, enabling and constraining factors, and areas where knowledge is still limited (Braun & Clarke, 2019). To ensure validity and trustworthiness, coding was conducted iteratively, with independent cross-checks to reduce interpretive bias and enhance consistency. The study also documented transparency in data selection and analysis decisions, allowing for replication and verification.

Through this approach, the SLR not only provides a comprehensive synthesis of evidence on how ESG practices influence corporate tax behavior but also highlights the multidimensional mechanisms, such as governance structures, disclosure practices, ethical culture, and incentive alignment, that mediate this relationship. The findings establish a robust foundation for future empirical research and practical guidance on integrating ESG principles into corporate fiscal responsibility.

## RESULTS

### The Impact of ESG Practices on Corporate Tax Compliance Behavior

The development of research on the relationship between ESG practices and tax compliance behavior demonstrates significant conceptual and empirical dynamics over the past five years. This review seeks to examine the directional patterns of this relationship, the influencing factors, and persisting research gaps within both global and regional contexts. A systematic literature review of 30 Scopus-indexed articles reveals a paradigm shift, where tax compliance is no longer viewed purely as a financial obligation but also as a reflection of sustainability values, ethical commitment, and sound corporate governance.

Prior to discussing the analytical findings in depth, the following section first outlines the major research trends and directions concerning the influence of ESG practices on corporate tax compliance behavior. This includes identifying prevailing patterns in the association between ESG performance and tax avoidance, tax aggressiveness, and tax transparency across various countries and industry sectors. The classification of these research findings is summarized in Table 1.

**Table 1.** Research Trends and Directions on the Influence of ESG Practices on Tax Behavior

Research Trend Focus	Country/Sector	Period	ESG–Tax Relationship	Method	Source
ESG practices reduce tax avoidance levels	Korea (publicly listed companies)	2011–2017	Strong ESG performance reduces tax avoidance.	Panel data, book–tax differences	Yoon et al. (2021)

Research Trend Focus	Country/ Sector	Period	ESG–Tax Relationship	Method	Source
ESG disclosure and the role of sustainability committees	United States & Canada (Travel & Leisure sector)	2010–2020	ESG disclosure may increase tax aggressiveness, but the presence of a sustainability committee mitigates it.	Panel quantile regression with fixed effects	Chandrase na et al. (2025)
ESG and board diversity	United Kingdom (FTSE 350 firms)	2017–2023	ESG reduces tax avoidance, whereas weak corporate governance contributes to higher tax avoidance.	Random effects and 2SLS	Elgharbaw y and Aladwey (2025)
ESG moderates the relationship between tax avoidance and firm value	France (listed companies)	2012–2021	High ESG performance lessens the negative impact of tax avoidance on firm value.	Multiple panel regression	Elamer et al. (2024)
Dimensional differences in ESG and their effects on tax behavior	China (A-share listed firms)	2016–2020	Social and governance dimensions may increase tax avoidance among firms with strong governance structures.	OLS, Random Effects (RE), Fixed Effects (FE)	Lee (2024)
ESG disclosure in emerging markets	Egypt (non-financial sector)	2018–2022	ESG disclosure mitigates the adverse effect of tax avoidance on firm value.	Fixed Effects Regression	Alomair and Metwally (2025)
ESG, ownership structure, and board composition	Indonesia	2013–2020	High ESG performance significantly reduces tax avoidance.	Fixed Effects Model	Hidayat and Zuhroh (2023)
Cooperative compliance programs and ESG	Italy	2019–2023	Tax compliance programs reduce tax avoidance but may lead to lower ESG scores post-implementation.	Probit and Difference-in-Differences (DiD)	Alexander and Menicacci (2025)
ESG ratings and tax transparency	South Africa (JSE-listed companies)	2022	Higher ESG ratings enhance tax transparency.	Correlation Analysis	Thiart (2023)
Tax transparency and compliance	South Africa (JSE-listed companies)	Top 100 Company	Tax transparency increases tax compliance and reduces tax avoidance.	Content Analysis and Regression	Stiglingh et al. (2022)
ESG and sustainable tax strategies	Korea	2011–2017	ESG implementation strengthens sustainable tax strategies and reduces Effective Tax Rate (ETR) volatility.	Two-way clustered regression	Ma and Park (2021)
The reciprocal relationship between ESG and tax aggressiveness	Indonesia and Malaysia	2012–2021	High ESG performance can increase tax aggressiveness, while tax aggressiveness may also drive greater ESG engagement (reciprocal relationship).	Simultaneous 2SLS	Yanto et al. (2025)

Table 1 shows that the analysis of twelve empirical studies indicates that the relationship between ESG practices and tax behavior is not unidirectional. The majority of studies demonstrate that strong ESG implementation tends to reduce tax avoidance, as evidenced by Yoon et al. (2021) in Korea and Hidayat and Zuhroh (2023) in Indonesia. Other findings reinforce the view that companies with strong sustainability commitments are more cautious in managing tax practices to preserve ethical reputation and social legitimacy. This is further supported by Elamer et al. (2024), who show that ESG

positively affects firm value by mitigating the adverse effects of tax avoidance. Nevertheless, Lee (2024) highlights dimensional complexities within ESG, revealing that social and governance components may, in some cases, increase tax avoidance tendencies among firms with already robust governance structures. In addition, institutional frameworks and public policy environments also shape the ESG–tax relationship.

For instance, Chandrasena et al. (2024) find that the presence of a sustainability committee significantly reduces tax aggressiveness in the North American tourism industry, whereas in its absence, ESG disclosure may be strategically used to obscure aggressive tax compliance behavior. Alomair and Metwally (2025) further note that in emerging markets such as Egypt, ESG disclosure can alleviate the negative impact of tax avoidance on firm value. Alexander and Menicacci (2025) reveal that while cooperative compliance programs reduce tax avoidance, they may also lead to a decline in ESG scores after implementation, suggesting a potential substitution effect between tax compliance and sustainability reporting. Consistent evidence from Ma and Park (2021), Stiglingh et al. (2022), and Thiart (2023) indicates that higher ESG engagement aligns with improved tax transparency and sustainable tax management practices. Meanwhile, Yanto et al. (2025) report a reciprocal relationship between ESG performance and tax aggressiveness in Indonesia and Malaysia.

### Organizational, Governance, and Contextual Determinants of ESG Impact

To further understand the contextual factors influencing the strength of the ESG–tax relationship, key determinants that potentially reinforce or weaken this association were identified. These determinants encompass disclosure practices, fiscal policy instruments, ownership structures, and corporate governance mechanisms. A summary of the identified strengthening and inhibiting factors is presented in Table 2.

**Table 2.** Factors in the Relationship Between ESG and Tax Compliance Behavior

Factor	Mechanism/Role	Country	Implication	Source
Disclosure specificity (GRI 2018/2019)	High-quality and detailed ESG disclosures enhance a company's ability to reduce tax aggressiveness.	Indonesia and Malaysia	Irrelevant disclosures are ineffective in mitigating tax aggressiveness.	Asmoro et al. (2024)
Heterogeneity of ESG and tax avoidance indicators	Differences in ESG measurement influence the strength of the ESG–tax relationship.	Cross-study meta-analysis	Indicator harmonization is necessary to ensure greater consistency in research findings.	Mitroulia et al. (2025)
Perceptions of fairness in environmental regulation	Public perceptions of tax fairness enhance compliance with environmental taxation.	Global	Equitable tax policies strengthen tax compliance.	Hakam et al. (2024)
Compliance with the GRI Tax Standard	Low levels of tax reporting compliance undermine the credibility of ESG commitments.	Fortune Global 250	Enhanced tax transparency remains imperative.	Mio et al. (2025)
Income tax and environmental tax incentives	Tax policies that support ESG practices improve sustainability performance.	China	Green taxation plays a strategic role in reinforcing corporate ESG performance.	Wang et al. (2025)
Major ownership structure	Major ownership structure shapes the direction of ESG reporting and tax strategy.	Indonesia and Malaysia	Concentrated ownership enhances disclosure practices but may also intensify tax avoidance tendencies.	Ariefiara et al. (2025)
Corporate governance mechanisms	Effective oversight reduces tax avoidance.	Malaysia	Strengthening governance mechanisms is essential to curb opportunistic tax practices.	Mosuin et al. (2024)
ESG as a mediating variable	ESG involves the role of the board of directors in monitoring and controlling tax avoidance.	G20	Regulatory frameworks that reinforce the role of the board can improve tax compliance.	Khelifi et al. (2025)

Factor	Mechanism/Role	Country	Implication	Source
Tax enforcement and external monitoring	Strong tax enforcement suppresses opportunistic tax behavior.	China	Robust tax enforcement enhances the efficiency of corporate decision-making.	Zhang et al. (2023)
Ethical culture and internal controls	An ethical organizational culture enhances tax compliance.	Ghana	An ethical organizational culture and strong internal control systems reinforce tax compliance behavior.	Musah et al. (2025)

Table 2 shows that the literature synthesis reveals that both institutional and internal corporate factors play a significant role in determining the effectiveness of ESG practices on tax compliance behavior. Asmoro et al. (2024) find that the specificity of disclosures aligned with GRI 2018–2019 standards enhances firms' ability to reduce tax aggressiveness, whereas irrelevant disclosures show limited effectiveness. The heterogeneity of ESG indicators and tax avoidance proxies, as noted by Mitroulia et al. (2025), affects the consistency of research outcomes, signaling the need for indicator harmonization.

Additionally, Hakam et al. (2024) demonstrate that perceptions of environmental tax fairness and the quality of tax governance significantly contribute to higher tax compliance. Several studies further highlight the moderating role of governance mechanisms and fiscal policy. Mio et al. (2025) report that low adherence to the GRI Tax Standard undermines ESG credibility, while Wang et al. (2025) argue that income tax and environmental tax incentives can strengthen sustainability practices. Ariefiara et al. (2025) reveal the dual role of ownership structure, where strong controlling shareholders may improve transparency yet simultaneously increase the likelihood of tax avoidance.

Moreover, Mosuin et al. (2024) emphasize that robust corporate governance mechanisms are essential in curbing tax avoidance, while Khlifi et al. (2025) show that ESG can act as a mediating mechanism between board characteristics and tax practices. External factors also play a pivotal role, Atarwaman (2025) find that stringent tax enforcement enhances corporate decision efficiency, while Musah et al. (2025) assert that ethical culture and internal control systems strengthen tax compliance, particularly among SMEs in Ghana.

### Identified Research Gaps and Directions for Future ESG–Tax Research

The following section proceeds to examine the research gaps identified through the synthesis of the 30 reviewed articles. These gaps encompass conceptual, methodological, and contextual dimensions that require further investigation. The research gap mapping and proposed directions for future studies are presented in Table 3.

**Table 3.** Research Gap Mapping and Future Research Directions

Factor	Mechanism/Role	Country	Implication	Source
Disclosure specificity (GRI 2018/2019)	Detailed ESG disclosure quality enhances a firm's capacity to reduce tax aggressiveness.	Indonesia and Malaysia	Irrelevant disclosures are ineffective in curbing tax aggressiveness.	Asmoro et al. (2024)
Heterogeneity in ESG and tax avoidance indicators	Variations in ESG measurement influence the strength of the ESG–tax relationship.	Cross-study meta-analysis	Indicator harmonization is necessary to ensure more consistent findings.	Mitroulia et al. (2025)
Perceptions of fairness in environmental regulation	Public perceptions of tax fairness enhance compliance with environmental taxes.	Global	Fair tax policies strengthen tax compliance.	Hakam et al. (2024)
Compliance with the GRI Tax Standard	Low levels of tax reporting undermine ESG credibility.	Fortune Global 250	Improved tax transparency is required.	Mio et al. (2025)

Factor	Mechanism/Role	Country	Implication	Source
Income tax incentives and environmental taxation	Tax policies that support ESG objectives improve sustainability performance.	China	Green taxation plays a role in strengthening corporate ESG performance.	Wang et al. (2025)
Major ownership structure	Majority ownership structure influences the direction of ESG reporting and tax strategy.	Indonesia and Malaysia	Strong owner oversight increases disclosure but may also encourage tax avoidance.	Ariefiara et al. (2025)
Corporate governance mechanisms	Effective oversight mitigates tax avoidance.	Malaysia	Governance strengthening is necessary to mitigate opportunistic tax practices.	Mosuin et al. (2024)
ESG as a mediating variable	ESG entails the role of the board of directors in monitoring and controlling tax avoidance.	G20	Regulations that reinforce board roles can enhance tax compliance.	Khelifi et al. (2025)
Tax enforcement and external monitoring	Strong tax enforcement reduces opportunistic tax behavior.	China	Tax enforcement improves corporate decision-making efficiency.	Zhang et al. (2023)
Ethical culture and internal control systems	An ethical organizational culture enhances tax compliance.	Ghana	Ethical culture and internal control systems reinforce compliance behavior.	Musah et al. (2025)

Based on Table 3, the gap mapping results indicate that the ESG and tax compliance behavior literature still faces critical challenges in theoretical and measurement consistency. Scarpa and Signori (2023) highlight the absence of a standardized framework for conceptualizing Corporate Tax Responsibility (CTR), emphasizing the need for an index capable of measuring tax accountability across countries. Meanwhile, Mio et al. (2025) stress the importance of examining virtue-ethics models in emerging market contexts, as tax disclosure represents not only administrative compliance but also a manifestation of corporate moral values. Sibuea and Afriani (2025) find that female board representation and ESG performance have not shown a significant impact on tax avoidance, indicating the necessity of further investigation using broader samples and expanded variables.

Several research gaps also emerge in the context of fiscal and environmental policy. Amarna et al. (2025) reveal differential effects between permanent and temporary taxes on ESG practices, while Finley et al. (2025) underscore the importance of region-based studies to better understand how ESG influences local tax perception. Mechrgui and Theiri (2024) find that taxation plays a reinforcing role in the relationship between ESG and financial stability, suggesting the need for longitudinal research. Additionally, Qutait and Salem (2025) caution that in high-risk economic environments such as Palestine, CSR initiatives may be exploited to mask tax avoidance behavior. Pratama and Muhammad (2025) emphasize the bidirectional relationship between tax administration and compliance, which warrants causal investigation using experimental or instrumental variable approaches.

## DISCUSSION

The synthesis of the reviewed literature highlights that ESG practices play a multifaceted role in shaping corporate tax compliance behavior. Empirical evidence indicates that robust ESG performance generally reduces tax avoidance, enhances transparency, and aligns tax strategies with sustainability objectives (Yoon et al., 2021; Hidayat & Zuhroh, 2023; Elamer et al., 2024). This suggests that firms with strong environmental, social, and governance commitments perceive tax compliance not merely as a financial obligation but also as a reflection of ethical stewardship and social legitimacy. Conversely, some studies reveal that certain ESG dimensions, particularly social and governance components, can unintentionally increase tax avoidance in firms with strong governance structures, reflecting a nuanced interplay between corporate ethics, strategy, and opportunistic behavior (Ma & Park, 2021; Lee, 2024).

The comparative analysis with recent studies further supports these patterns. For example, Alomair and Metwally (2025) confirm that ESG disclosure mitigates the adverse impact of tax avoidance on firm value in emerging markets, emphasizing the protective effect of transparency. Similarly, Alexander and Menicacci (2025) highlight that cooperative compliance programs reduce tax avoidance but may induce trade-offs with ESG scores, demonstrating the potential substitution between regulatory compliance and sustainability reporting. These findings resonate with Asmoro et al. (2024), who stress that the specificity and quality of ESG disclosures determine their effectiveness in curbing tax aggressiveness. The evidence underscores the importance of disclosure standards, such as GRI, in ensuring that ESG commitments translate into responsible tax practices.

Organizational and governance mechanisms emerge as critical determinants in moderating the ESG–tax relationship. Board characteristics, ownership concentration, and ethical culture significantly influence how ESG affects tax behavior (Arieftiara et al., 2025; Khlifi et al., 2025; Musah et al., 2025). Firms with concentrated ownership may exhibit enhanced disclosure practices but simultaneously retain incentives for tax avoidance, highlighting the dual role of internal governance structures. Moreover, strategic leadership and organizational culture, as discussed by Alateeg and Alhammadi (2024) and Braicu (2024), further reinforce the capacity of firms to integrate ESG principles with ethical tax strategies, indicating that leadership commitment is central to operationalizing sustainability goals in financial decision-making.

Contextual and regulatory factors also modulate these dynamics. Environmental taxation, income tax incentives, and stringent enforcement frameworks can strengthen ESG alignment with tax compliance (Zhang et al., 2023; Hakam et al., 2024; Wang et al., 2025). Atarwaman (2025) and Musah et al. (2025) highlight that SMEs and emerging market firms particularly benefit from ethical culture and robust internal controls, suggesting that regulatory environments interact with organizational practices to determine compliance outcomes. This interplay indicates that ESG strategies are not universally effective but contingent on both institutional quality and market context.

These findings have significant implications. First, firms should design ESG initiatives that incorporate detailed and credible tax disclosure mechanisms to enhance legitimacy and mitigate aggressive tax compliance behavior. Second, policymakers should recognize that ESG performance and tax compliance are mutually reinforcing, recommending regulatory frameworks that incentivize transparency while accommodating context-specific challenges. Corporate leaders must foster ethical cultures, effective governance, and strategic oversight to ensure that ESG commitments translate into both sustainable business practices and responsible fiscal behavior.

## **CONCLUSION**

The review of 30 studies indicates that ESG practices generally reduce tax avoidance and enhance tax transparency, though their effects vary across institutional and country contexts. Social and governance dimensions of ESG produce heterogeneous outcomes, with stronger tax compliance observed in firms with sustainability committees, diverse boards, and adherence to tax-related disclosure standards. Policy instruments, such as income tax incentives and environmental taxation, reinforce the alignment of ESG strategies with responsible fiscal behavior, yet results are moderated by differences in ESG metrics, tax proxies, and regulatory enforcement.

The implications are threefold. For regulators, standardizing corporate tax responsibility indicators and adopting key elements of the GRI tax standard, including scope, disclosure quality, and country-by-country reporting, can enhance accountability and comparability. Fiscal policies should balance incentives with robust enforcement to foster an integrated ESG–compliance ecosystem. For corporations, institutionalizing tax governance within ESG strategies is essential, emphasizing active collaboration between sustainability and tax functions, transparent disclosures, and a strong ethical culture supported by internal controls. Investors should incorporate tax transparency metrics into ESG assessments to ensure capital allocation reinforces compliant practices.

Limitations of the current literature include the predominance of observational designs, inconsistent ESG and tax measures, and limited contextualized studies in emerging markets. Future research should employ causal methodologies (IV/2SLS, DID, natural experiments), standardize ESG and tax proxies, and explore virtue-ethics governance models. Additionally, micro-level studies examining localized tax morale, industry-specific dynamics, firm size, and economic cycles would clarify conditions under which ESG most effectively drives tax compliance. These directions provide a roadmap for advancing academic understanding and practical implementation of ESG-driven fiscal governance.

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