

The Effect Of Sustainability Report Quality On Tax Avoidance With Profitability As A Mediating Variable In Basic Materials Sector Companies

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Abstract

This study aims to analyze the influence of sustainability reporting quality on tax avoidance by considering the role of profitability as a mediating variable in basic materials sector companies in Indonesia. The background of this research is based on the issue of moral inconsistency where companies often claim sustainability practices but engage in tax aggressiveness, as well as the lack of empirical evidence regarding the role of profitability in this mechanism following the implementation of POJK No. 51 of 2017. This study employs a quantitative approach with a causal associative design. The population comprises basic materials sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. Through purposive sampling technique, 30 companies were selected, resulting in a total of 90 observations. Data analysis was conducted using multiple linear regression and mediation tests. The results indicate that sustainability reporting quality has a significant negative effect on tax avoidance. However, sustainability reporting quality proved to have no significant effect on profitability. Furthermore, this study found that profitability does not mediate the relationship between sustainability reporting quality and tax avoidance. These findings support Legitimacy Theory, suggesting that corporate decisions to comply with tax obligations are driven by ethical motives, transparency, and reputation, rather than by short-term financial performance mechanisms.

Keywords: Sustainability Reporting Quality, Tax Avoidance, Profitability, Basic Materials Sector, Legitimacy Theory.



INTRODUCTION

In recent years, sustainability reporting has received increasing attention due to the growth of global ESG regulations, rising investor expectations, and greater demands for tax transparency and environmental responsibility. This issue is especially important for basic materials companies in Indonesia because the sector has significant environmental impacts, intensive natural resource usage, and complex tax structures. (Komara et al., 2020) identified several weaknesses in sustainability reporting practices in Indonesia, such as non-standardized measurements, narrative-based disclosures, inconsistent quality, and the tendency to use reports mainly as image-building tools. These findings suggest that the key issue lies in the quality of sustainability disclosure rather than merely the existence of sustainability reports.

Previous studies also found inconsistencies between sustainability claims and corporate tax behavior. (Annur et al., 2014) showed that corporate tax avoidance is associated with pollution emissions and inconsistent sustainability practices, indicating moral inconsistency in companies that promote sustainability while engaging in aggressive tax strategies. In addition, (Pipatnarapong et al., 2025) found that sustainability disclosure is related to tax avoidance behavior and may be influenced by internal company factors such as profitability. High-quality sustainability reporting can improve stakeholder trust and operational efficiency, which may influence tax exposure and tax avoidance decisions.

However, most previous studies only focused on direct relationships between sustainability reporting and tax avoidance. Research examining profitability as a mediating variable remains limited, particularly in Indonesian basic materials companies after the implementation of POJK No. 51 of 2017. Furthermore, (Nie et al., 2025) discussed moral inconsistency between sustainability and tax aggressiveness without testing profitability mediation, while (Karavitis et al., 2025) examined sustainability reporting and tax avoidance without including profitability as a financial factor. Therefore, an important research gap still exists regarding whether profitability mediates the relationship between sustainability reporting quality and tax avoidance.

This study aims to analyze the effect of sustainability reporting quality on tax avoidance by considering profitability as a mediating variable in Indonesian basic materials companies. The study contributes to legitimacy theory, signaling theory, and agency theory by explaining how sustainability reporting quality influences corporate fiscal behavior through financial performance. In addition, the findings are expected to provide practical insights for regulators, companies, investors, and academics regarding

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the role of sustainability reporting in improving tax compliance and ethical corporate behavior.

Objectives

This article intends

1. To analyze the effect of sustainability reporting quality on tax avoidance in basic materials sector companies in Indonesia.
2. To analyze the effect of sustainability reporting quality on profitability in basic materials sector companies in Indonesia.
3. To examine the role of profitability as a mediating variable in the relationship between sustainability reporting quality and tax avoidance in basic materials sector companies in Indonesia.

Literature Review

Sustainability Reporting Quality

Sustainability reporting quality reflects how companies communicate their environmental, social, and governance (ESG) performance to stakeholders. Companies use sustainability reports to demonstrate transparency and build public trust. According to (Lagasio, 2024), high-quality ESG disclosure can show whether companies genuinely implement sustainability practices or only present them symbolically. In addition, (Ferjančič et al., 2024) explained that comprehensive and informative sustainability narratives improve the reliability of ESG assessments and strengthen stakeholder perceptions of corporate sustainability commitment.

Furthermore, (Lagasio, 2024) emphasized that integrating a sustainability mindset into organizational decision-making processes makes sustainability reports more relevant and consistent. Therefore, the theory of sustainability reporting quality suggests that disclosure quality, narrative depth, and internal sustainability orientation are important factors in determining the credibility and effectiveness of corporate sustainability reports.

Tax Avoidance

Tax avoidance refers to a company's effort to reduce tax expenses by utilizing loopholes in tax regulations. "Tax avoidance is a legal effort to minimize taxes by taking advantage of existing tax regulations to reduce the amount of taxes paid by companies; however, aggressive practices may reduce state revenue and information transparency" (Syafina et al., n.d.). Previous studies show that transparency, corporate governance, and

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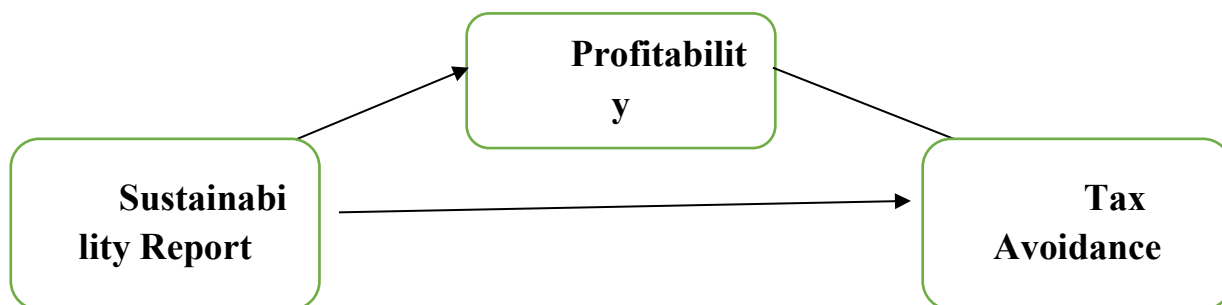
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managerial characteristics influence tax avoidance behavior. (Shakri et al., 2025) found that companies with better environmental disclosure tend to reduce tax avoidance due to reputational risk, while (Annur et al., 2014) and (Gu & Wang, 2023) emphasized the importance of ownership structure, monitoring mechanisms, and independent directors in limiting aggressive tax strategies. In addition, (Sun et al., 2025) stated that overconfident leaders are more likely to adopt aggressive tax decisions unless supported by strong social responsibility commitments. Therefore, tax avoidance theory suggests that transparency, governance, and managerial behavior collectively shape corporate responses to tax obligations.

Profitability as a Mediating Variable

Profitability reflects a company's ability to generate profits through effective resource management and is positioned in this study as a mediating variable between sustainability reporting quality and tax avoidance. Companies with high-quality sustainability reports tend to demonstrate better governance, stronger stakeholder trust, and higher operational efficiency, which may improve profitability. Furthermore, profitability influences tax exposure and the intensity of tax planning strategies, making it relevant in explaining corporate tax avoidance behavior. Therefore, profitability theory in this study emphasizes that innovation, risk management, and corporate sensitivity to external pressures are important factors influencing both financial performance and corporate fiscal behavior.

Framework



Based on theoretical and empirical findings, it is assumed that the intensity and quality of sustainability reporting influence corporate tax behavior through two pathways. First, directly, more transparent and informative sustainability disclosures reduce opportunities for tax avoidance practices due to increased monitoring and reputational

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pressure. Second, indirectly, sustainability reporting quality may improve profitability through factors such as operational efficiency, stakeholder trust, and risk reduction, while profitability subsequently mediates the company's tendency to engage in tax avoidance. Therefore, this research framework includes both the direct effect of sustainability reporting quality on tax avoidance and the mediating effect of profitability within the relationship.

Research Hypotheses

H1: Sustainability reporting quality is expected to have a significant negative effect on the level of tax avoidance.

H2: Sustainability reporting quality is expected to have a significant positive effect on profitability.

H3: Profitability is expected to mediate the relationship between sustainability reporting quality and tax avoidance.

Research Method

This study uses a quantitative approach with a causal associative design to examine the effect of sustainability reporting quality (X) on tax avoidance (Y) and the mediating role of profitability (Z). Secondary panel data from 2022–2024 are analyzed using multiple linear regression with SPSS. Profitability is treated as a mediating variable between sustainability reporting quality and tax avoidance. The mediation effect is tested using the Baron and Kenny approach and supported by the Sobel test to ensure the validity and reliability of the results.

Corporate sustainability performance in this study is measured using the Sustainability Disclosure Index (SDI), which evaluates the extent of sustainability information disclosed by companies. The index includes environmental, social, and governance (ESG) dimensions. A total of 91 sustainability indicators are used based on relevant sustainability disclosure guidelines and prior studies.

The sustainability index is measured using a dummy scoring method:

- * Score 1 is assigned if the company discloses a sustainability indicator.
- * Score 0 is assigned if the indicator is not disclosed.

The sustainability index formula is as follows:

$$\text{Indeks Sustainability} = \frac{\sum_{i=1}^{91} X_i}{91}$$



Where:

* X_i = disclosure score for indicator (i)

* X_i if disclosed, and $x_i = 0$ if not disclosed

* 91 = total sustainability indicators used in the study

For interpretation purposes, the sustainability index is also presented as a percentage:

$$\text{Indeks Sustainability (\%)} = \frac{\sum_{i=1}^{91} X_i}{91} \times 100\%$$

The interpretation of the sustainability index is presented below:

Indeks Value	Interpretation
0 – 25%	Very low level of disclosure
26 – 50%	Low level of disclosure
51 – 75%	Moderate level of disclosure
76 – 100%	High level of disclosure

Sustainability disclosure data are obtained from annual reports and other supporting company documents. If a company does not publish a separate sustainability report, the sustainability information contained in the annual report is used for measurement.

Tax avoidance is measured using the Effective Tax Rate (ETR), which reflects the effective tax burden borne by the company relative to its profit. ETR is commonly used as a proxy for corporate tax behavior in accounting, finance, and sustainability research. The formula is as follows:

$$ETR = \frac{\text{Income Tax Expense}}{\text{Pre - Tax Income}}$$

Where:

* Income Tax Expense = current tax + deferred tax

* Profit Before Tax = accounting profit before tax expense

In percentage form:

$$ETR (\%) = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}} \times 100\%$$

Only companies with positive pre-tax profits are included in the ETR calculation. Observations with negative pre-tax profits are excluded because ETR values cannot be



economically interpreted. Lower ETR values indicate relatively lower tax burdens and may signal tax avoidance practices.

The interpretation of ETR is shown below:

ETR Value	Interpretation
Low	Sustainability Reporting Quality
Close to the statutory tax rate	Relatively normal tax compliance
High	Relatively large tax burden

In the sustainability context, taxes are viewed as a form of corporate economic contribution to society and the government. Therefore, ETR is used to examine whether companies with higher sustainability disclosure demonstrate more responsible tax behavior.

The population of this study consists of all basic materials companies listed on the Indonesia Stock Exchange during 2022–2024. The basic materials sector is selected because it has high environmental impacts, intensive natural resource usage, and relatively complex cost and tax structures.

The sample is determined using purposive sampling with the following criteria:

1. Basic materials companies listed on the Indonesia Stock Exchange during 2022–2024.
2. Companies publishing sustainability reports or sustainability information in annual reports.
3. Companies with complete financial and tax data, including profit before tax, income tax expense, net income, and total assets.
4. Observations with negative pre-tax profits are excluded from ETR calculations but may remain included in other years with positive profits.
5. Companies not meeting these criteria are excluded from the sample.

This study uses secondary quantitative data obtained from:

1. Sustainability Reports
2. Annual Reports and Financial Reports
3. Official databases from the Indonesia Stock Exchange, Financial Services Authority, and IDX Sustainability Hub
4. POJK No. 51 of 2017 as the regulatory reference for sustainability practices.

Sustainability reporting quality is measured using the Global Reporting Initiative (GRI) disclosure index through content analysis, where disclosed items receive a score



of 1 and undisclosed items receive a score of 0. Tax avoidance is measured using the Effective Tax Rate (ETR), in which lower ETR values indicate higher tax avoidance, while profitability is measured using Return on Assets (ROA), calculated as net income divided by total assets. Data are collected from sustainability and financial reports obtained through official company and stock exchange websites, then organized and processed using SPSS. Data analysis includes descriptive statistics and classical assumption tests, namely normality testing with Kolmogorov–Smirnov, multicollinearity testing using VIF and Tolerance, heteroscedasticity testing with the Glejser test, and autocorrelation testing using the Durbin–Watson test.

Multiple linear regression analysis is applied using the following models:

Model 1

Profitability = $\alpha + \beta_1$ Sustainability Reporting Quality + e

Model 2

Tax Avoidance = $\alpha + \beta_1$ Sustainability Reporting Quality + e

Model 3

Tax Avoidance = $\alpha + \beta_1$ Sustainability Reporting Quality + β_2 Profitability + e

The coefficient of determination (R^2) is used to measure how much variation in the dependent variable can be explained by the independent variables. Hypothesis testing is conducted using the t-test with a significance level of 5%, where hypotheses are accepted if the significance value is below 0.05.

DISCUSSION

Descriptive Statistical Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
x1	90	-1.87	-.01	-.5490	.39949
SMEAN(M1)	90	-7.68	1.96	-3.2047	1.66559
SMEAN(Y)	90	-6.91	-.01	-2.2051	1.20551
Valid N (listwise)	90				

Based on Table 4.2, the descriptive analysis of 90 data samples shows the characteristics of the research variables. Sustainability Reporting (X) has a mean value of -0.5490 with a standard deviation of 0.3995, ranging from -1.87 to -0.01. Profitability (Z) has an average value of -3.2047 with a standard deviation of 1.6656, with values



ranging from -7.68 to 1.96. Meanwhile, Tax Avoidance (Y) has a mean value of -2.2051 with a standard deviation of 1.2055, where the minimum value is -6.91 and the maximum value is -0.01. Overall, the standard deviation values of all variables are smaller than their absolute mean values, indicating that the data are relatively homogeneous with low variation. Therefore, the data are considered appropriate for further analysis.

Classical Assumption Tests

Normality Test

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			90
Normal Parameters ^{a,b}	Mean	.0000000	
	Std. Deviation	24.25993714	
Most Extreme Differences	Absolute	.066	
	Positive	.059	
	Negative	-.066	
Test Statistic			.066
Asymp. Sig. (2-tailed) ^c			.200 ^d
Monte Carlo Sig. (2-tailed) ^e	Sig.	.436	
	99% Confidence Interval	Lower Bound	.423
		Upper Bound	.448

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 1502173562.

The normality test in this study was conducted using the non-parametric One-Sample Kolmogorov–Smirnov (K–S) test to determine whether the residual values in the regression model were normally distributed. Based on the results shown in Figure 4.3.1, the Asymp. Sig. (2-tailed) value is 0.200. Since the significance value is greater than 0.05 ($0.200 > 0.05$), it can be concluded that the residual data are normally distributed and the regression model satisfies the normality assumption.

Multicollinearity Test

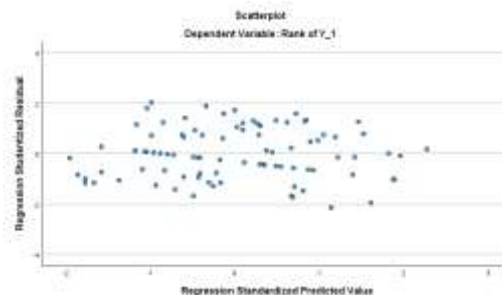
Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	52.583	6.788	7.747	<.001		
	Rank of M1_1	.155	.100	.156	.124	.998	1.002
	Rank of x1	-.311	.100	-.314	.002	.998	1.002

a. Dependent Variable: Rank of Y_1



Based on Figure 4.3.2, the calculation results show that the Sustainability Reporting (X) and Profitability (Z) variables each have a Tolerance value of 0.998 and a VIF value of 1.002. Since the Tolerance values are greater than 0.10 ($0.998 > 0.10$) and the VIF values are less than 10 ($1.002 < 10$), it can be concluded that there is no multicollinearity problem among the independent variables in this research model.

Heteroscedasticity Test



The heteroscedasticity test aims to determine whether there is inequality in the variance of residuals across observations in the regression model. If the residual variance remains constant across observations, the condition is referred to as homoscedasticity, whereas differing variances indicate heteroscedasticity. A good regression model should not exhibit heteroscedasticity and should satisfy the homoscedasticity assumption.

Autocorrelation Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.260 ^a	.068	.043	.26181149160	1.571

a. Predictors: (Constant), SR, ROA
b. Dependent Variable: ETR

- Lower limit value (dL) = 1.612
- Upper limit value (dU) = 1.703
- Value of $4 - dU = 4 - 1.703 = 2.297$

The calculated Durbin–Watson (DW) value is 2.358, which is close to the no-autocorrelation region around the value of 2. Although this value is slightly above the theoretical limit of $4 - dU$ (2.297), general statistical guidelines, such as those proposed by Santoso, state that DW values between 1.5 and 2.5 can still be considered free from serious autocorrelation problems. Therefore, it can be concluded that there is no serious



autocorrelation issue in this regression model, and the model is appropriate for further analysis.

Linear Regression Analysis

Model 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	43.521	5.574		7.808	<.001
	Rank of x1	.044	.106	.044	.409	.684

a. Dependent Variable: Rank of M1_1

Based on the regression results of the first model, the constant value is 43.521. This indicates that when the Sustainability Reporting variable equals zero, the average value of Profitability is 43.521. The regression coefficient for Sustainability Reporting is 0.044, indicating a positive relationship. However, the significance value obtained is 0.684. Since 0.684 is greater than the significance level of 0.05, it can be concluded that Sustainability Reporting does not have a significant effect on Profitability.

Model 2

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	59.329	5.259		11.282	<.001
	Rank of x1	-.304	.100	-.307	-3.028	.003

a. Dependent Variable: Rank of Y_1

In the second model, the regression analysis produces a constant value of 59.329. This means that if a company does not disclose Sustainability Reporting, the predicted level of Tax Avoidance is 59.329 units. Meanwhile, the regression coefficient for Sustainability Reporting is -0.304.

This negative coefficient indicates that every one-unit increase in Sustainability Reporting quality reduces Tax Avoidance by 0.304 units. The effect is statistically significant because the significance value is 0.003, which is smaller than the 0.05 significance threshold.



Model 3

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	52.583	6.788	7.747	<.001		
	Rank of M1_1	.155	.100	1.554	.124	.998	1.002
	Rank of x1	-.311	.100	-3.117	.002	.998	1.002

a. Dependent Variable: Rank of Y_1

In this multiple regression model, the constant value obtained is 52.583. The Sustainability Reporting variable has a regression coefficient of -0.311 with a significance value of 0.002. This confirms that Sustainability Reporting has a significant negative effect on Tax Avoidance, meaning that an increase in Sustainability Reporting reduces Tax Avoidance by 0.311 units.

On the other hand, the Profitability variable has a regression coefficient of 0.155, indicating a positive relationship direction. However, the significance value for Profitability is 0.124. Since 0.124 is greater than 0.05, it can be concluded that Profitability does not significantly affect Tax Avoidance in this research model.

Mediation Test

Relationship Path	Coefficient (β)	Significance	Description
Path a: X to Z (Sustainability Report to Profitability)	0,044	0,684	Not Significant
Path b: Z to Y (Profitability to Tax Avoidance)	0,155	0,124	Not Significant
Path c: X to Y (Direct Effect)	-0,304	0,003	Significant

The mediation test requires:

- The independent variable significantly affects the mediator (Path a).



- The mediator significantly affects the dependent variable (Path b).

Based on the summary results, Sustainability Reporting does not significantly affect Profitability (Sig. 0.684 > 0.05). In addition, Profitability does not significantly affect Tax Avoidance (Sig. 0.124 > 0.05).

Because one or both mediation requirements are not fulfilled, it can be concluded that there is no mediation effect. Profitability does not act as an intervening variable in the relationship between Sustainability Reporting and Tax Avoidance. The relationship between Sustainability Reporting and Tax Avoidance is therefore a pure direct effect of -0.304 without mediation through Profitability.

Accordingly, the hypothesis stating that "Profitability mediates the relationship between Sustainability Reporting and Tax Avoidance" is REJECTED.

Coefficient of Determination (R^2)

Model 1

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.044 ^a	.002	-.009	26.216447

a. Predictors: (Constant), Rank of x1

Based on the table above, the coefficient of determination (R^2) is 0.002. This indicates that Sustainability Reporting contributes only 0.2% to explaining variations in Profitability, while the remaining 99.8% is explained by other variables outside this research model.

The R Square value, which is close to zero, is consistent with the t-test result showing that Sustainability Reporting does not significantly affect Profitability. This low value indicates that the model has very weak predictive ability regarding profitability.

Model 2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.307 ^a	.094	.084	24.733482

a. Predictors: (Constant), Rank of x1



Based on the table above, the coefficient of determination (R^2) is 0.094. This means that Sustainability Reporting explains 9.4% of the variation in Tax Avoidance, while the remaining 90.6% ($100\% - 9.4\%$) is influenced by other variables not included in this study.

The correlation coefficient (R) of 0.307 indicates that the relationship between Sustainability Reporting and Tax Avoidance is relatively weak but still definite.

Model 3

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.345 ^a	.119	.099	24.537203	2.358

a. Predictors: (Constant), Rank of x1, Rank of M1_1

b. Dependent Variable: Rank of Y_1

Based on the Model Summary table, the Adjusted R Square value is 0.099 or 9.9%. This indicates that Sustainability Reporting and Profitability together explain 9.9% of the variation in Tax Avoidance, while the remaining 90.1% ($100\% - 9.9\%$) is explained by other variables not included in the model, such as company size, leverage, company age, or corporate governance.

In addition, the correlation coefficient (R) of 0.345 indicates that the relationship between the independent variables and the dependent variable is relatively weak because the value is below 0.50.

Hypothesis Testing

H1: Effect of Sustainability Reporting on Tax Avoidance

The first hypothesis (H1) proposes that Sustainability Reporting has a significant negative effect on Tax Avoidance. The regression result in Model 2 shows a regression coefficient of -0.304 with a significance value of 0.003. Since $0.003 < 0.05$ and the coefficient is negative, H1 is ACCEPTED. This indicates that higher Sustainability Reporting quality reduces Tax Avoidance practices.

H2: Effect of Sustainability Reporting on Profitability

The second hypothesis (H2) proposes that Sustainability Reporting has a significant positive effect on Profitability. The regression result in Model 1 shows a regression coefficient of 0.044 with a significance value of 0.684. Although the relationship is positive, $0.684 > 0.05$, therefore H2 is REJECTED. This means Sustainability Reporting does not significantly affect Profitability.



H3: Mediating Role of Profitability

The third hypothesis (H3) proposes that Profitability mediates the relationship between Sustainability Reporting and Tax Avoidance. The mediation test shows that:

1. Sustainability Reporting does not significantly affect Profitability (Sig. 0.684).
2. Profitability does not significantly affect Tax Avoidance (Sig. 0.124).

Since both mediation paths are not significant, H3 is REJECTED. Profitability does not mediate the relationship between Sustainability Reporting and Tax Avoidance. The effect occurs directly without mediation.

CONCLUSION

This study examined the effect of sustainability reporting quality on tax avoidance with profitability as a mediating variable in basic materials companies listed on the Indonesia Stock Exchange during 2022–2024. The findings show that sustainability reporting quality has a significant negative effect on tax avoidance. Companies with better sustainability disclosure tend to engage in lower tax avoidance practices. This result supports Legitimacy Theory, which suggests that companies maintain public trust through transparency and tax compliance.

The study also found that sustainability reporting quality does not significantly affect profitability. Although sustainability disclosure reflects corporate responsibility and transparency, it does not directly improve short-term financial performance. This indicates that sustainability reporting may still be viewed as a long-term investment or disclosure cost rather than an immediate source of profit growth. Therefore, profitability in the basic materials sector is likely influenced by other operational and financial factors outside the sustainability reporting mechanism.

Furthermore, profitability was proven unable to mediate the relationship between sustainability reporting quality and tax avoidance. The mediation effect failed because sustainability reporting did not significantly influence profitability, and profitability also did not significantly affect tax avoidance. As a result, the reduction in tax avoidance occurs through a direct effect of sustainability reporting rather than through financial performance improvement. These findings imply that corporate tax compliance is more strongly driven by ethical considerations, transparency, and reputational concerns than by profitability motives.



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