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When Sustainability Talks but Profits Decide: Evidence from Corporate Tax Payments

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Abstract

Purposes: This research is conducted to examine as how the sustainability signal represented by Environmental, Social, Governance Disclosure as an internal sustainability narrative and PROPER rating as an external verified sustainability signal, there is also financial pressure and growth pressure will affect the corporate tax payment whether the condition of profitability is forcing the company.
Methods: This research will conduct with Moderated Regression Analysis of panel data from 135 observations basic material entities achieving PROPER on 2020-2024 by Ministry of Environment and Forestry of Indonesia Republic with the tools to examine is EViews 13.
Findings: The results indicate that ESG disclosure has a significant negative effect on corporate tax payment, suggesting that internal sustainability narratives may remain symbolic without sufficient economic capacity. In contrast, PROPER ratings positively influence tax payment, reflecting the role of externally verified sustainability signals in strengthening fiscal compliance. Financial pressure increases tax payments through creditor monitoring, while growth pressure reduces tax payments as firms prioritize internal funding for expansion. Profitability acts as a forcing condition, strengthening the ESG effect, weakening the influence of PROPER and financial pressure, and offsetting the negative impact of growth pressure on corporate tax payment.
Novelty: This study reframes sustainability disclosure as a sustainability signal rather than a direct determinant of tax behavior and conceptualizes corporate tax payments as observable fiscal outcomes. By positioning profitability as a forcing condition, this study offers a mechanism base explanation of how sustainability and economic pressures interact in environmentally regulated industries.

Keywords*:* Corporate Tax Payment, Financial Pressure, Growth Pressure, Profitability Force Sustainability Signal

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INTRODUCTION

Corporate sustainability has increasingly become a major concern within the global economic and policy landscape due to rising awareness of environmental damage, social inequality, and the need to maintain long-term economic resilience (Elkington, 2013; Velte, 2023). In response to these challenges, governments, international institutions, and financial markets are placing greater pressure on companies to support sustainable development through

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environmentally responsible operations, social responsibility initiatives, and transparent governance practices (Kuo, 2023; Mukhtaruddin et al., 2025).

One tangible form of corporate contribution to sustainable development is corporate tax payment, as taxes provide essential funding for public services, social welfare, and environmental protection programs. Corporate tax payment, commonly measured using the Corporate Effective Tax Rate (CETR), reflects the extent to which firms convert their economic performance into fiscal contributions and therefore serves as an indicator of corporate accountability (Kuo, 2023; Mukhtaruddin et al., 2025; Velte, 2023). Empirical evidence from Indonesia Basic Materials company during the 2020–2024 period show that corporate tax payment intensity (CETR) fluctuated considerably from year to year, reflecting heterogeneous firm responses to economic shocks and sustainability pressures (Anggreni et al., 2025; Refalina et al., 2024; Reschiwati et al., 2025). These variations imply that corporate tax payment behavior is shaped not only by regulatory obligations but also by internal firm conditions and external sustainability pressures, particularly within environmentally sensitive industries, as illustrated in Figure 1.

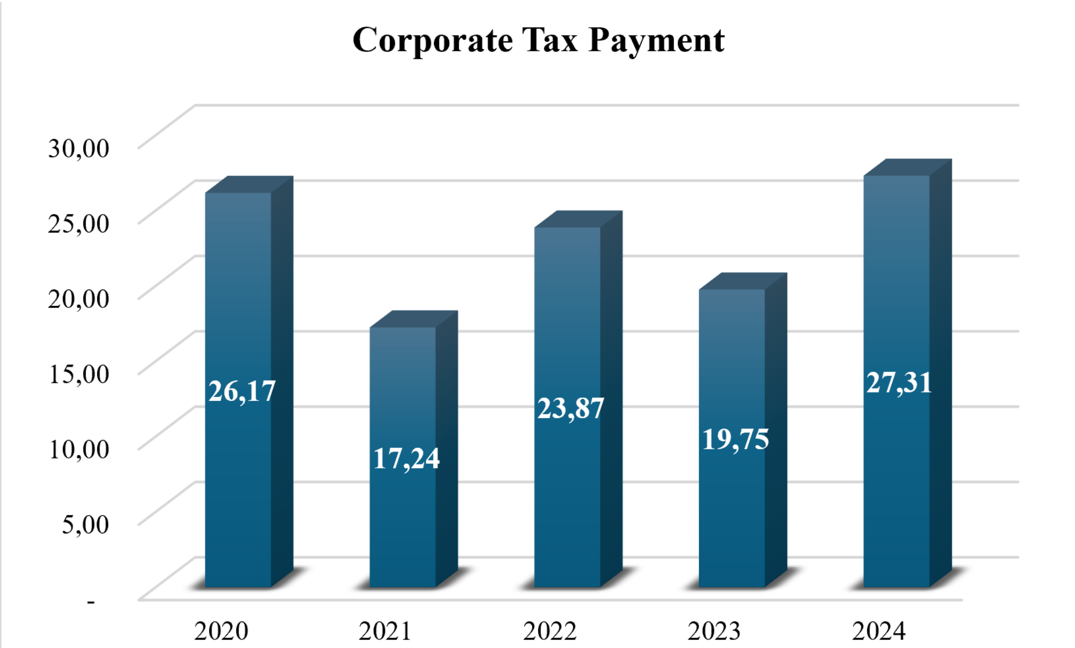

Figure 1. Corporate Tax Payment 2020-2024
Source: Data proceeds by researcher (2026)

One factor that may explain corporate tax payment behaviour is sustainability disclosure, particularly Environmental, Social, and Governance (ESG) reporting. ESG disclosure reflects an internal sustainability narrative used by firms to communicate their commitments and responsibilities to stakeholders. From the perspective of legitimacy theory, broader ESG disclosure increases transparency and strengthens public monitoring, thereby encouraging firms to align their sustainability claims with actual fiscal contributions (Haladu et al., 2025; Kuo, 2023; Mukhtaruddin et al., 2025; Rahmadini & Hartanti, 2025). Nevertheless, previous studies provide inconsistent evidence, as ESG disclosure may also function merely as a symbolic instrument that does not necessarily lead to substantive tax contributions (Dewanti & Rusydi, 2025; Khusna & Subandi, 2025; Lestari & Muthmainnah, 2025; Mitroulia et al., 2025; Velte, 2023).

In Indonesia, environmental performance is formally evaluated through the PROPER rating system established by the Ministry of Environment and Forestry under Law No. 32 of 2009 and Ministerial Regulation No. 1 of 2021. This program publicly assesses corporate environmental compliance and sustainability performance (Anggreni et al., 2025; Kementrian Lingkungan Hidup dan Kehutanan, 2023; Refalina et al., 2024; Ritonga et al., 2024). As an externally verified mechanism, PROPER strengthens regulatory oversight and increases public scrutiny, particularly for companies operating in environmentally sensitive industries. Compared with self-reported ESG disclosure, PROPER creates stronger legitimacy and reputational pressures that may encourage firms to align environmental performance with broader economic responsibilities, including tax contributions (Chandrasena et al., 2025; Refalina et al., 2024; Rudyanto, 2025; Anggreni et al., 2025; Jia & Liu, 2025). However, empirical evidence regarding the relationship between PROPER ratings and corporate tax payment remains limited and inconclusive (Anggreni et al., 2025; Kweh et al., 2025; Mitroulia et al., 2025; Ritonga et al., 2024).

Corporate tax payment decisions are also influenced by internal economic pressures. Financial pressure, commonly associated with leverage, may constrain corporate liquidity because firms must fulfil fixed obligations to creditors. Under such conditions, managers often prioritize debt repayment and liquidity preservation, causing tax payment decisions to become secondary rather than primary obligations (Giannarou & Tzeremes, 2025; Souguir et al., 2024; Syahputri et al., 2025; Tilakasiri & Wanninayake, 2023). However, previous findings concerning the effect of financial pressure remain inconsistent.

Profitability itself also plays an important role. Most previous studies only position profitability as a control variable, with limited attention given to its role in shaping firms' ability to realize sustainability commitments (Chandrasena et al., 2025; Mitroulia et al., 2025; Mukhtaruddin et al., 2025). Consequently, firms under strong growth pressure may attempt to reduce tax payments in order to retain more internal resources for future expansion. Nevertheless, several studies suggest that the relationship between growth pressure and tax payment is not always consistent and may depend on the firm's profitability condition.

Another, the role of profitability. Most prior studies treat profitability merely as a control variable, overlooking its potential role in shaping firms' capacity to realize sustainability commitments (Ridwan & Alghifari, 2025; Syahputri, 2025). From an agency theory perspective, managers tend to prioritize liquidity preservation and short-term performance when profitability is low, reducing their willingness to maintain higher tax payments (Dang & Tran, 2021; Velte, 2025). In contrast, higher profitability provides firms with greater financial flexibility and managerial discretion, enabling them to better align sustainability commitments with substantive fiscal contributions (Kuo, 2023; Pipatnarapong et al., 2025).

Agency theory further explains that corporate tax payment is a discretionary managerial decision shaped by resource limitations and contractual obligations, which may create conflicts of interest between managers and shareholders (Jensen et al., 1976; Karlinah et al., 2024). Financial pressure arising from high leverage encourages managers to focus on liquidity preservation, while growth pressure increases internal financing needs and intensifies trade-offs between expansion and fiscal contributions (Giannarou & Tzeremes, 2025; Souguir et al., 2024). Meanwhile, from the legitimacy perspective, firms are expected to align their economic activities with societal expectations, where corporate tax payment represents a visible form of economic legitimacy (Suchman, 1995; Zhao & Yuan, 2024). In this context, ESG disclosure functions as an internal sustainability signal, although its implementation may remain symbolic when firms face financial constraints. Conversely, externally verified mechanisms such as PROPER impose stronger regulatory and reputational pressures, thereby reducing managerial discretion and increasing the credibility of sustainability commitments (Refalina et al., 2024; Velte, 2023). In line with the triple bottom line framework, corporate sustainability requires a balance between economic, social, and environmental dimensions. However, achieving this balance depends heavily on firms' financial conditions, as financial and growth pressures may limit resource allocation, making profitability a key determinant of whether sustainability commitments are translated into actual fiscal contributions (Elkington, 2013; Mitroulia et al., 2025).

This study identifies an important research gap concerning the conditions under which sustainability commitments are translated into actual corporate tax payments. Previous studies have predominantly focused on tax avoidance as a proxy for corporate behaviour and have rarely examined corporate tax payment as a direct and observable fiscal outcome. In addition, earlier research often investigates sustainability disclosure separately and produces inconsistent findings, while limited studies integrate internal sustainability narratives, externally verified sustainability signals, and firm-specific economic conditions within a single analytical framework, particularly in emerging market settings. Therefore, this study contributes to the literature by shifting the focus from tax avoidance to corporate tax payment as a more direct measure of corporate accountability, integrating sustainability factors and economic pressures into a unified framework, and positioning profitability as a moderating variable. Accordingly, this study aims to examine the effects of ESG disclosure and PROPER ratings on corporate tax payment while incorporating financial pressure and growth pressure as internal constraints and profitability as a moderating factor.

Internal sustainability narratives reflected through ESG disclosure serve as a formal mechanism through which firms communicate their sustainability commitments to stakeholders (Mukhtaruddin et al., 2025; Velte, 2023). From a legitimacy theory perspective, broader ESG disclosure increases societal expectations and reputational pressure, encouraging firms to align their actions with publicly disclosed commitments. This mechanism operates through greater transparency and stronger external monitoring, as firms become more visible to regulators, investors, and the public, thereby reducing managerial discretion in managing cash outflows, including tax payments (Dewanti & Rusydi, 2025; Jensen et al., 1976; Velte, 2023). As a result, corporate tax payment, proxied by CETR, becomes an observable indicator through which firms demonstrate consistency between sustainability narratives and actual economic contributions.

Previous empirical findings generally support this mechanism, although the results remain mixed. Several studies report that higher ESG disclosure is associated with higher corporate tax payments, indicating that firms translate reputational commitments into fiscal responsibility under stronger monitoring pressures (Mukhtaruddin et al., 2025; Pipatnarapong et al., 2025; Velte, 2023). However, other studies find weak or insignificant relationships, suggesting that ESG disclosure may remain symbolic when firms face financial limitations or internal economic pressures (Dewanti & Rusydi, 2025; Salleh et al., 2025; Velte, 2025). These inconsistent findings indicate that although ESG disclosure may encourage higher CETR through reputational and monitoring pressures, its realization ultimately depends on the firm's economic capacity. Accordingly, the following hypothesis is proposed:

H_1: Internal sustainability narrative positively influences corporate tax payment.

Externally verified sustainability signals, represented by PROPER ratings, reflect government-based assessments of corporate environmental performance conducted through formal regulatory supervision (Anggreni et al., 2025; Refalina et al., 2024). From the perspective of legitimacy theory, external verification increases public visibility, reputational exposure, and regulatory monitoring, particularly for firms operating in environmentally sensitive industries (Suchman, 1995; Zhao & Yuan, 2024). Greater scrutiny from regulators and society reduces managerial discretion and strengthens expectations for firms to align their environmental achievements with observable economic behaviour. In this regard, corporate tax payment, proxied by CETR, becomes a visible form of economic legitimacy through which firms demonstrate their contribution to society and the government (Mukhtaruddin et al., 2025; Zhao & Yuan, 2024). Therefore, companies with higher PROPER ratings are expected to maintain higher CETR levels in order to preserve legitimacy and avoid perceptions of inconsistency between environmental responsibility and fiscal contribution.

Previous empirical studies generally support this argument. Companies subjected to externally verified environmental assessments tend to display more compliant economic behaviour, including higher corporate tax payments, because reputational and regulatory pressures limit opportunistic managerial practices (Afrianti et al., 2023; Fang, 2023; Sormin et al., 2026; Saputra et al., 2025; Zhao & Yuan, 2024). Nevertheless, several studies report inconsistent results, indicating that the influence of PROPER ratings may depend on firms' internal economic conditions (Anggreni et al., 2025; Mitroulia et al., 2025). Based on this reasoning, this study proposes the following hypothesis:

H_2: External verified sustainability signal positively influences corporate tax payment.

Financial pressure reflects the liquidity constraints experienced by firms as a result of high leverage and fixed contractual obligations to creditors (Dang & Tran, 2021). From an agency theory perspective, increasing financial pressure reduces managerial flexibility and encourages managers to prioritize cash preservation and debt repayment obligations (Jensen et al., 1976; Mitroulia et al., 2025). Under these circumstances, discretionary cash outflows are more likely to be adjusted as firms attempt to manage limited financial resources efficiently. Corporate tax payment, proxied by CETR, represents a fiscal cash outflow that may be reduced when companies face financial distress (Alomair & Metwally, 2025; Karlinah et al., 2024; Kumar et al., 2023; Wang & Ahmad, 2024; Alodat et al., 2024; Dang & Tran, 2021; Luo, 2024). As a result, higher financial pressure is expected to lower CETR because firms tend to prioritize liquidity preservation and operational continuity (Arianti & Aisyaturrahmi, 2025; Mitroulia et al., 2025).

Previous empirical studies generally support this negative relationship. Firms with higher leverage are often found to reduce or postpone tax payments in order to maintain liquidity and minimize financial risk (Dang & Tran, 2021; Dzeraviaha, 2022; Karlinah et al., 2024; Yavuz et al., 2025). Nevertheless, some studies report insignificant relationships, suggesting that strong external monitoring mechanisms or sufficient profitability may weaken the impact of financial pressure on corporate tax payment behaviour (Mitroulia et al., 2025; Syahputri et al., 2025; Hossain et al., 2025; Kumar et al., 2023; Sharma, 2025; Wulandari & Akbar, 2025). Based on the theoretical arguments and empirical evidence above, the following hypothesis is proposed:

H_3: Financial pressure negatively influences corporate tax payment.

Growth pressure reflects the economic demands faced by firms in financing sales growth and sustaining operational expansion (Giannarou & Tzeremes, 2025; Souguir et al., 2024). From an agency theory perspective, increasing growth pressure intensifies conflicts in internal resource allocation because managers are encouraged to retain internal funds for investment and working capital rather than distribute cash to external stakeholders (Jensen et al., 1976; Shubita, 2024). Under these circumstances, discretionary cash outflows become subject to managerial adjustment, particularly when access to external financing is limited or future cash flows remain uncertain. Corporate tax payment, proxied by CETR, is therefore treated as a residual cash outflow after growth-related financing needs have been fulfilled. Since tax payments reduce internal liquidity, firms experiencing strong growth pressure may limit fiscal contributions in order to preserve funds and sustain future expansion. Accordingly, higher growth pressure is expected to reduce CETR (Giannarou & Tzeremes, 2025; Mitroulia et al., 2025).

Previous empirical studies generally support this argument. High-growth firms are often found to reduce tax payments in order to secure sufficient internal financing for expansion activities (Haris & Ramadhan, 2025; Mitroulia et al., 2025; Ningrum & Ulfa, 2024; Wulandari, 2026). However, other studies report weaker effects when firms possess sufficient profitability to simultaneously support growth and maintain fiscal contributions (Giannarou & Tzeremes, 2025; Pipatnarapong et al., 2025; Souguir et al., 2024; Zhou, 2023). Based on these arguments, the following hypothesis is proposed:

H_4: Growth pressure negatively influences corporate tax payment.

Profitability reflects a firm's economic capacity to realize sustainability commitments communicated through ESG disclosure, as higher profit levels provide the financial resources needed to support non-mandatory corporate responsibilities (Chandrasena et al., 2025; Velte, 2023). From an agency theory perspective, higher profitability reduces liquidity constraints and provides managers with greater flexibility to internalize legitimacy-related costs without threatening short-term financial performance (Jensen et al., 1976). Under these conditions, sustainability narratives are more likely to be translated into observable economic actions rather than remaining merely symbolic. In line with ESG theory, profitability enables firms to convert ESG disclosure into substantive outcomes, including corporate tax payment, proxied by CETR, as a measurable contribution to society. Therefore, profitability is expected to strengthen the relationship between ESG disclosure and CETR (Mitroulia et al., 2025; Velte, 2023).

Empirical evidence supports this argument. Previous studies show that the positive relationship between ESG disclosure and corporate tax behaviour becomes stronger in firms with higher profitability because sufficient financial capacity enables firms to realize sustainability commitments more effectively (Chandrasena et al., 2025; Velte, 2023; Velte 2025; Kuo, 2023; Mukhtaruddin et al., 2025). In contrast, less profitable firms tend to treat ESG disclosure as symbolic, without translating it into higher CETR due to limited financial resources (Lestari & Muthmainnah, 2025; Mitroulia et al., 2025). Based on this reasoning, this study proposes the following hypothesis:

H_5: Profitability strengthens the relationship between internal sustainability narrative and corporate tax payment.

Profitability also determines firms' economic capacity to respond to legitimacy pressures arising from PROPER ratings as externally verified sustainability signals (Anggreni et al., 2025; Mitroulia et al., 2025). From a legitimacy perspective, PROPER ratings increase public visibility and regulatory scrutiny, thereby creating stronger expectations for firms to maintain consistent environmental and fiscal behaviour (Refalina et al., 2024; Suchman, 1995). However, highly profitable firms may rely less on external legitimacy signals because they possess greater flexibility to manage reputation through various strategic channels. This condition suggests that profitability may weaken the influence of PROPER ratings on corporate tax payment.

Empirical evidence supports this view. Firms with strong financial performance tend to maintain stable fiscal contributions regardless of external pressure, as they possess sufficient resources to manage legitimacy through multiple strategic channels (Anggreni et al., 2025; Mitroulia et al., 2025). However, other study shows, firms with lower profitability exhibit stronger responsiveness to regulatory and reputational pressures, as limited financial capacity increases their dependence on externally verified signals such as PROPER to maintain legitimacy (Saputra et al., 2025; Zhao & Yuan, 2024). Based on these arguments, this study proposes the following hypothesis:

H_6: Profitability weakens the relationship between external verified sustainability and corporate tax payment.

Profitability determines firms' capacity to absorb liquidity pressures arising from financial pressure, particularly those associated with leverage and fixed contractual obligations to creditors (Dang & Tran, 2021). From an agency perspective, firms with higher profitability possess stronger internal cash flows and economic buffers, reducing their dependence on external financing and mitigating liquidity stress caused by debt commitments (Jensen et al., 1976; Mitroulia et al., 2025). Under such conditions, corporate tax payment, proxied by CETR, can be maintained even when firms experience financial pressure, as managers are less compelled to treat tax payments as residual cash outflows (Mitroulia et al., 2025; Syahputri, 2025). Accordingly, profitability weakens the influence of financial pressure on CETR by enabling firms to internally absorb liquidity constraints without sacrificing fiscal contributions (Karlinah et al., 2024).

Empirical evidence supports this view, showing that the negative effect of leverage on tax behavior is stronger among less profitable firms, while becoming weaker or insignificant in highly profitable firms (Karlinah et al., 2024; Mitroulia et al., 2025; Syahputri, 2025). In contrast, firms with low profitability face tighter financial constraints, which amplify the effect of financial pressure on tax decisions (Dang & Tran, 2021; Karlinah et al., 2024; Mitroulia et al., 2025). Based on this reasoning, this study proposes the following hypothesis:

H_7: Profitability weakens the relationship between financial pressure and corporate tax payment.

Profitability determines firms' capacity to manage growth pressure arising from the need to finance sales expansion and operational activities, as higher profits provide internal funding that reduces dependence on external financing (Giannarou & Tzeremes, 2025; Mitroulia et al., 2025). From an agency perspective, growth pressure intensifies internal resource allocation conflicts, as managers prioritize the retention of internal funds to support investment and working capital (Jensen et al., 1976; Souguir et al., 2024). Firms with higher profitability possess sufficient internal cash flows to finance growth without treating fiscal obligations as residual decisions, thereby reducing trade-offs between expansion and tax compliance, consequently, corporate tax payment, proxied by CETR, can be maintained despite increasing growth pressure, as firms are not required to divert resources away from fiscal contributions (Giannarou & Tzeremes, 2025; Pipatnarapong et al., 2025).

Empirical evidence supports this view, showing that the negative effect of growth pressure on tax payment is stronger among less profitable firms and weaker in highly profitable firms (Giannarou & Tzeremes, 2025; Mitroulia et al., 2025). In contrast, firms with low profitability face tighter financial constraints, which amplify the impact of growth pressure on tax decisions (Ningrum & Ulfa, 2024; Souguir et al., 2024). Based on this reasoning, this study proposes the following hypothesis:

H_8: Profitability weakens the relationship between growth pressure on corporate tax payment.

METHODS

This study uses a quantitative explanatory research design to examine the causal relationships between sustainability signals, economic pressures, and corporate tax payment behaviour in an emerging market context. The study analyzes the effect of Environmental, Social, and Governance (ESG) disclosure with GRI Standard 2021 as an internal sustainability narrative, and PROPER rating as an external verified sustainability signal on corporate tax payment intensity which measured using the Corporate Effective Tax Rate. In addition, financial pressure proxied by leverage with indicator Debt to Equity Ratio (DER) and growth pressure proxied by sales growth (GROWTH) which are included to capture firms' internal economic conditions, while profitability is treated as a moderating variable that determines the realization of sustainability commitments into actual tax payment.

The analysis employs panel data regression with Moderated Regression Analysis (MRA), which is used to examine the profitability (ROA) in forces the influence of independent variable due to company tax payment. The study uses secondary data obtained from annual reports and sustainability reports of companies for the period 2020–2024, accessed through company websites and the Indonesia Stock Exchange in www.idx.co.id and SK PROPER issued by the Ministry of Environment and Forestry of the Republic of Indonesia. The sample consists of 27 basic material sector companies, selected using probability cluster sampling by PROPER rank achieved by company which clustered with Gold, Green, Blue, Red and Black, then resulting the 135 data observation.

Table 1 presents the operational definitions of all research variables, including measurement methods, indicators, and data sources, to ensure clarity, consistency, and replicability of the empirical analysis.

Table 1. Operational Definition

Variable	Indicator	Definition	Proxy
Dependent Variable: Corporate Tax Payment			
Cash of Effective Tax Rate	Tax Expense and Pre-Tax Income	The effectiveness of tax payments on profits (Velte, 2025)	CETR = Cash Taxes Paid/Pre-Tax Income
Independent Variable: Internal Sustainability Narrative			
Environmental Social Governance Disclosure	31 Indicator GRI 300 (Environment), 36 Indicator GRI 400 (Social) 30 Indicator GRI 2 (Governance)	Disclosure of the company's environmental activities with impacts, social practices and corporate welfare, then corporate structure of governance (Global Reporting Initiative, 2021; Sabrina et al., 2025; Saini et al, 2023; Tanjung & Lestari, 2025)	ESG = Total Disclosure/97 GRI Standards 2021 Indicatorsx100%
External Verified Sustainability Signal			
PROPER	5 categorize of PROPER rank by Ministry of Environment and Foresty.	Objective evaluation of company's environmental management performance (Kementrian Lingkungan Hidup dan Kehutanan, 2023; Ningrum et al., 2025)	Gold=5 Green=4 Blue=3 Red=2 Black=1
Financial Pressure			
Debt to Equity Ratio	Total Equity and Total Liability	Financial risks due to high debt financing (Fernando et al., 2023)	DER = Liability/ Equity x100%
Growth Pressure			
Sales Growth	Total Sales present and Sales	Comparation sales on year to year (Shubita, 2024)	Growth = $(Sales_t - Sales_{t-1})/Sales_{t-1} \times 100\%$
Moderator Variable: Profitability Force			
Return on Asset	Total Asset and Net Profit	Company ability to results the profit used its own resources (Fadhillah et al., 2024)	ROA= Net Profit/ Total Asetx100%

Source: Data processed by researcher, (2026).

RESULT AND DISCUSSION

To clarify the relationships among the research variables and to illustrate the logical structure underlying the proposed hypotheses, Figure 2 presents the conceptual framework of this study. The framework depicts the interrelationships between internal sustainability narrative (ESG disclosure), external verified sustainability signal (PROPER rating), financial pressure (DER), and growth pressure (GROWTH) in explaining corporate tax payment intensity (CETR), with profitability (ROA) positioned as a forcing condition that shapes these relationships. This framework provides a systematic representation of the research logic and facilitates a clearer understanding of the proposed empirical model.

Following the conceptual framework, the analysis begins with descriptive statistics to provide an initial overview of the data distribution and characteristics. Descriptive statistical analysis is employed to summarize the variables under study through their mean, standard deviation, minimum, and maximum values, thereby facilitating a preliminary understanding of the sample properties (Ghozali & Ratmono, 2020). Table 2 presents the descriptive statistics for 27 companies observed over a five years period.

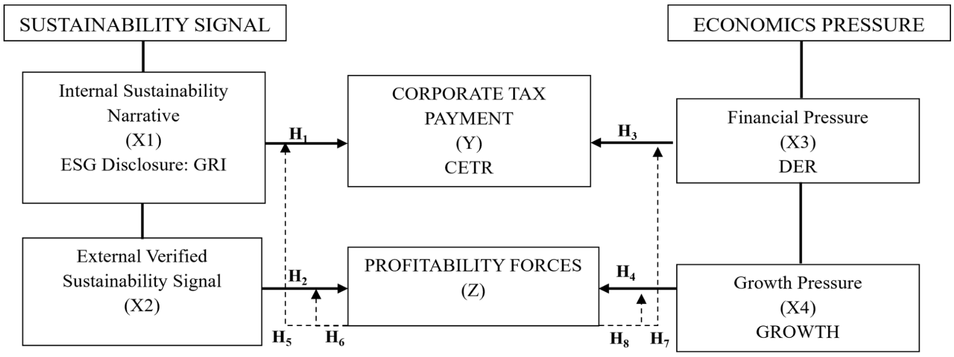

Figure 2. Research Construct
Source: Data proceeds by researcher (2026)

Table 2. Statistic Descriptive

	ROA	ESG	PROPER	DER	GROWTH	CETR
Mean	22.869	86.284	3.415	1.002	6.172	3.744
Median	22.290	85.066	3.000	0.640	2.386	3.319
Maximum	287.723	100.000	5.000	6.770	165.755	26.560
Minimum	-78.723	67.796	1.000	0.070	-63.461	-18.796
Std. Dev.	33.746	7.699	0.795	1.234	29.914	6.265
Observations	135	135	135	135	135	135

Source: Data processed with Eviews 13 (2026).

Based on Table 2, the average profitability (ROA) of 22.869 indicates that basic material firms in the sample exhibit stronger financial performance than the average in Indonesian manufacturing industry, which typically ranges from 5–15%, reflecting relatively high economic capacity (Fahmi, 2020; Putra et al., 2024). However, large variation of standard deviation (33.746) indicate a heterogeneity of financial performance between firms.

The average ESG disclosure score of 86.284 indicates a relatively high level of sustainability disclosure and is above the average of non-ESG leader companies on the Indonesia Stock Exchange which the score above 80, especially in sectors with high environmental (Lita & Faisol, 2025; Mukhtaruddin et al., 2025; Sormin et al., 2026a). This indicates that the companies in the sample have actively built an internal sustainability narrative. An average PROPER rating of 3.451 with a median of 3.00 indicates that the majority of companies are in the blue rating, reflecting compliance with minimum environmental regulations as per the standards of the Ministry of Environment and Forestry (Kementrian Lingkungan Hidup dan Kehutanan, 2023; Refalina et al., 2024).

For financial pressure (DER), the average value of 1.002 is still within the leverage limit considered reasonable in the manufacturing and basic materials industries, where the DER ratio of ≤ 2 is generally seen as a moderate funding structure (Atikah & Simatupang, 2024; Karlinah et al., 2024). However, the maximum value of DER of 6.770 indicates that some companies are facing quite high financial pressures. The variable growth pressure (GROWTH) has an average of 6.172, which is in line with the sales growth rate of the Indonesian manufacturing industry in the post-pandemic period. However, a high standard deviation as 29.914 indicates significant growth fluctuations, reflecting differences in expansion strategies and market resilience between companies (Lianingsih et al., 2025; Mitroulia et al., 2025).

Meanwhile, the average corporate tax payment intensity (CETR) of 3.746 indicates that a company's fiscal contribution is relatively variable and not always in line with the statutory tax rate (Paulus & Tarmidi, 2025). The tax literature shows that corporate CETR in Indonesia is generally below the official tax rate due to temporary differences, tax incentives, and fiscal profit conditions (Arieftiara et al., 2025; Paulus et al., 2026). The considerable variation in CETR in this sample indicates that tax payments are influenced by the company's economic conditions and managerial strategies, making it relevant to further analysis within the framework of this study.

After descriptive statistics, we need to do selection to choose the best models used in this research between Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The following Table 3 is the selections models.

Table 3. Selection Model Regression

Testing	Effects Test	Prob.	Sig.	Result	Conclusion
Chow	Cross-section Chi-square	0.020	0.05	(0.020<0.05)	FEM
Hausman	Cross-section random	0.285	0.05	(0.285>0.05)	REM
Lagrange Multiplier	Cross-section Breusch-Pagan	0.138	0.05	(0.138>0.05)	CEM

Source: Data processed with Eviews 13 (2026).

Based on Table 3, the results shows that the Fixed Effect Model (FEM) is preferred over the Common Effect Model based on the Chow test with probability 0.020. The Hausman test suggests that the Random Effect Model (REM) is appropriate with probability 0.285, while the Lagrange Multiplier test indicates that the Common Effect Model (CEM) with probability 0.138 is prefer. So, the model regression chosen is Common Effect Model (CEM).

In the case where the Common Effect Model (CEM) is selected, classical assumption testing is applied selectively in accordance with the characteristics of panel data estimation. Similar to other panel regression approaches, the normality assumption is not a strict requirement for obtaining the Best Linear Unbiased Estimator (BLUE), as OLS estimators remain consistent and unbiased even when residuals are not normally distributed (Basuki & Prawoto, 2021; Gujarati, 2012). Moreover, panel data analysis under CEM prioritizes coefficient efficiency rather than residual distribution properties. As panel data combine cross-sectional and time-series dimensions, autocorrelation testing is not mandatory because autocorrelation primarily arises in pure time-series data (Basuki & Prawoto, 2021). Therefore, this study focuses on multicollinearity and heteroscedasticity tests to ensure the reliability of the estimated coefficients under the CEM approach.

Table 4. Classic Assumption Test Result

Multicollinearity Test	CETR	ESG	PROPER	DER	GROWTH	ROA
CETR	1.000	0.019	0.078	-0.135	-0.063	0.026
ESG	0.019	1.000	0.492	-0.036	-0.029	0.120
PROPER	0.078	0.492	1.000	-0.103	0.009	0.042
DER	-0.135	-0.037	-0.103	1.000	-0.003	-0.245
GROWTH	-0.063	-0.029	0.009	-0.003	1.000	0.483
ROA	0.026	0.120	0.042	-0.245	0.482	1.000
Heteroscedasticity Test			0.794			

Source: Data processed with Eviews 13 (2026).

The results of the multicollinearity test in Table 4 show that the correlation value between independent variables is below the tolerance limit of 0.800, which indicates that the regression model of the panel data in this study is free from multicollinearity problems. In addition, the results of the heteroscedasticity test in Table 4 show a probability value of 0.794 which is greater than the significance level of 5% (α = 0.05), so it can be concluded that there is no indication of heteroscedasticity and residual variance in the regression model is homogeneous.

Table 5 shows that the probability value of the F-statistics is 0.000, indicating that the regression model is statistically significant and appropriate for explaining corporate tax payment intensity based on internal sustainability narrative, external verified sustainability signal, financial pressure, and growth pressure, with profitability functioning as a forcing condition in the model.

Table 5. Hypothesis Test Results

Variable	Coefficient	t-Statistic	Prob.	Result
C	2.758	1.248	0.218	
ESG	-0.802	-2.116	0.039	H_1 Rejected
PROPER	4.328	2.917	0.005**	H_2 Accepted
DER	4.403	5.726	0.000	H_3 Rejected
GROWTH	-0.208	-1.707	0.094***	H_4 Accepted
ESG*ROA	0.270	2.682	0.010*	H_5 Accepted
PROPER*ROA	-1.088	-2.048	0.046**	H_6 Accepted
DER*ROA	-1.479	-3.641	0.001*	H_7 Accepted
GROWTH*ROA	0.063	1.799	0.078***	H_8 Rejected
R-squared	0.693			
F-statistic	11.296			
Prob(F-statistic)	0.000			

Notes: significant level at * p<0.01, ** p<0.05, *** p<0.10

Source: Data processed with Eviews 13, (2026)

Based on the results of hypothesis testing multiple regression analysis in Table 5, the results are follows:

$$CETR = 2.758 - 0.802ESG + 4.328PROPER + 4.403DER - 0.208GROWTH + 0.270ESG*ROA - 1.088PROPER*ROA - 1.479DER*ROA + 0.063GROWTH*ROA + \varepsilon \quad (1)$$

The test results showed that ESG disclosure had a significant negative effect on CETR with a probability value of 0.039. so H1 is rejected. This finding suggests that internal sustainability narratives, instead of increasing tax payments, are associated with lower fiscal contributions. Furthermore, the PROPER rating showed a significant positive effect on CETR with a probability value of 0.05, so that H2 is accepted, which confirms that government verified external sustainability signals play a role in determining a company's fiscal contribution. For the variable economic pressure, financial pressure (DER) has a significant positive effect on CETR with a value of 0.000 at a significance level of 0.01, so that H3 is rejected, while GROWTH of 0.094 has a significant negative effect on CETR at a significant level of 0.10, so H4 is accepted. These results suggest that internal economic pressures are an important factor in explaining variations in corporate tax payments. The results of the moderation analysis indicate that profitability (ROA) functions as a forcing condition. The ESG*ROA interaction of 0.010 had a positive significant effect on CETR at a significance of 0.01, so H5 is accepted, indicating that profitability strengthens the influence of ESG disclosure on tax payments. The PROPER*ROA interaction shows a negative significant effect 0.046 at a significance of 0.05, so H6 is accepted, indicating that profitability weakens the influence of externally verified sustainability signals. Similarly, the DER*ROA interaction shows a negative significant influence at a significance level of 0.01 of 0.001, so H7 is accepted, suggesting that profitability weakens the influence of financial pressure on tax payments. Finally, the GROWTH*ROA interaction shows a positive significant at the level of 0.10% with a probability value of 0.078, so H8 was rejected, indicating that profitability strengthens the relationship between growth pressure and CETR.

The R-squared value of 0.6931 shows that 69.31% of the variation in corporate tax payment intensity (CETR) can be explained by the independent variables and interaction variables used in the model, namely ESG disclosure, PROPER rating, financial pressure, growth pressure, and the role of profitability as a forcing condition, and indicates that the model has a strong explainability and is empirically feasible to explain corporate tax payment behavior. Meanwhile, 30.69% of the CETR variation was explained by factors outside of this study model.

Internal Sustainability Narrative, Corporate Tax Payment

The findings indicate that ESG disclosure has a significant negative effect on corporate tax payment (CETR), meaning that firms with higher ESG disclosure tend to report lower fiscal contributions. This result contradicts the expectation that greater sustainability transparency would encourage stronger tax compliance. Instead, it suggests a gap between sustainability reporting and actual economic behaviour. In practice, ESG disclosure may function more as a reputational instrument than as evidence of substantive fiscal responsibility (Dewanti & Rusydi, 2025; Velte, 2023). One possible explanation lies in the difference in economic consequences between ESG disclosure and tax payments. ESG reporting can generate reputational benefits with relatively limited financial sacrifice, whereas tax payments directly reduce company liquidity through cash outflows. Consequently, firms may prioritize sustainability reporting to maintain stakeholder confidence while still managing financial resources conservatively. Under these conditions, ESG disclosure becomes a flexible signalling mechanism, while tax payments are more likely to be adjusted when firms face competing financial demands, such as maintaining liquidity or financing operational activities. These findings are in line with previous studies showing that ESG disclosure does not necessarily lead to higher corporate tax payments and may remain symbolic, especially when firms prioritize financial flexibility over fiscal responsibility (Dewanti & Rusydi, 2025; Salleh et al., 2025; Velte, 2025).

External Verified Sustainability Signal, Corporate Tax Payment

The results reveal that PROPER ratings have a significant positive effect on corporate tax payment (CETR), indicating that firms with stronger environmental performance tend to contribute more fiscally. This finding supports the argument that externally verified sustainability signals strengthen corporate accountability, particularly through observable economic outcomes. From a legitimacy theory perspective, PROPER ratings increase public visibility and regulatory scrutiny, thereby creating stronger expectations for firms to align environmental performance with economic behaviour (Suchman, 1995; Zhao & Yuan, 2024). Unlike ESG disclosure, which is voluntary and narrative-based, PROPER ratings are externally verified, making symbolic actions more difficult to maintain. The increased scrutiny raises the reputational costs of inconsistency, encouraging firms to align sustainability performance with fiscal contributions. From a managerial perspective, firms face a trade-off between preserving legitimacy and minimizing financial outflows. For firms with high PROPER ratings, the reputational risk associated with lower tax payments may outweigh the financial burden of taxes themselves. As a result, firms tend to maintain higher CETR as a signal of compliance and corporate responsibility. These findings are consistent with previous research showing that externally verified sustainability mechanisms reduce opportunistic behaviour and encourage stronger fiscal compliance (Afrianti et al., 2023; Fang, 2023; Sormin et al., 2026; Saputra et al., 2025; Zhao & Yuan, 2024).

Financial Pressure, Corporate Tax Payment

The results show that financial pressure has a significant positive effect on corporate tax payment intensity (CETR), indicating that firms with higher leverage tend to report higher fiscal contributions. This finding contradicts the initial hypothesis that financial pressure would reduce tax payments. The original expectation was based on the assumption that firms experiencing liquidity constraints would reduce discretionary cash outflows. However, the empirical evidence suggests that monitoring effects are more dominant than liquidity considerations. From an agency theory perspective, debt acts as an external disciplinary mechanism that strengthens creditor monitoring and limits managerial discretion (Dang & Tran, 2021; Jensen et al., 1976). Firms with higher leverage face greater scrutiny and potential contractual consequences, making aggressive tax behaviour more costly. Economically, firms confront a trade-off between short-term liquidity relief and long-term credibility. Reducing tax payments may ease cash pressure, but it can elevate perceived risk and restrict access to external financing. Consequently, firms may maintain or increase tax payments to signal financial discipline and reduce monitoring costs. These findings support previous studies indicating that leverage can strengthen compliance behaviour through creditor oversight and higher costs of non-compliance (Mitroulia et al., 2025; Syahputri et al., 2025; Hossain et al., 2025; Kumar et al., 2023; Sharma, 2025; Wulandari & Akbar, 2025).

Growth Pressure, Corporate Tax Payment

The findings demonstrate that growth pressure has a significant negative effect on corporate tax payment (CETR), indicating that firms experiencing rapid growth tend to report lower fiscal contributions. This result supports H4 and suggests that corporate tax payment decisions are closely connected to firms' internal financing priorities. From an agency theory perspective, growth pressure intensifies conflicts in resource allocation because managers prioritize retaining internal funds to support expansion, working capital, and operational continuity (Jensen et al., 1976; Shubita, 2024). Under these conditions, tax payments become more sensitive to adjustment because they directly reduce available liquidity. Firms experiencing rapid growth are more likely to allocate resources toward investments that generate future returns rather than toward immediate fiscal obligations. This behaviour reflects a trade-off between sustaining business growth and maintaining fiscal contributions. While tax payments signal compliance, they also reduce internal funding capacity needed for expansion. In situations where external financing is limited or expensive, firms rely more heavily on retained earnings, increasing the likelihood that tax payments are reduced to preserve liquidity (Mitroulia et al., 2025; Souguir et al., 2024). These findings are consistent with prior studies by Mitroulia et al. (2025), Giannarou and Tzeremes (2025), Pipatnarapong et al. (2025), Zhou (2023), and Souguir et al. (2024) which show that firms under strong growth pressure tend to limit tax payments in order to secure internal funding for expansion.

Profitability, Internal Sustainability Narrative, Corporate Tax Payment

The findings indicate that profitability strengthens the relationship between ESG disclosure and fiscal contributions, suggesting that the effectiveness of sustainability disclosure depends on firms' economic capacity. From an agency theory perspective, higher profitability reduces financial constraints and gives managers greater flexibility to align sustainability commitments with actual economic actions. Firms with stronger earnings are less pressured to prioritize liquidity preservation, allowing them to maintain both sustainability disclosure and tax payments simultaneously. Under these conditions, ESG disclosure is more likely to represent substantive behaviour rather than symbolic reporting. From a legitimacy perspective, profitable firms face greater public visibility and stronger expectations to demonstrate consistency between sustainability narratives and observable contributions (Suchman, 1995; Velte, 2023). Profitability enables firms to absorb the costs associated with maintaining legitimacy, including higher tax payments. Consequently, firms become more capable of translating ESG commitments into tangible fiscal outcomes. These findings are consistent with previous studies by Chandrasena et al. (2025), Velte (2023, 2025), Kuo (2023), and Mukhtaruddin et al. (2025) which show that the influence of ESG disclosure on corporate behaviour becomes stronger in firms with higher profitability because adequate economic resources support the realization of sustainability commitments.

Profitability, External Verified Sustainability, Corporate Tax Payment

The results show that profitability weakens the influence of externally verified sustainability signals on fiscal contributions. This finding indicates that the effectiveness of PROPER in influencing corporate tax behaviour depends on firms' economic conditions. From a legitimacy perspective, PROPER ratings increase regulatory scrutiny and public visibility, creating pressure for firms to align environmental performance with observable economic contributions. However, firms with higher profitability become less dependent on external legitimacy signals because they possess greater flexibility to manage reputation through various strategic channels. Consequently, the marginal influence of PROPER ratings on managerial decision-making decreases. From an economic perspective, highly profitable firms are less constrained in allocating resources and are able to maintain relatively stable tax payments regardless of external pressure. In contrast, firms with lower profitability are more sensitive to PROPER-related scrutiny because external validation becomes increasingly important for maintaining stakeholder trust. This difference explains why the influence of PROPER weakens as profitability increases. These findings are consistent with prior studies by Anggreni et al. (2025) and Mitroulia et al. (2025) which show that the impact of external sustainability pressure on corporate behavior diminishes when firms have sufficient economic capacity.

Profitability, Financial Pressure, Corporate Tax Payment

The findings indicate that profitability weakens the influence of financial pressure on fiscal contributions. From the agency theory perspective, financial pressure increases external monitoring from creditors, encouraging firms to maintain compliance, including tax compliance (Jensen et al., 1976). However, when firms achieve higher profitability, their dependence on external financing declines, reducing the intensity of creditor monitoring. As a result, the disciplinary effect of leverage becomes less influential in shaping managerial decisions. Profitability provides firms with internal financial buffers that allow them to absorb liquidity pressures without reducing tax payments. Companies with strong earnings are less constrained by debt obligations and therefore do not need to use tax payments as a signalling mechanism to maintain credibility. Conversely, firms with lower profitability are more dependent on external financing and become more responsive to creditor monitoring pressures. These findings are consistent with prior studies by Karlinah et al. (2024), Syahputri (2025), and Mitroulia et al. (2025), which show that the influence of leverage on corporate behavior becomes weaker in firms with higher profitability.

Profitability, Growth Pressure, Corporate Tax Payment

The results reveal that profitability strengthens the relationship between growth pressure and fiscal contributions. This finding contradicts the initial hypothesis that profitability would weaken the relationship. From an agency perspective, growth pressure generally encourages firms to prioritize internal funding for expansion, which may reduce tax payments. However, when firms possess higher profitability, internal financial constraints become less severe, reducing the need to divert resources away from fiscal obligations. In this context, profitability weakens the trade-off between growth and tax payments. Highly profitable firms possess sufficient internal cash flow to finance expansion while simultaneously maintaining fiscal contributions. As a result, growth no longer exerts downward pressure on tax payments and may even be associated with higher CETR because firms are capable of sustaining both business expansion and compliance simultaneously. In contrast, less profitable firms face tighter financial constraints, making them more likely to reduce tax payments to support growth activities. The results of this study are consistent with prior research by Ningrum and Ulfa (2024) and Souguir et al. (2024). Based on this reasoning, this study proposes the which show that the negative impact of growth pressure on tax behaviour diminishes in firms with strong profitability.

CONCLUSIONS

Based on panel data evidence from basic material companies in Indonesia, this study confirms that corporate tax payment is not merely a regulatory outcome, but a strategic economic decision shaped by sustainability narratives, external verification, and firms' financial capacity. Corporate tax payment reflects that voluntary sustainability communication, as proxied by ESG disclosure, tends to function symbolically when not supported by sufficient economic capacity. In contrast, externally verified sustainability signals through PROPER ratings positively influence tax payments, indicating that regulatory oversight and public scrutiny impose stronger fiscal discipline. Furthermore, internal economic pressures exhibit differentiated effects. Financial pressure increases corporate tax payments through creditor monitoring mechanisms, while growth pressure reduces tax payments as firms prioritize internal funding to sustain expansion. More importantly, profitability acts as a forcing condition that reshapes these relationships. It strengthens the influence of internal sustainability narratives, weakens the role of externally verified sustainability signals and financial pressure, and offsets the negative effect of growth pressure on corporate tax payment.

From a practical perspective, regulators should not rely solely on voluntary ESG disclosure to promote fiscal sustainability but strengthen verified and enforceable sustainability mechanisms. Theoretically, this study extends agency, legitimacy, ESG, and triple bottom line frameworks by positioning profitability as a forcing condition rather than a simple moderator. Future research may explore other forcing mechanisms, sectoral comparisons, or dynamic policy changes to further understand sustainability tax linkages in emerging markets.

DECLARATION OF AI USE

The authors utilized QuillBot AI as a language support tool during the manuscript preparation process, particularly to assist with sentence restructuring and paraphrasing in several sections of the discussion and hypothesis development. The use of this tool was limited to improving readability, flow, and linguistic variation without altering the substantive meaning of the analysis or theoretical arguments presented in the study. All revised passages were subsequently evaluated, edited, and validated manually by the authors to ensure consistency with the research objectives, academic standards, and original interpretation of the findings. No artificial intelligence tools were employed to generate research data, conduct analysis, formulate conclusions, or produce references and citations. The authors remain fully responsible for the integrity, originality, and final content of this manuscript.

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