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THE DUAL ROLE OF AUDIT COMMITTEES: MITIGATING TAX AGGRESSIVENESS AND ENHANCING CORPORATE SUSTAINABILITY

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Abstract

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This study examines the unique role of audit committees as moderators of the relationship between tax aggressiveness and corporate sustainability, an aspect that remains underexplored in prior literature. A quantitative analysis was conducted on firms listed on the Indonesia Stock Exchange (IDX) during the 2017–2022 period. The findings show that tax aggressiveness negatively affects corporate sustainability. This result is consistent with stakeholder theory and previous studies emphasizing that aggressive tax practices can undermine legitimacy and stakeholder relationships. However, the main contribution of this study lies in the evidence that audit committees are not only able to mitigate but even reverse the negative effect of tax aggressiveness into a positive one. This finding supports agency theory by reaffirming the monitoring role of audit committees in ensuring that tax strategies remain aligned with good governance and social responsibility (Hsu et al., 2018; Velte, 2023). Practically, the results emphasize the importance of strengthening audit committee capacity and independence to safeguard sustainability, while also providing regulators with a basis for tightening qualification requirements. Limitations relate to the sample coverage and the measurement of tax aggressiveness, suggesting that future studies should develop more context-specific indicators tailored to emerging markets such as Indonesia.

Keywords: Tax Aggressiveness, Corporate Sustainability, Audit Committee, Corporate Governance

Authors' individual contribution: Conceptualization — N.H.P. and S.M.; Methodology — N.H.P. and S.M.; Software — N.H.P.; Validation — N.H.P. and S.M.; Formal Analysis — N.H.P. and S.M.; Investigation — N.H.P.; Resources — N.H.P. and S.M.; Data Curation — N.H.P. and S.M.; Writing — Original Draft — N.H.P.; Writing — Review & Editing — N.H.P. and S.M.; Visualization — N.H.P.; Supervision — S.M.; Project Administration — N.H.P. and S.M.; Funding Acquisition — N.H.P. and S.M.

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1. INTRODUCTION

Corporate sustainability has emerged as a critical issue since the United Nations (UN) launched

the Sustainable Development Goals (SDGs) in 2015, which emphasize the balance among economic, environmental, and social dimensions (Primasari et al., 2024; Rudyanto et al., 2022). Hahn et al. (2017)

define corporate sustainability as the application of sustainable development principles at the corporate level, while Dyllick and Hockerts (2002) highlight the fulfillment of stakeholder needs without compromising the needs of future generations. In Indonesia, the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) mandates sustainability reporting through Regulation No. 51/2017 to enhance business impact transparency (Geraldina et al., 2023). Companies committed to sustainability are perceived as more responsible and gain competitive advantages (Harnesk & Myhrberg, 2019; Vidal & Van Buren, 2022).

However, tax aggressiveness practices often hinder corporate sustainability achievement. Tax aggressiveness, encompassing both legal (tax avoidance) and illegal (tax evasion) measures to minimize tax liabilities (Bird & Davis-Nozemack, 2018; Frank et al., 2009), is considered incompatible with sustainability principles as it potentially harms public interests (Sikka, 2010). Indeed, taxation serves as a policy instrument that can balance economic growth, social welfare, and environmental preservation, while simultaneously directing behaviors that support sustainable development (Ekawati et al., 2025). The stakeholder theory perspective (Wood, 1991) explains that such practices may trigger various negative consequences, ranging from tax penalties to reputational damage and public boycotts, as evidenced by cases involving Starbucks in the UK and PT Asian Agri in Indonesia (Bird & Davis-Nozemack, 2018; Gribnau & Jallai, 2017). This reinforces the view that corporate reputation is built not only through financial performance but also through alignment with prevailing social norms (Baudot et al., 2020).

Empirical findings on the relationship between tax aggressiveness and corporate sustainability remain contradictory. Several studies, such as Lanis and Richardson (2012b), Mashuri and Ermaya (2020), Nasih et al. (2024), and Sui et al. (2019), identify a positive relationship, where companies actually increase their sustainability activities as a form of compensation for the negative image arising from aggressive tax practices. On the other hand, studies by Kristiadi et al. (2020), Rudyanto et al. (2022), and Shin and Park (2022) demonstrate a negative impact of tax aggressiveness on sustainability performance, while Nusantari (2015) and Vacca et al. (2020) find no significant relationship between the two. This inconsistency has sparked academic debate regarding the extent to which tax aggressiveness influences corporate sustainability, necessitating further research to examine potential moderating factors in this relationship.

In this context, the audit committee emerges as a critical corporate governance mechanism. Drawing on agency theory (Jensen & Meckling, 1976), the audit committee functions to monitor and control managerial opportunistic behavior, including tax aggressiveness practices (Dang & Nguyen, 2022). The audit committee also plays a crucial role in ensuring the quality of financial reporting, enhancing accountability, and preventing managerial fraud (Payamta et al., 2024). Furthermore, audit committee independence is considered one of the most effective attributes in strengthening the governance system, particularly in overseeing the financial reporting process and safeguarding

shareholder interests (Ibrahimi et al., 2025). An effective audit committee not only provides critical resources through its members' expertise in environmental, social, and governance (ESG), accounting, and sustainability (Seth & Saxena, 2025; Velte, 2025) but also plays a strategic role in: 1) enhancing the quality of non-financial reporting and ESG oversight, 2) expanding environmental disclosures, and 3) strengthening corporate governance through good corporate governance (GCG) principles (Alsultan & Hussainey, 2025; Mahsina et al., 2025; Razali et al., 2025).

The role of the audit committee establishes a strategic balancing mechanism. On one hand, the audit committee has the potential to reduce tax aggressiveness by shifting the company's focus from short-term strategies toward building a sustainable reputation (Seth & Saxena, 2025). On the other hand, by enhancing stakeholder trust (Pozzoli et al., 2022), the audit committee strengthens corporate legitimacy and contributes to long-term value creation. Thus, the audit committee functions as an integral corporate governance mechanism that aligns financial performance (including tax policy) with social and environmental responsibility, while ensuring sustainable business practices.

This study demonstrates that corporate social responsibility (CSR) and sustainability have evolved into an integrated component of modern business strategy, wherein firms are expected to incorporate stakeholder interests (Freeman, 1984) to achieve legitimacy, competitiveness, and long-term success. Stakeholder theory and agency theory together offer a comprehensive theoretical framework for understanding these dynamics, while the concept of a "social contract" (Carroll, 1979; Waddock & Graves, 1997; Widuri et al., 2024) underscores the importance of balancing tax efficiency and social responsibility in sustainable business practice. In line with this reasoning, the study formulates its main research question as follows:

RQ: What is the impact of tax aggressiveness on corporate sustainability, and can audit committees moderate the relationship between tax aggressiveness and corporate sustainability?

To address this question, the study employs a quantitative approach using panel data from firms listed on the Indonesia Stock Exchange (IDX) over the 2017-2022 period. From an academic perspective, this research extends the literature on the nexus between tax aggressiveness and sustainability by introducing the moderating role of audit committees, an aspect that remains underexplored. The findings highlight the importance of strengthening the capacity and independence of audit committees in overseeing corporate tax policies. For regulators, these results provide a basis for formulating more stringent governance requirements. Accordingly, this study not only bridges a key gap in the literature but also offers relevant policy recommendations for emerging markets such as Indonesia.

This paper is structured into six main sections. Section 1 presents the introduction. Section 2 reviews the literature. Section 3 explains the research methodology. Section 4 reports the results. Section 5 provides the discussion. Section 6 concludes the study.

2. LITERATURE REVIEW

2.1. Stakeholder theory

Stakeholders are individuals or groups who influence or are influenced by a company's objectives (Freeman, 1984). They include shareholders, employees, governments, and communities (Payne & Raiborn, 2018). Stakeholder theory posits that firms must address their needs, both preventively and proactively (Wood, 1991), with sustainability reporting serving as a means to fulfill informational demands (Torelli et al., 2020). This concept has evolved through Carroll's (1991) pyramid of CSR and the ethical implications outlined by Donaldson and Preston (1995). Companies must integrate sustainability into business strategies to achieve long-term goals (Waddock & Graves, 1997), including assessing social and environmental impacts (Freudenreich et al., 2020).

Corporate sustainability extends beyond ethics to encompass competitive advantage (Rudyanto & Siregar, 2018). Sustainability reports act as an accountability mechanism for stakeholders (Ardiana, 2019). Unlike traditional shareholder-centric models, stakeholder theory emphasizes value creation for all parties (Benvenuto et al., 2023; Gray et al., 1995). Responsible tax payments reflect social commitment, not merely efficiency (Avi-Yonah, 2006; Lanis & Richardson, 2012b). Governments play a pivotal role in advancing sustainability through policy (Li et al., 2008). Without government support, sustainable development remains difficult to achieve (Huang et al., 2021).

2.2. Agency theory

Agency theory (Jensen & Meckling, 1976) explains the inherent conflict of interest between management (agents) and shareholders (principals), where managers tend to engage in opportunistic behavior, including aggressive tax practices that may compromise the company's long-term interests (Dang & Nguyen, 2022). Managerial motivations for tax avoidance are influenced by two agency theory perspectives: 1) classical agency theory, which views tax avoidance as an effort to enhance cash flows and firm value, and 2) stakeholder agency theory, which considers such practices as potentially damaging to corporate reputation and sustainability (Velte, 2023). This phenomenon suggests that managers tend to minimize tax burdens for personal and shareholder benefits while simultaneously striving to maintain earnings stability to preserve corporate image (Dang & Nguyen, 2022).

Within this context, the audit committee serves as a corporate governance mechanism that monitors and controls managerial opportunistic behavior, including tax aggressiveness, thereby reducing compliance risks and mitigating negative impacts on corporate sustainability (Jensen & Meckling, 1976). Furthermore, CSR scholarship introduces the concept of the "social contract" (Widuri et al., 2024), which demands that corporations address not only shareholder interests but also broader societal welfare (Carroll, 1979; Waddock & Graves, 1997; Wood, 1991). Excessive tax aggressiveness may undermine a firm's social legitimacy (Lanis & Richardson, 2012a), positioning the audit committee

as a critical institution in balancing tax efficiency with social responsibility.

2.3. Tax aggressiveness and corporate sustainability

Tax aggressiveness, whether through legal or illegal tax planning (Frank et al., 2009; Issah & Rodrigues, 2021), is frequently employed by companies to minimize tax liabilities and enhance short-term profits (Pranoto & Widagdo, 2016). However, this practice risks damaging corporate reputation, triggering regulatory tensions, and eroding stakeholder trust, thereby negatively impacting corporate sustainability (Lanis & Richardson, 2012b; Nasih et al., 2024). Tax aggressiveness also diminishes the government's capacity to provide public goods, exacerbates social inequality, and weakens long-term stakeholder relationships (Issah & Rodrigues, 2021; Rudyanto et al., 2022). Studies by Sui et al. (2019) and Ullah et al. (2023) demonstrate that while tax aggressive strategies may yield short-term benefits, once stakeholders become aware of such practices, they ultimately undermine corporate integrity and long-term sustainability.

Drawing on stakeholder theory, firms must consider the interests of all parties, including governments and communities, rather than focusing solely on shareholders (Bird & Davis-Nozemack, 2018). Tax aggressiveness is viewed as neglecting this obligation, thus potentially diminishing corporate sustainability. The triple bottom line concept (Damayanti & Hardiningsih, 2021) and pressures from customers, investors, and regulators (Serafeim & Trinh, 2020) compel companies to integrate ESG aspects into their operations. Studies indicate that sustainability-focused firms gain a competitive advantage (Harnesk & Myhrberg, 2019), while tax aggressiveness correlates negatively with social disclosure (Kristiadi et al., 2020) and sustainable well-being (Rudyanto et al., 2022). Therefore, the hypothesis developed in this study is as follows:

H1: Tax aggressiveness has a negative effect on corporate sustainability.

2.4. Audit committee, tax aggressiveness, and corporate sustainability

Drawing on agency theory, management (as agents) tends to engage in opportunistic behavior, including tax aggressive practices that may sacrifice long-term corporate interests for short-term financial gains (Dang & Nguyen, 2022). While such strategies may improve cash flows (from a classical agency theory perspective), they also risk damaging relationships with key stakeholders and threatening business sustainability (Jiang et al., 2023; Velte, 2023). Indeed, while some managers perceive taxation as a burden that constrains business continuity, others view it positively, considering it a mechanism that enhances transparency and supports long-term performance (Mbama & Mfelam, 2025).

In this context, the audit committee serves as a crucial corporate governance mechanism (Davis & Cobb, 2010; Jaya et al., 2025). The presence of audit committees not only ensures the quality of financial reporting, enhances accountability, and prevents managerial fraud, thereby reducing tax avoidance practices (Payamta et al., 2024), but also balances tax

efficiency with social responsibility (Crane et al., 2019). Furthermore, audit committee independence is considered one of the most effective attributes in strengthening corporate governance, particularly through the monitoring of financial reporting processes and the protection of shareholder interests (Ibrahimi et al., 2025).

Empirical studies demonstrate that effective audit committees can mitigate extreme tax avoidance practices (Dang & Nguyen, 2022; Hsu et al., 2018) while enhancing transparency (Dwekat et al., 2020). This function aligns with the “social contract” concept (Widuri et al., 2024), where firms must maintain social legitimacy by avoiding excessive tax aggressiveness (Lanis & Richardson, 2012a). The audit committee is posited to serve as a moderator that weakens the negative effect of tax aggressiveness on corporate sustainability. First, through rigorous oversight of tax strategies to prevent risky behavior that could harm various corporate stakeholders. Second, by balancing short-term economic interests with long-term social responsibilities, as emphasized in agency theory (Velte, 2023). Through this dual role, audit committees function not only as corporate control mechanisms but also as guardians of the balance between financial performance and business sustainability. Therefore, the second hypothesis is as follows:

H2: The audit committee weakens the negative effect of tax aggressiveness on corporate sustainability.

3. RESEARCH METHODOLOGY

3.1. Population and sample

The population of this study comprises companies listed on the IDX from 2017 to 2022. The selection of this period is based on the issuance of the Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies (2017). The year 2022 is selected as the final observation year due to data availability constraints.

This study employs a purposive sampling technique by applying five selection criteria to ensure sample quality. First, only companies listed on the IDX during the 2017-2022 period and having ESG scores from Bloomberg are included, considering the credibility and consistency of Bloomberg’s ESG data. Second, firms that conducted an IPO during the observation period are excluded due to the financial instability typically associated with newly listed companies. Third, loss-making firms are eliminated, as such firms are generally less motivated to engage in tax aggressiveness practices. Fourth, companies under suspension are excluded due to incomplete data. Fifth, observations with negative tax aggressiveness values are omitted, as they do not align with the study’s objective of examining tax aggressiveness behavior. Table 1 presents the selection criteria and the final sample size used in this study.

Table 1. Selection criteria and number of research samples

Criteria	No. of observations
1. Observations with ESG scores from 2017 to 2022.	537
2. Observations from entities that conducted an initial public offering (IPO) during the study period.	(100)
3. Observations with losses or under suspension.	(128)
4. Observations with previously negative tax aggressiveness values.	(178)
Total observations used in the study	131

3.2. Variable measurement

The dependent variable in this study is corporate sustainability. Following Jarboui et al. (2020), corporate sustainability is measured using annual ESG scores. The ESG scores utilized in this study were obtained from Bloomberg.

The independent variable in this study is tax aggressiveness, measured using a modified version of E_{it} = Residual term representing the Discretionary Permanent Difference (DTAX) of firm i in year t model developed by Frank et al. (2009), with adjustments made for Indonesian tax regulations in accordance with Rachmawati et al. (2019). The measurement process involves isolating items unrelated to tax planning to minimize errors, ensuring that the error term accurately reflects tax aggressiveness. This model focuses on discretionary permanent differences between accounting income and taxable income, expressed by the following equation:

$$PERMDIFF_{it} = \alpha + b_1INTANG_{it} + b_2UNCON_{it} + b_3\Delta NOL_{it} + LAGPERM_{it} + \varepsilon_{it} \quad (1)$$

Where:

- $PERMDIFF_{it}$ = Total book-tax differences minus temporary differences for firm i in year t , calculated using the formula: $PTI_{it} - \frac{CTE_{it}}{STR_{it}} - \frac{DTE_{it}}{STR_{it}}$

- PTI_{it} = Pre-tax income of firm i in year t .
- CTE_{it} = Current tax expense of firm i in year t .
- DTE_{it} = Differed tax expense of firm i in year t .
- STR_{it} = Statutory tax of firm i in year t .
- $INTANG_{it}$ = Goodwill and other intangible assets of firm i in year t .
- $UNCON_{it}$ = Income (loss) from unconsolidated subsidiaries reported under the equity method by firm i in year t .
- ΔNOL_{it} = Change in net operating loss (NOL) carryforwards for firm i in year t .
- $LAGPERM_{it}$ = One-year lagged value of $PERMDIFF$ for firm i .
- ε_{it} = Residual term representing the DTAX.

The moderating variable in this study is the audit committee. The measurement of the audit committee follows the approaches of Dwekat et al. (2020), Idzniah and Bernawati (2020), and Velte (2017). The size of the audit committee is determined by the total number of audit committee members during a reporting period. This measurement aims to assess the impact of audit committee size on corporate tax avoidance practices. A larger audit committee size enhances oversight capacity over management, but may also create dynamics that affect monitoring effectiveness (Idzniah & Bernawati, 2020). The control variables include revenue growth, audit quality, firm age, and independent commissioners. Table 2 presents a summary of the research variable measurements.

Table 2. Variable measurements

Variable	Measurement and sources
Corporate sustainability	ESG score, data obtained from Bloomberg (Jarboui et al., 2020).
Tax aggressiveness	DTAX (discretionary permanent difference) (Frank et al., 2009; Rachmawati et al., 2019).
Audit committees	Number of audit committees (Dwekat et al., 2020; Idziah & Bernawati, 2020; Velte, 2017).
Revenue growth	$\frac{Revenue_t - Revenue_{t-1}}{Revenue_{t-1}}$ (Bodhanwala & Bodhanwala, 2018).
Audit quality	Dummy variable (1 = audited by Big Four, 0 = not audited by Big Four).
Firm age	Observation year minus year of establishment (Kücher et al., 2020).
Independent commissioners	Percentage of independent commissioners on the board of commissioners (Hu & Loh, 2018).

3.3. Method of analysis

This study employs a quantitative approach using panel regression analysis to examine the relationship between variables. The appropriate regression model was selected through a series of tests: the Chow test to determine whether to use a pooled or fixed effect model (FEM), the Hausman test to compare fixed and

random effects, and the Lagrange multiplier (LM) test as an alternative when the Hausman test is inconclusive. Subsequently, classical assumption tests were performed to ensure the data met regression analysis requirements, including tests for normality, multicollinearity, heteroskedasticity, and autocorrelation. The regression equation used is:

$$Corporate\ sustainability = a + b_1Tax\ aggressiveness_{it} + b_2Audit\ committees_{it} + b_3Tax\ aggressiveness_{it} * Audit\ committees_{it} + b_4Revenue\ growth_{it} + b_5Audit\ quality_{it} + b_6Firm\ age_{it} + b_7Independent\ commissioners_{it} \quad (2)$$

As an alternative, similar studies may employ the structural equation modeling (SEM) approach. This method enables the simultaneous analysis of causal relationships among variables, including the examination of the moderating effect of audit committees on the relationship between tax aggressiveness and corporate sustainability. With its flexibility in handling latent constructs and complex interrelationships, SEM can provide a more comprehensive understanding.

sizes varying from two to six members across different companies. Revenue growth displays particularly wide variation (mean = 0.48, SD = 2.52), with extreme values ranging from -0.88 to 223.81.

Revenue growth records an average of 0.48 with a relatively high SD (2.52), reflecting heterogeneous company performance, including the presence of extreme outliers (minimum -0.88 to maximum 223.81). Firm age ranges from 7 to 110 years (mean = 3.05; SD = 1.49), indicating diversity in the operational longevity of sampled companies. Meanwhile, the proportion of independent commissioners averages 42% (SD = 0.13), with values ranging from 0.13 to 0.75, demonstrating variation in board composition where some firms comply more effectively with independent commissioner requirements than others.

4. RESULTS

4.1. Descriptive statistics

The descriptive statistical analysis reveals variations in the characteristics of each research variable. Corporate sustainability demonstrates a mean value of 4.04 with a standard deviation (SD) of 1.16, indicating moderate consistency within the sample, despite a relatively wide range of values (minimum 18.59 to maximum 70.16). Tax aggressiveness shows a mean value of 0.05 and SD of 0.07, with values ranging from 0.00 (no aggressiveness) to 0.38, suggesting the presence of tax avoidance practices in some sample firms. The audit committee variable exhibits an average size of approximately three members (mean = 3.30, SD = 0.55), with committee

The audit quality distribution shows that 70.23% of sample firms (92 observations) utilize non-Big Four auditors, while 29.77% (39 observations) employ Big Four audit firms. This distribution suggests that while most companies opt for non-Big Four auditors, a significant minority prefer the prestige and perceived quality associated with Big Four audit services. Collectively, these descriptive statistics provide preliminary insights into data distribution that warrant consideration in subsequent analysis.

Table 3. Descriptive statistics test

Variable	Mean	SD	Min	Max	Frequency
Corporate sustainability	4.04	1.16	18.59	70.16	
Tax aggressiveness	0.05	0.07	0.00	0.38	
Audit committee	0.30	0.55	2	6	
Revenue growth	0.48	2.52	-0.88	223.81	
Firm age	3.05	1.49	7	110	
Independent commissioners	0.43	0.13	0.13	0.75	
Audit quality					0 = 92 (70.23%); 1 = 39 (29.77%)

4.2. Model selection test

Before conducting regression analysis, model selection tests were performed to determine the optimal model among the common effect model (CEM), fixed effect model (FEM), and random effect

model (REM). The Chow test indicated that FEM was superior to CEM ($p = 0.0002 < 0.05$), leading to the selection of FEM and rejection of CEM. Subsequently, the Hausman test was employed to compare FEM with REM, with the results ($p = 0.000 < 0.05$) again supporting the use of FEM.

As both tests consistently demonstrated FEM as the most appropriate specification, the LM test was consequently not conducted.

Table 4. Model selection test

Test	Probability	Selected model
Chow test	0.0002	FEM
Hausman test	0.0000	FEM

4.3. Classical assumption tests

Classical assumption testing constitutes a critical stage that must be fulfilled to ensure model validity and reliability. The test results are presented in Table 5. The findings of classical assumption testing in this study demonstrate that most assumptions were satisfied, although several issues requiring remediation were identified.

Table 5. Classical assumption tests

Test	Prob	VIF	1/VIF	Conclusion
Normality	0.242			Data normally distributed
Multicollinearity				No multicollinearity issues
<i>Tax aggressiveness</i>		1.07	0.937565	
<i>Audit committee</i>		1.20	0.836688	
<i>Revenue growth</i>		1.04	0.960340	
<i>Audit quality</i>		1.25	0.802140	
<i>Firm age</i>		1.04	0.958120	
<i>Independent commissioners</i>		1.10	0.905291	
Heteroskedasticity	0.454			No heteroskedasticity detected
Autocorrelation	0.005			Autocorrelation is present

The normality test yielded a probability value of 0.242, which exceeds the 0.05 significance level, indicating that the data are normally distributed. Multicollinearity was evaluated using the variance inflation factor (VIF) values. All independent variables demonstrated VIF values below 10 (ranging between 1.04–1.25) and tolerance values (1/VIF) above 0.1, confirming the absence of multicollinearity issues in the model. The heteroskedasticity test produced a probability value of 0.454 (> 0.05), suggesting no heteroskedasticity. However, the autocorrelation test revealed a significant probability value ($0.005 < 0.05$), indicating autocorrelation in the model.

To address the autocorrelation issue and ensure more robust estimations, this study employed the fixed-effect generalized least squares (FGLS) method. FGLS was selected because it provides efficient estimations by correcting for autocorrelation and heteroskedasticity, thereby enhancing the reliability of the regression results. Thus, the model used in this study meets the classical assumptions, except for autocorrelation, which has been adequately addressed through the FGLS approach, ensuring that the regression analysis results are reliable for drawing valid conclusions.

4.4. Regression test

To examine the effect of tax aggressiveness on corporate sustainability and the moderating role of audit committees, a multiple regression analysis was conducted incorporating main variables, interaction terms, and control variables. The model was estimated using the FGLS method, selected to address autocorrelation issues while producing more efficient and reliable estimates. In addition to the primary analysis, robustness tests were performed to ensure result consistency and model validity. The complete results of this analysis are presented in Table 6 and elaborated in the following discussion.

Table 6. Regression analysis results

Main test	Coefficient	Prob
Probability (F-statistic)		0.000
Adjusted R ²		0.600
Constanta	-27.0982	0.000***
<i>Tax aggressiveness</i>	-179.8455	0.013**
<i>Audit committee</i>	-1.8687	0.114
<i>Tax aggressiveness</i> * <i>Audit committee</i>	52.7053	0.013**
<i>Revenue growth</i>	-0.2301	0.871
<i>Audit quality</i>	-7.8763	0.000***
<i>Firm age</i>	2.0691	0.000***
<i>Independent commissioners</i>	8.6106	0.124
Robust test	Coefficient	Prob
Probability (F-statistic)		0.000
Adjusted R ²		0.621
Constanta	-17.9078	0.100
<i>Tax aggressiveness</i>	-179.8455	0.054*
<i>Audit committee</i>	-1.8687	0.243
<i>Tax aggressiveness</i> * <i>Audit committee</i>	52.7053	0.049**
<i>Revenue growth</i>	-0.2301	0.892
<i>Audit quality</i>	-7.8763	0.043**
<i>Firm age</i>	2.0691	0.000***
<i>Independent commissioners</i>	8.6106	0.205

Note: *** significant at the 1% level, ** significant at the 5% level, * significant at the 10% level.

The primary regression analysis reveals that the employed model is statistically significant, as evidenced by an F-statistic probability value of 0.000 and an adjusted R² of 0.600, indicating that the model explains 60% of the dependent variable's variation. The tax aggressiveness variable demonstrates a significant negative effect on corporate sustainability at the 5% significance level (coefficient = -179.8455; $p = 0.013$). This finding suggests that increased corporate tax avoidance practices correspond with diminished sustainability performance.

Notably, the interaction term between tax aggressiveness and audit committee exhibits a significant positive influence (coefficient = 52.7053; $p = 0.013$). This result implies that the presence of an audit committee not only mitigates but fundamentally reverses the original negative relationship. Specifically, the previously negative impact of tax aggressiveness on corporate sustainability is transformed into a positive association when moderated by audit committee oversight.

Several control variables also show significant effects. Audit quality exhibits a negative and highly significant impact. This finding is somewhat unexpected, as large audit firms are typically associated with stronger corporate governance. One possible interpretation is that Big Four auditors apply stricter evaluations of sustainability practices, causing firms audited by them to appear weaker on sustainability metrics. Alternatively, firms audited by Big Four may be more transparent in disclosing risks, including those related to tax aggressiveness, which may result in lower perceived sustainability scores. In contrast, firm age demonstrates a positive and highly significant effect, suggesting that more mature firms tend to exhibit higher levels of sustainability. Meanwhile, revenue growth and the proportion of independent commissioners do not show any significant impact on corporate sustainability.

5. DISCUSSION

The findings of this study make an important contribution to understanding the complex relationship between tax aggressiveness, audit committees, and corporate sustainability. The results demonstrating the negative effect of tax aggressiveness on corporate sustainability (*H1*) are consistent with stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984) and various prior studies (Lanis & Richardson, 2012b; Rudyanto et al., 2022). These findings reinforce the argument that aggressive tax avoidance practices can damage relationships with key stakeholders, including governments and communities, ultimately negatively impacting long-term corporate sustainability (Nasih et al., 2024; Ullah et al., 2023).

A more intriguing result is the moderating role of the audit committee, where the interaction between tax aggressiveness and the audit committee not only weakens (*H2*) but reverses the direction of the effect into a positive one. This finding aligns with agency theory (Jensen & Meckling, 1976), where the audit committee functions as a monitoring mechanism that mitigates managerial opportunism (Dang & Nguyen, 2022). The audit committee not only weakens the negative relationship between tax aggressiveness and sustainability but also reverses its direction to a positive influence. This suggests that an effective audit committee can ensure that tax strategies remain aligned with principles of good governance and social responsibility (Hsu et al., 2018; Velte, 2023). Therefore, the audit committee serves as a mediator between tax efficiency and corporate sustainability, reflecting the principles of stakeholder theory (Widuri et al., 2024). An effective audit committee appears capable of transforming aggressive tax strategies from being detrimental to sustainability into a positive contributor, possibly through enhanced transparency and consideration of socio-environmental impacts (Crane et al., 2019; Hoffman & Jennings, 2021).

These findings also resonate with the research of Dang and Nguyen (2022) and Hsu et al. (2018) on the role of expertise in audit committees, though they imply broader implications, that the mere presence of an audit committee (regardless of specific member characteristics) is sufficient to

significantly alter this negative relationship. This may be because the audit committee serves as a boundary spanner that mediates the relationship between the firm and external stakeholders (Hillman et al., 2009; Tashman, 2021), while ensuring that tax strategies remain mindful of sustainability considerations (Serafeim & Trinh, 2020).

The practical implications of these findings emphasize the importance of strengthening the role of audit committees in overseeing corporate tax policies. For regulators, these results advocate for policies that enhance audit committee effectiveness, including stricter member qualification requirements and monitoring mechanisms (Salem et al., 2021; Velte, 2017). For business practitioners, the findings suggest that investing in a robust audit committee is not merely for regulatory compliance but also for safeguarding long-term business sustainability (Idzniah & Bernawati, 2020).

6. CONCLUSION

This study confirms that tax aggressiveness negatively affects corporate sustainability, consistent with stakeholder theory. The findings confirm that tax aggressiveness undermines relationships with governments, society, and other stakeholders, reducing public trust and threatening long-term corporate sustainability. Notably, audit committees are shown to reverse this negative impact, supporting agency theory by highlighting their role as effective monitoring mechanisms. This underscores the strategic importance of audit committees in balancing tax efficiency with social responsibility.

Theoretically, the study contributes to the literature by providing evidence from an emerging market, showing that strong governance not only constrains managerial opportunism but also transforms tax strategies into tools that promote sustainability. Practically, it suggests regulators strengthen requirements for audit committee expertise and independence, while firms should invest in enhancing committee capacity. Future research should examine audit committee quality, such as expertise, meeting frequency, and diversity, and develop tax aggressiveness measures tailored to emerging markets.

This research acknowledges several limitations. First, the sample was limited to IDX-listed companies with Bloomberg ESG data, which restricts the generalizability of the findings. Second, the measurement of tax aggressiveness using the DTAX model may not fully capture the complexity of tax practices in Indonesia. Third, the moderation variables only considered the size of the audit committee without accounting for quality aspects such as member expertise or meeting frequency.

Future research is recommended to expand the sample by including a longer time period or non-public companies, develop a more contextually appropriate measurement of tax aggressiveness for Indonesia, and investigate audit committee characteristics in greater depth, including expertise, independence, and meeting activities, for a more comprehensive analysis.

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