

# The Contribution of Tax Incentives during Core Tax Administration System to Enhance ESG Performance in Indonesia

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## Abstract

The application of Environmental, Social, and Governance (ESG) principles is increasingly becoming a global concern as an indicator of corporate sustainability. However, in Indonesia, tangible support from the government in the form of fiscal incentives for companies with good ESG performance is still limited. This study aims to examine the tax incentive policies that apply during the implementation of the core tax administration system (CTAS) to companies that have good ESG performance. The research method used is qualitative with a narrative approach, where data is obtained through interviews with competent informant in the field of taxation and ESG. The results show that during the CTAS implementation period, the Indonesian government has not fully provided specific tax incentives for companies with superior ESG performance. This indicates the need for tax policy reformulation in order to encourage sustainable business practices through more targeted incentives.

**Keywords** ESG Performance · Tax Incentives · Core Tax Administration System · Tax Policy · Sustainability

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## 1 INTRODUCTION

New investment strategies and innovations have undergone changes since the last 10-15 years, aiming to achieve a new balance between monetary and social returns. Investors' views have changed over the decade. A survey conducted PWC (2022) shows that the top priority that investors are interested in doing business is to see the extent to which the company cares about environmental (E), social (S) and governance (G). The priority rating of doing business for each criterion shows that effective corporate governance is at the highest percentage of 49%, followed by reducing greenhouse gas emissions 44% (PWC 2022). This means that currently ESG performance is used as one of the considerations by potential investors as part of responding to the issue of climate change and sustainable development goals (SDG's).

Companies should be able to capture opportunities on these issues in order to continue to exist in their business. However, corporations in Indonesia are still very lacking in implementing ESG principles in their business activities, which is reflected in the low ESG score (Nareswari, Tarczyńska-Luniewska, and Al Hashfi 2023). Currently, Indonesia's ESG score is less than 30 and is in the bottom position after Malaysia, Singapore and Thailand (Nareswari et al. 2023).

There are several factors that influence the level of ESG in Indonesia to be at the lower level, one of which is due to the unclear policies and tax incentives provided by the government to companies that implement ESG. Several studies show that government support has a positive impact on ESG implementation (Tan et al. 2025). This is because investment in ESG has a high positive externality impact (Avramov et al. 2022). This means that ESG investments in the short term require limited internal resources, but the economic benefits will be realised once the social reputation is accumulated in the long term. When there is no comprehensive government support and incentives here, companies will be reluctant to implement ESG in their business.

*Tax incentives* that promote sustainability issues (*green incentives*) in Indonesia are still far away compared to other countries. EY (2024) comprehensively explains the parameters of green tax implementation. In the chart, the implementation of green tax is not only through *carbon pricing*, but also includes *sustainability incentives* or *green incentives*. *Green incentives* provide rewards or fiscal incentives for companies that



pay more attention to environmental sustainability issues. Green incentives according to the EY chart include three mechanisms, namely by reducing, changing and innovating. Indonesia as a country that wants to succeed the vision of SDG's in 2030 only has two green tax incentives mechanisms from 14 mechanisms offered by EY. The two mechanisms are reflected in the two green incentives that exist in Indonesia, namely VAT DTP on the delivery/purchase of electric motorised vehicles which is regulated in PMK-38 and PMK 9 of 2024 concerning Sales Tax on Luxury Goods on Imports and / or Delivery of Taxable Goods Classified as Luxury in the Form of Certain Four-Wheeled Battery-Based Electric Motorised Vehicles Covered by the Government in Fiscal Year 2024.

While in other countries such as China, for example, through the Ministry of Finance and tax administration, the formulation of environmental tax incentives is more comprehensive by implementing 56 preferential tax and fee policies to boost green development (Guangdong China Tax Government 2024). Tax green incentives range from corporate income tax credits to reduced tax collection for environmentally related companies (Guangdong China Tax Government 2024). In addition, another concrete form is to waive taxes (tax cuts) on the import of technology that is not yet mature. This is aimed at efficiency in the cost of electricity per unit (Qadir et al. 2021; Zhao, Chen, and Chang 2016).

When discussing the Indonesian context, the form of support in the field of taxation towards the achievement of SDGs through the ESG approach still raises various critical questions. Although a number of tax regulations have been directed to support sustainability aspects, these policies tend to be partial and not systemically integrated. Some examples that reflect this include the introduction of carbon tax in the HPP Act, tax on groundwater and surface water in the HKPD Act, as well as the discourse on the imposition of plastic excise in the revision of the Excise Act. On the other hand, tax incentives, especially those related to Income Tax, have not been explicitly directed to companies that have high ESG performance. In this case, the presence of a Core Tax Administration System (CTAS) should be a strategic momentum to increase awareness and integration of ESG principles in national fiscal policy. If this momentum is not optimally utilised, tax modernisation projects that require large investments risk not having a significant impact on the escalation of the ESG agenda. This could be one of the inhibiting factors for companies in Indonesia in internalising sustainability values, both in



environmental, social and governance aspects (Setiaji and Harfianto 2023).

Based on the recent phenomenon related to the launch of the CTAS, this study aims to explore the role of tax incentives in encouraging the improvement of companies' ESG performance. The implementation of the new tax administration system is expected to not only improve the efficiency of tax management, but also serve as a catalyst in strengthening companies' commitment to sustainability. In this context, tax incentives are seen as a strategic fiscal policy instrument to encourage businesses to contribute to sustainable development. This research was conducted using a qualitative approach through an in-depth interview method involving informants from the Directorate General of Taxes (DGT) and academics. This approach was chosen to obtain a comprehensive understanding of the perceptions, challenges, and opportunities that arise in the implementation of ESG-related tax incentives amidst the transformation of the national tax system.

## 2 LITERATURE REVIEW

### 2.1 Environmental, Social dan Governance (ESG)

In general, Environmental, Social and Governance (ESG) can be defined as a set of operational standards that refer to three main criteria in measuring the sustainability and impact of an investment. In international markets, ESG performance has a significant impact on investment whereby disclosing ESG performance, companies can expand their market reach (Kartika, Dermawan, and Hudaya 2023). In Indonesia, the development of ESG is well responded by the Financial Services Authority (OJK). Through the Sustainable Finance Roadmap Phase II, OJK hopes to create a comprehensive and sustainable financial ecosystem in all development activities.

In a report entitled “*ESG ratings and climate transition: An assessment of the alignment of E pillar scores and metrics*”, OECD (2022) says that in recent years, governments, international organizations and the private sector have realized the importance of addressing the global climate crisis. Therefore, frameworks and initiatives have been developed to analyze climate and environmental risks and opportunities to take responsibility for a low-carbon economy and its impact on the global financial system.

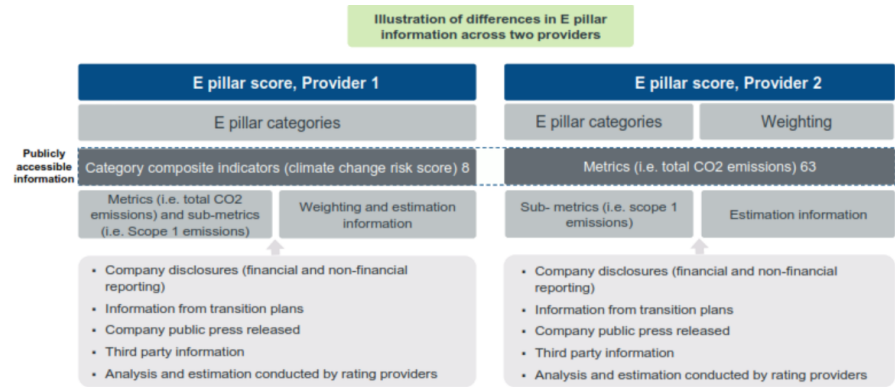
To address these challenges, a method called ESG ratings (Environment,



Social, and Government) was developed. ESG ratings allow investors to align their investment portfolios with specific goals and strategies related to the environment. ESG ratings have become a reference for investors who will invest in developing countries. In addition, ESG rating has also been widely used by central banks and financial authorities in various countries as their benchmark in assessing investment risks related to the environment (OECD 2022).

There are three pillars in ESG measurement: Environmental, Social and Governance. The measurement of pillar E (environmental) is done with two approaches. First, the measurement is done by calculating composite indicators related to climate change. Second, the approach taken with the measurement of CO<sub>2</sub> emissions is as follows:

Figure 1. Pillars of ESG



Source: OECD, 2022

ESG performance provides a comprehensive assessment of company performance in the environmental (E) social (S) and corporate governance (G) fields that have a direct contribution to economic sustainability (Avramov et al. 2022; Houston and Shan 2022; Tan et al. 2025).

Pillar E relates to the evaluation of corporate environmental management such as natural resource management and allocation, environmental pollution, waste management, ecological design and innovation. Representatively, Pillar E shows the performance of companies that consider the impact of business operations on the environment and how companies are able to protect it (environmental stewards). Pillar S focuses on assessing social responsibility, quality and safety of both



employees and products, community relations and donations. Meanwhile, Pillar G relates to the assessment of corporate governance, including shareholder rights protection and board composition (Tan et al. 2025).

It can simply be defined as a company's environmental performance that demonstrates its efforts to reduce resource consumption and emissions (Yoon, Lee, and Cho 2021). Companies process ESG performance reports through various internal sources such as operations, human resources and compliance departments. Regulations on ESG reporting disclosure standards in Indonesia are still very limited, one of which is regulated in OJK regulation No 51/POJK.03/2017. While the ESG rating is assessed by a third party (sustainalytics) who conducts a risk assessment using the concept of risk decomposition. Through this concept, companies are exposed to two dimensions of ESG issues, namely exposure and management. While in other countries such as Bucharest, ESG reporting disclosure is already regulated and includes several metrics as shown below:

**Table 1.** ESG reporting on the Bucharest Stock Exchange

Issues	Disclosure Metrics
General Information	<ol style="list-style-type: none"> <li>1. Business model</li> <li>2. Sustainability integration</li> <li>3. Sustainability governance</li> </ol>
Governance	<ol style="list-style-type: none"> <li>1. Compliance with the corporate governance code</li> <li>2. Gender diversity of the board</li> <li>3. Board independence</li> <li>4. Code of ethics</li> <li>5. Anti-corruption policy</li> <li>6. Whistle-blower procedure</li> </ol>
Social	<ol style="list-style-type: none"> <li>1. Employee turnover</li> <li>2. Freedom of association</li> <li>3. Employee health and safety</li> <li>4. Human rights policy</li> <li>5. Human rights due diligence</li> </ol>
Environmental	<ol style="list-style-type: none"> <li>1. Environmental policy</li> <li>2. Energy consumption</li> <li>3. GHG emissions</li> <li>4. Climate change</li> <li>5. Water consumption</li> </ol>



6. Waste management

7. Adverse environmental impacts

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Source: Bucharest Stock Exchange (2022)

## 2.2 Tax Incentives

According to the International Bureau of Fiscal Documentation (IBFD), there is no clear consensus on the definition of tax incentives (Cotrut et al. 2018). However, IBFD also said that there are several definitions developed by academics related to tax incentives, including:

1. Special provisions, which provide exemptions, credits, special tax rates or postponement of tax obligations.
2. Tax incentives can be defined based on their impact on reducing the effective tax rate on a particular project;
3. Any incentive that reduces a company's tax burden to enable them to invest in a particular project or sector.
4. Any measure developed to obtain more favourable tax treatment for a particular activity or sector compared to the industry as a whole.

Based on the foregoing, the IBFD submits that in general, tax incentives stem from a general and neutral tax system. Tax incentives can be applied in a variety of forms, resulting in favorable tax treatment or a reduction in the tax burden on investors (Cotrut et al. 2018). On the other hand, IBFD also defines a tax holiday as a form of tax write-off for a certain period with the aim of attracting foreign direct investment or sustainable economic growth (Cotrut et al. 2018).

The same opinion is expressed by Easson and Zolt who define tax incentives as special exemptions or deductions that provide special credits, preferential tax rates or tax deferrals (Zolt 2015). There are various forms of tax incentives such as tax holidays, current deductions for certain types of expenditure to reduced import tariffs or import duties (Zolt 2015). In Indonesia, tax incentives are provided in various forms ranging from incentives for economic recovery, namely incentives for tax article 22 on imports, in the umkm sector issued final income tax DTP and VAT on retail kiosk rental and incentives for home VAT DTP on the delivery of a maximum of 5 billion landed houses until the end of 2024 as stipulated in PMK No. 7 of 2024 (DJP 2024). These tax incentives are used to improve the economy in Indonesia from the lower to the upper class.



## 2.3 Environmental Tax

The issue of fiscal policy instruments for environmental sustainability has long been discussed. Starting from the Kyoto Protocol in 1997, 192 countries agreed to limit the greenhouse effect produced by industrialisation. The convention also asked countries that signed the Kyoto Protocol to take mitigation actions to reduce global emission levels by 5% compared to 1990 (UNFCC 2025).

The Kyoto Protocol was then followed up with the Paris Agreement. According to the UN's specialized agency on climate change, the Paris Agreement is the agreement of countries on climate change in 2015. The goal of the Paris Agreement is to reduce the average world temperature to less than 2°C from the world temperature before industrialization. In addition, through the Paris Agreement, 196 countries also agreed to limit the temperature increase by 1,5°C (UNFCC 2025).

By the Indonesian government, the Kyoto Protocol and Paris Agreement are realized in the form of a Carbon Tax. Through Law No. 7 of 2021 on Harmonization of Tax Regulations, the Government stipulated that the Government impose a carbon tax in 2022. However, even though the government has set a carbon tax in 2021, research conducted by Wardana et al. (2022) shows that carbon tax regulations in Indonesia still need to be strengthened in terms of tax subjects, tax objects, reporting mechanisms and carbon tax rates. Wardana et al. (2022) suggested that carbon tax should not only be imposed on coal-fired power plants, but also the transport sector to change consumption patterns that produce emissions.

## 3 METHOD, DATA, AND ANALYSIS

This research seeks to examine issues related to the provision of tax incentives to companies that have implemented ESG well in the new era of the CTAS in Indonesia. A qualitative approach was chosen by the author to explore and understand the ascribed meanings of individuals or groups towards a social issue (Creswell and Creswell 2023). To examine this, the researcher collected stories about tax incentives using a narrative research design. According to Riessman (2008), narrative research is a research design that looks at lived experiences by interviewing interviewees to recount events that they themselves experienced. Furthermore, the researcher needs to retell the interview results in a narrative chronology (Creswell and Creswell 2023).

Several interviewees were interviewed to find out how they personally had experiences related to tax incentives in their work and career. For this reason, the selection of informants is crucial to obtain experiences that





are relevant to the object of research. The profile of the first informant is a tax officer who is part of the planning and implementation of the DGT's Coretax system. The second informant currently works as an academic and consultant related to accounting and taxation. In addition, the academic is also a pioneer team of information system reform.

To ensure validity, this research applied triangulation of data, member checking, and participatory modes of research. Based on Creswell & Creswell (2023), the three validity procedures above are carried out by collecting data through various sources, crosschecking the interviewees' statements in the interview, and involving the interviewees in checking interpretations and conclusions.

## 4 RESULT AND DISCUSSION

### 4.1 Core Tax: Business Process Reengineering and Interoperability

The tax administration system takes the role as a bridge between the regulatory level and its implementation. The reliability and novelty of a system will certainly make it easier for taxation stakeholders to carry out the procedures outlined by the regulations. The Directorate General of Taxes as the party that administers the most significant taxes in Indonesia has updated the system titled Core Tax Administration System (CTAS). The second informant shared the reason behind the birth of CTAS to replace the obsolete system.

*"Coretax exists because the current system owned by DGT is outdated because it was developed in the 2000s so there are many things where the system cannot keep up with regulatory developments and economic business developments."*

Meanwhile, the first informant added that there is a desire from the DGT to leave manual work to full digitalization in all its business processes.

*"The initial concept is that all DGT business processes will be digitalized."*

History records that the development of technology in the period 2010-2020 was very fast. Wider internet access has accelerated changes in human and business behavior. Meanwhile, the covid pandemic seems to bring its own blessings as a factor forcing the use of technology and new habits for the wider community.

The birth of CTAS did not come out of nowhere, but has gone through a long discussion. the first informant, who was involved in the discussion of the forerunner of CTAS called PINTAR, shared his experience with enthusiasm.



*"Historically, the concept of coretax was actually started in 2006 until 2012 when the DGT developed a taxation system called PINTAR system"*

The political and legal dynamics in Indonesia had made the DGT's ambitious project run in place. Fresh air brought hope after the change of Minister of Finance as told by the first informant:

*"But in the end, this system failed to be developed due to the rampant issue of corruption cases that hit the DGT and the transfer of power of the Ministry of Finance from Mrs Sri Mulyani to Mr Chatib Basri. As soon as Mrs Sri became Minister of Finance again, the renewal of the tax administration system was re-initiated under the name coretax."*

It must be admitted that tax administration is only a tool for the government to implement the applicable tax policy. Meanwhile, tax policy will be highly influenced by the preferences of the government itself. It is not surprising that the plan that has been rolled out can easily change if the government structure also changes.

The main features offered by CTAS are Business Process Reengineering and Interoperability which are expected to act as a SuperApps in DGT. Before the CTAS era, DGT had many tax administration applications or modules. this expectation is illustrated from the narrative conveyed by the first informant.

*"Coretax is also expected to be able to integrate various separate applications into one application. Coretax interoperability with external applications such as data from DG AHU, Ministry of Land and so on is also one of the superior features of this taxation application."*

The superiority of CTAS became a boomerang at the beginning of its launch. According to the first informant, the difficulty in accessing CTAS stemmed from the unpreparedness to anticipate interoperability.

*"Although, at this time, the interoperability is actually burdensome for coretax application access. Another thing that causes the coretax application to be difficult to access at this time is the large number of accesses at one time. So, at one time, the coretax application has difficulty accessing its database."*

Meanwhile, for the second informant, the issue of integrating business processes that previously ran independently became the main scourge, not followed by an adequate server.

*"However, the difficulty is that efaktur and bukti potong are still fragmented in different applications. In addition, the database in DGT has grown so rapidly that data integration and integrity has become a crucial issue. This is proven by*



*the loading time of the coretax application which is quite long. The long loading time of coretax is partly due to the inability of the server to serve the client database."*

In summary, although CTAS in Indonesia has been planned long ago, some problems at the beginning of the implementation still occur. Meanwhile, the motive to present an administrative system that is always updated with the times as well as improving business processes needs to be studied more deeply. Moreover, the attention of the business world has begun to shift from previously only profit oriented, currently there is an awareness of environmental, social and governance issues in the ESG scheme. It would be a shame if a large-value project such as CTAS did not support the massive implementation of ESG in companies in Indonesia.

#### **4.2 Carbon Tax Contribution to ESG**

In relation to the development of tax regulations related to the environment in Indonesia, it has actually been made in the Law of the Republic of Indonesia Number 4 of 1982 concerning the main provisions of environmental management. Through this law, Indonesia affirms that it will seriously preserve the environment. This spirit is reflected in the emergence of various regulations that are increasingly complex. However, among these various regulations, there is no one that can provide strength points incentive tax that is directly given to companies that have good ESG Performance. As mentioned by the interviewees as follows:

*"Legally and systemically, there is already a tax policy in Indonesia that supports companies that have a good ESG score."*

A different opinion was expressed by the Informant 2:

*"From a legal perspective, it already exists and has just been promoted through the work copyright law related to carbon tax. However, the technical guidelines for the carbon tax itself do not yet exist, maybe you can say that it does not exist because our tax focus is on the state budget and this cannot be pulled into ESG performance."*

The absence of technical guidelines related to one of the ESG elements, namely the environment, which is reflected in the carbon tax, means that the government does not have a strong commitment and focus on environmental preservation. The tax policy and system in Indonesia only

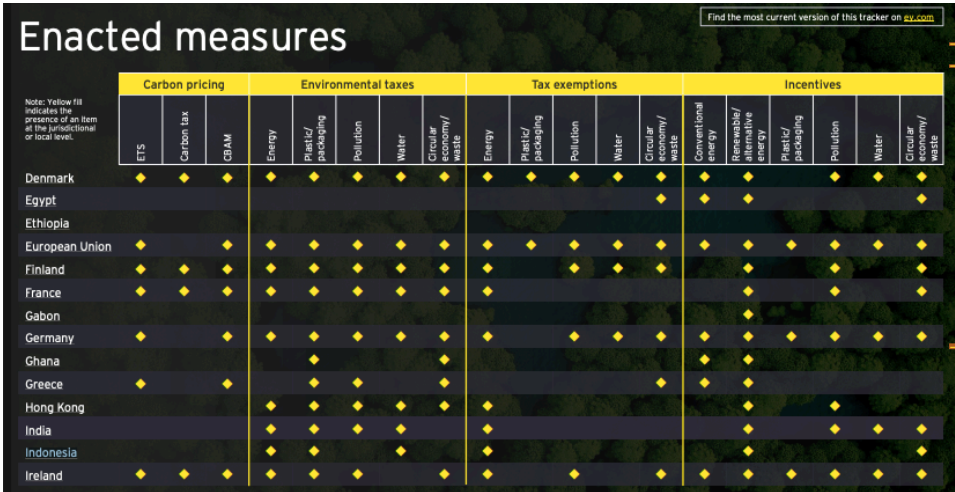


focuses on collecting tax revenue to fulfil the state budget target. Agreeing with the above conclusion, the first interviewee also explicitly provided the following narrative:

*"Currently, a carbon tax mechanism is being developed for mining companies. This is because mining companies are directly related to carbon emissions generated in Indonesia"...Carbon tax is only a small part of ESG which includes the environment section, there is no integrated system that measures carbon emissions and waste treated and how many liters of groundwater consumed involving the government and the private sector. Currently, carbon tax is one of the incentives provided by the government for companies that implement the environmental pillar of ESG..."*

Based on the narratives of the interviewees above, it can be concluded that the government has indeed provided incentives for taxpayers, but the incentives provided are still fragmented and do not cover ESG as a whole. For example, the allocation of CSR funds usually only touches on environmental aspects, which is one of the pillars of ESG performance. In addition, the government has also not made maximum efforts in implementing all ESG pillars. This is corroborated by the results of Ernst & Young (2024) which provides the following parameters for the implementation of tax incentives in Indonesia:

**Figure 2:** Tax Incentive Implementation Parameters



Source: EY Green Tax Tracker Preview (2024)



The table above shows that of the 24 environmental parameters measured, Indonesia only fulfils 6 parameters. Carbon pricing, which includes carbon taxes up to carbon credit trading, has 0 points. This means that the carbon tax, which is believed by the interviewees to be the only incentive tax related to the environment, has not been implemented in practice. While there are 2 tax incentives to support green behavior, innovation in green goods, processes and technology in Indonesia, namely renewable/alternative energy and circular economy/waste. One example of the implementation of renewable energy points is the issuance of Government Regulation No. 112 of 2022. This PP promises tax incentives for business entities that develop New and Renewable Energy (EBT)-based power plants. The incentives are in the form of tax relief for business entities; exemption from import duties on components used for EBT-based power plants. Although there are 2 points given, but in its implementation, the incentives provided by the Indonesian government in the environmental field are still very minimal. Various studies mention that green policies that include tax incentives appear without clear measurements at both local and national levels (Ernst & Young 2024; Setiaji and Harfianto 2023). The implementation of the carbon tax that was echoed to be implemented on 1 April 2022 was postponed and until now it has not been clearly implemented. The same fact was also revealed by Novikasari & Mardhatillah (2020) who stated that in Indonesia there are various obstacles such as strong domestic interests, legal uncertainty and often changing tax incentive rules for the petroleum and gas industry.

#### **4.3 Tax incentive mechanism through CSR cost recognition**

Carbon tax is believed to be one of the environmental tax incentives in Indonesia. Quite a few studies from Malaysia to Canada have concluded that the imposition of carbon tax is quite effective in reducing carbon emissions (Al-Amin, Rasiah, and Chenayah 2015; Pretis 2022). However, in the long-time lag since the emergence of the COGS Law, the implementation of carbon tax has not yet been implemented. The precautionary principle, the readiness of the business sector and the provision of sufficient transition time are used by the government as reasons to delay the implementation. To corroborate the results of previous studies, this research tries to explore the fiscus (The Informant 2) in the field related to the technical guidelines of carbon tax as follows:

*"The technical guidelines for carbon tax do not yet exist and are only proposed in the work copyright law, maybe you can say that it does not*



*exist because it focuses on the state budget, how tax revenue is used to fulfil. In terms of implementation, it does not exist. But this cannot be pulled into ESG performance."*

The above statement confirms that technical guidelines related to the implementation of tax incentives through carbon tax do not yet exist in Indonesia. However, the first interviewee explained comprehensively that although the absence of carbon tax technical guidelines, the government can provide tax incentives as follows:

*"Legal exists, system exists. This is regulated in Article 4 paragraph (3) and Article 9 paragraph (1) of the Income Tax Law. This means that for companies that carry out corporate social responsibility (CSR), CSR costs can be charged in the financial statements and tax returns. However, it should be noted that CSR and ESG are two things that are similar but not the same."....*

What needs to be underlined from the above facts is that the government actually already has a tax policy related to the environment. The technique described by the source above is called the deductible expenses technique, where technically companies can charge CSR costs to their net income which functions as a tax deduction. This means that the higher the CSR cost, the smaller the net income and the tax. However, the amount of CSR expenses cannot be more than 50% of the previous year's net income. Furthermore, CSR costs cannot be expensed if the company suffered a fiscal loss in the previous year. Deductible expenses specific to the environment are believed to be able to change the direction of going green for business entities. In Portugal, for example, green laws are implemented by enforcing the principle that business entities that have less environmentally friendly behavior (polluters) pay more taxes and environmentally friendly business entities will get tax deductions (Rodrigues Aldeia 2023).

Deductible expenses in Indonesia itself are regulated in Law no. 40 of 2007 concerning limited liability companies article 74 paragraph (1). This law states that companies that carry out business activities related to natural resources are obliged to provide CSR. The CSR that is related to ESG and can be categorized as a deductible expense includes (1) waste treatment costs, (2) scholarship, internship and training costs (3) donations for natural disasters, educational facilities, research and development. Point 3 above can be a deductible expense if it fulfils



certain conditions such as the taxpayer has a net fiscal income based on the tax return for the previous tax year, does not result in a loss in the tax year when the donation is made, has valid evidence etc. At this point, the state has actually legally provided facilities for companies to carry out CSR. From the giver's side, CSR can reduce gross income. However, from the recipient's perspective, CSR is not recognized as income.

4.4 Disintegration of ESG Performance and Tax Incentive

When referring to the Bucharest stock exchange, ESG performance disclosure includes complex points. Meanwhile, the European Union through the non-financial reporting directive (NFRD) has also implemented ESG performance disclosure standards. Where ESG disclosure must include 5 main parameters, namely environmental protection as disclosure for point E, Social Points in its reporting must disclose social responsibility and treatment of employees and respect for human rights. Governance points must disclose company board diversity regarding Gender, Age, Education & Profession and anti-corruption and bribery.

Figure 3: NFRD's Reporting Requirements



Source: Greenomy, 2025

The condition of standardized ESG disclosure abroad is different from





that in Indonesia. Although many companies currently disclose ESG, Indonesia does not yet have its own standards, as explained by the second interviewee as follows:

*"In Indonesia, in terms of accounting, ESG has been applied by companies in Indonesia. IAI believes that companies can earn as much profit as possible, but must still pay attention to environmental, social and good governance aspects. All of these activities must be disclosed in a non-financial report that is an integral part of the financial statements."*

After digging deeper, companies in Indonesia have indeed disclosed ESG, but the parameters disclosed are different for each company. Researchers agree that ESG disclosure is able to predict company stock returns and investors are very concerned with governance aspects (Velte 2017). ESG disclosure has a positive impact on the value of shares globally and, especially in the governance section (Velte 2017). The case in Indonesia with companies that have many Islamic labels was also studied by Qoyum et al. (2022) with the results having a higher ESG value than for non-Islamic, but not with the governance aspect. Good ESG performance is believed to be able to attract potential investors. In addition, ESG reporting is considered important because the impact of climate change will affect the company's capital expenditure, which can affect the nature and amount of long-term assets (IAI 2024). Unfortunately, ESG standards used in Indonesia are currently fragmented with various users and reporting purposes. Moreover, when it comes to tax incentive and ESG concept, there is no coherent Minister of Finance regulation (PMK) that specifically regulates ESG with tax provisions.

Hopefully, the DGT can use the DGT-style ESG score to provide tax incentives. Thus, companies that have good environmental, social and governance scores can receive incentives from the DGT, for example in the form of reduced tax rates.

## 5 CONCLUSION

The implementation of CTAS was intended as a business process reengineering process to replace the obsolete tax administration system. In addition, CTAS brings Interoperability with external data, but caused many obstacles at the beginning of its implementation. The expectation that the tax administration system will keep up with the times, had raised hopes to be integrated with efforts to encourage the implementation of





ESG in Indonesia. But in reality, not all ESG pillars are accommodated. The environment pillar is represented by the carbon tax, the social pillar is accommodated by allowing the allocation of CSR funds as a deduction for taxable income, but the governance pillar has not yet seen the regulatory mechanism. An important issue that arises is the lack of synchronisation between tax incentive schemes and ESG performance.

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