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FISCAL ASPECTS OF ESG BUSINESS DEVELOPMENT CONCEPTS

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Abstract. The *subject of the study* is the fiscal aspects of the ESG concept of business development. *Methodology.* The study uses general scientific methods, in particular, theoretical generalisation, methods of analysis and synthesis and statistical analysis, as well as the graphical method to visualise the results of the study. The purpose of the study is to analyse the strategic guidelines of tax policy through the prism of the ESG concept. *Conclusion.* The fiscal aspects of the ESG concept are an important element in understanding its impact on business. They include various tax incentives and mechanisms that promote the implementation of ESG standards and take into account the consequences of non-compliance for businesses. In particular, fiscal policy includes tax incentives for businesses that invest in green development, support social initiatives or improve corporate governance. In a broad sense, instruments such as environmental taxes are aimed at achieving sustainable growth and economic development. Strategic tax policy guidelines under the ESG approach include encouraging investment in sustainable technologies through tax incentives for companies investing in renewable energy and environmentally friendly projects. Social initiatives are supported through tax rebates for companies that develop programmes to develop local communities and improve working conditions. Corporate governance regulations require companies to report on the environmental, social and governance aspects of their activities. Promoting the circular economy includes tax incentives for companies that implement recycling and waste reduction practices. Support for small and medium-sized businesses includes tax incentives for SMEs that implement ESG standards and easier access to green finance. International cooperation involves bringing tax policy in line with international ESG standards and participating in global tax transparency initiatives. Adaptation to climate change includes the introduction of taxes on greenhouse gas emissions and the transition to low-carbon business models. Green project financing involves the use of tax revenues to support green initiatives. Innovations in tax administration are being introduced through new technologies, and education and training include funding for ESG training programmes. These guidelines will help businesses adapt to new conditions, create sustainable value and meet modern environmental, social and governance requirements.

Keywords: ESG concept, fiscal policy, taxes, taxation, climate change, sustainable development.

JEL Classification: Q01, H25

1. Introduction

In recent decades, the business environment has undergone significant transformations as a result of global trends, among which ESG – the concept of sustainable development (Environmental, Social, and Governance) – has emerged as a dominant force. The ESG concept integrates environmental, social, and governance aspects into enterprises' strategic planning, thereby ensuring the business's long-term sustainability and competitiveness. The growing attention to ESG factors can be attributed to two key factors: the tightening of regulatory requirements and the increased interest from investors, consumers, and society.

Critical aspects of the ESG paradigm, as a parallel and complementary vision of business management and organisation of the socio-economic system, along with sustainable development, green economy and circular economy, where economic, social, environmental and managerial aspects of business functioning, which is socially nourishing, are considered in unity and interaction and aimed at the inclusive development of

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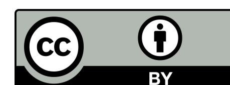

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society, are outlined in the works of such researchers as Lagodiyenko O., Lagodiienko V., Xiaoling Yu., Kaitian Xiao, Kolupaieva I., Sheiko I., Polozova T., Rohov H., Kolodiziev O., Yehorycheva S., Stepanenko S., Irtyshcheva I., Kramarenko I., Romanenko S. (Lagodiyenko et al., 2023; Xiaoling & Kaitian, 2022; Kolupaieva et al., 2024, Rohov et al., 2024; Stepanenko et al., 2023; Irtyshcheva et al., 2022)

The tax aspects of ESG are an important element in understanding its impact on companies. They include a variety of tax incentives and mechanisms that facilitate the implementation of ESG standards and address the consequences of non-compliance for companies. In particular, fiscal policy includes tax incentives for companies that invest in green development, support social initiatives or improve corporate governance. More broadly, instruments such as environmental taxes aim to achieve sustainable growth and economic development.

The role of fiscal instruments in the development of various branches of the economy is explored in several studies. For instance, Garazha O. et al. (2021) examined the issue of land and real estate valuation for fiscal purposes, encompassing land valuation, land payment, and budget filling. This analysis provided insights into the potential options for compelling land valuation, ranging from market prices for land tax to rent setting. In the work of Ivanov Y. et al. (2022), the role of the formation of own financial resources at the expense of development projects or through the cooperation of territorial communities to ensure their sustainable spatial development based on self-sufficiency and self-financing was defined.

Fiscal instruments for corporate activity are already an integral part of their development strategies for implementing ESG principles. These include environmental stewardship, enhanced social responsibility and good corporate governance. At the same time, companies need to strike a balance between achieving their ESG objectives and adapting their activities to the national tax system. As business activity in the modern world is usually not confined to one jurisdiction, knowledge of foreign practices is essential for adapting to international operations.

Fiscal instruments play a key role in addressing the ESG agenda. They address the issues of reducing emissions of harmful greenhouse gases, improving energy efficiency, using renewable energy sources, waste management, ensuring high water and air quality, etc., as most of the actions taken by the company have tax implications.

When characterising the foreign practice of environmental taxation, it is possible to distinguish several instruments that are implemented almost everywhere in one form or another and that contribute to the formation of the company's ESG strategy. This strategy ensures the transparency of the company's management and its concern for the environment and people: fiscal instruments aimed at minimising the company's carbon footprint (carbon tax); environmental taxes and fiscal payments (for emissions, recycling); resource taxes; excise taxes on fuel; transport taxes; mandatory fees, e.g., for the use of forests, roads, etc.).

At the same time, almost all tax policy instruments, including any adjustments to the procedure that entail changes in operating profit and cash flows, influence the formation of a company's ESG strategy. One of these tools is tax incentives and preferences in the field of ESG, which can stimulate innovation or influence employee behaviour, which is expressed in the requirements to provide environmentally friendly transport, clean living environment, etc.

2. Revision of Tax Policy through the Prism of ESG Concept to Achieve Sustainable Development

Taxes reflect a company's contribution to society, often its most important contribution to well-being. They are also critical to achieving environmental, social and governance (ESG) objectives. Every company's ESG transformation is based on tax issues. Governments around the world are developing national strategies to achieve zero emissions and overall plans for the sustainable development of society. They are increasingly looking at policy levers such as incentives for low-carbon technologies and skills training for employees. On the other hand, governments are using taxes to encourage emission reductions and the development of a circular economy. In response, companies are reviewing their tax strategies to adapt them to support changes in their operations, investment prospects and hiring practices.

The drive for change is also coming from investors and consumers, who expect businesses to take steps to ensure sustainability and increase tax transparency. New legislation and regulations continue to increase the importance of developing transparent tax reporting and a transparency management plan that builds trust with key stakeholders.

These changes mean that companies are now increasingly looking at their tax strategy through an ESG lens, i.e., considering the tax implications for every aspect of their business, from finance to supply chains, employment, etc.

The strategic guidelines of tax policy through the prism of the ESG concept include 1 – climate; 2 – transparency, reporting and governance; 3 – financing and investing; 4 – human resources aspects of ESG.

1. Climate. Tackling climate change effectively and quickly requires new business models and investment priorities. Businesses need to be prepared to comply

with new climate regulations and reporting requirements, as well as meet the growing expectations of investors and consumers. These changes may have significant tax implications that will affect all areas of business.

– Transition to zero emissions. Achieving zero-emission goals requires changes in all aspects of business, which are affected by international tax and trade rules. Tax issues can also arise when switching to clean and renewable energy sources or reorganising corporate structures to ensure sustainable development and combat climate change. Every business faces the challenge of assessing the tax implications of zero emissions commitments, including advising on and assessing the impact on existing and new environmental taxes in international supply chains.

– Greening the tax system. When governments develop new strategies to combat climate change, they consider new taxes and tax exemptions when reviewing existing taxes. Accordingly, businesses need to rethink their operating models and processes. This could result in critical decisions being made about everything from value creation and supply chains to new data and financial system requirements. Therefore, every company needs to assess the changes in tax policy and shape its response in a way that ensures sustainable business results.

2. Transparency, reporting and governance. By deepening their understanding of the ESG context, businesses are making bold commitments to change. Investors are looking to manage evolving risks and finance new solutions, and stakeholders want to be confident that the companies they work with are responsible and profitable. Changes in reporting may include local workforce insurance requirements, national carbon reporting standards, or international trade rules that may have tax implications.

– Standard-setting and policy-making. There are a number of ways in which businesses can model climate risks and opportunities, develop roadmaps to achieve net-zero emissions, and demonstrate their commitment to sustainability. These include the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Reporting Standards Authority (SASB), the Global Reporting Initiative (GRI), and the International Sustainability Standards Board (ISSB), which were established at the COP26 climate conference.

Reporting and management. ESG reporting, which covers everything from carbon emissions to workforce and board diversity, is fast becoming a business priority. Effective reporting is an important indicator of overall business health and requires collaboration and analysis at all levels. This will impact tax structure, transparency, risk management and control.

3. Financing and investing. Today, stakeholders expect more from businesses than just making a profit. They want businesses to create sustainable value for the future. By encouraging businesses to consider their

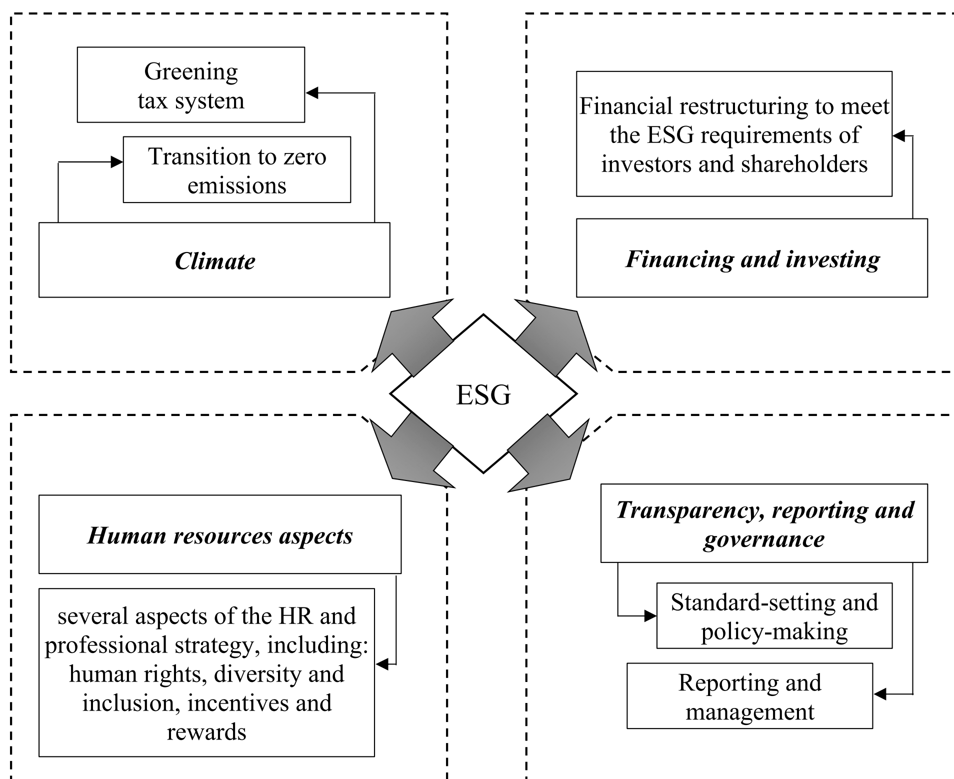

Figure 1. Strategic guidelines of tax policy through the prism of the ESG concept

markets, business strategies, investments and assets over the long term, ESG principles provide a real opportunity to invest in the future.

The management of ESG impacts of transactions and investments includes the following:
– Restructuring of finances to meet the ESG requirements of investors and shareholders, enabling businesses to make decisions based on sustainable and environmentally friendly financing and investments;
– adaptation of due diligence and systems on the part of the buyer and seller to climate and staffing requirements;
– consideration of carbon credits, including those based on nature-based solutions (NBS) or renewables;
– development of a staff incentive system and alignment of managers‘ remuneration with shareholders' goals;
– formulation of policies on carbon and environmental taxes in accordance with the requirements of the buyer/seller;
– modelling tax aspects to suit the needs of a particular transaction.

4. Human resources aspects. ESG factors exert a considerable influence on a number of aspects of HR and professional strategy, including human rights, diversity and inclusion, and incentives and rewards, particularly at the management level. The ongoing global pandemic has brought to light numerous existing workforce issues, including those of inequality. Concurrently, it has also increased the popularity of novel work models, such as remote and hybrid work, which can contribute to achieving net-zero business goals. To continue the process of transforming the workforce for a more sustainable future, businesses will need to rethink their employment policies, training programmes, rewards and recognition programmes, and much more.

Areas where organisations may need to examine the implications of various HR policies from an ESG perspective include the following:
– HR strategy;
– impact on society and communities;
– pension savings policy and investment policy;
– an approach to employee remuneration, including executive compensation, broader incentives and pay equity, to align incentives with ESG goals;
– human resource supply chains, including international human rights;
– programs to promote equality, diversity, and inclusion;
– aligning staff motivation with ESG goals.

Effectively tackling climate change requires new business models and investment priorities, including achieving zero emissions and greening the tax system. Businesses must also comply with new climate regulations and reporting requirements, which can have significant tax implications.

3. Transformation of Fiscal Policy under the Influence of the ESG Concept

The manner in which businesses approach the treatment of ESG activities is influenced by a number of factors, including the utilisation of tax planning as a tool for optimising a company's tax liabilities. Tax planning presents a range of opportunities in different countries, which can facilitate increased participation in ESG activities while simultaneously maximising profits (Guenther, Matsunaga, Williams, 2013).

Researchers from the University of Oregon and Indiana conducted an analysis of the relationship between the effective tax rate and ESG elements, utilising data from MSCI Inc. A sample of more than 5,000 observations revealed a correlation between increased ESG scores and increased costs for companies lobbying for their tax interests. The study's conclusion is that companies do not consider the payment of taxes to be part of their social responsibility, but rather utilise ESG principles in order to gain greater tax advantages (Davis, Guenther, Krull, Williams, 2016).

An interesting research paper analysed the relationship between the implementation of ESG elements and the likelihood of tax evasion based on a sample of 217 companies. The results showed a negative correlation between tax evasion and a company's ESG activities, except when certain ESG aspects, such as governance, environment and employee relations, were positively related to tax evasion. This finding confirms researchers' concerns about the role of ESG factors as a cover for unjustified tax advantages (Lanis, Richardson, 2014).

American researchers Col B. and Patel S. examined the relationship between companies' ESG and tax planning practices. The researchers tested two hypotheses: first, that companies would reduce their ESG activities after engaging in aggressive tax avoidance; second, that companies would increase their ESG activities after engaging in aggressive tax planning. The study included a sample of 3,897 current year observations for 341 US companies with subsidiaries in tax havens and 16,295 current year observations for 1,630 US companies that had not been active in tax havens for 17 years. The data were provided by Kinder, Lydenberg, Domini, & Co. (KLD) and Thomson Financial SDC. The study found that companies that actively evade taxes through the creation of offshore companies significantly increase their corporate ESG ratings (Col, Patel, 2016).

Researchers at the Montpellier Business School (France) found the same negative trend. The study, based on a sample of 24 French companies over eight years, assessed the relationship between the tax and accounting gap and the environmental aspect of ESG

reporting and found a positive relationship between these factors (Bird, Davis-Nozemack, 2018).

The researchers also analysed the impact of ESG indicators on tax aggressiveness. They used a model in which environmental, social and corporate components were independent variables and the effective tax rate was the dependent variable. The data was provided by Thomson Reuters. They used four regression models to determine the relationship between ESG scores and tax aggressiveness. The study included 4,010 observations across 68 countries. The ESG E-component was found to have a small impact on aggressive tax planning. The beta coefficient of the company's securities portfolio plays an important role: the higher it is, the less aggressive the tax planning. However, the S- and G-components of ESG have little association with aggressive tax planning (BoHyun, Jeong-Hwan, Jin-Hyung, 2021; Sapitri, 2020; Harnesk, Myhrberg, 2019).

There is no doubt that societal tools such as the Global Reporting Initiative (GRI), the Dow Jones Sustainability Index (DJSI) and the Fair Tax Mark (FTM) are helping to make the link between sustainability and tax planning more transparent. However, practice shows that more is needed. For example, a company's tax strategy only accounts for two percent of the weighted average total score in the DJSI index. In addition, a company can obtain an FTM certificate and engage in aggressive tax planning at the same time. This is supported by a study by academics that examined the relationship between the effective tax rate and the Tax Disclosure Index (TDI) in sustainability reports, based on 540 observations over five years. The results showed a negative correlation between the factors studied. Companies with aggressive tax planning showed a "higher willingness" to disclose their ESG activities (Hardeck, Kirn, 2016).

It is interesting to analyse the scientometric indicators related to the available research on this topic. Many scientists do not use mathematical research methods and focus on certain aspects of practical application of certain problems, mainly legal or political nuances, effectively ignoring institutional factors (Rohov, Kolodiziev, Yehorycheva, Krupka, Zaplatynskyi, 2024).

Modern regulators to promote ESG practices: In the United States, the Opportunity Zones Act was passed in 2017, providing tax incentives for certain types of entrepreneurship, including green investments. The Pollution Control Tax-Exempt Bond Financing Program was introduced to control pollution, safely manage solid waste and recycle valuable materials. A document setting out the rules for complying with tax requirements following the issue of such bonds has also been published. In France, the Green Economy Committee (Le comité pour l'économie verte) deals with the development of the circular economy and the introduction of economic instruments, including energy taxation, in addition to traditional regulatory and budgetary instruments. The Malaysian government has established the Copyright Securities Commission Malaysia (CSCM). In 2021, the Green SRI Sukuk Grant Scheme was expanded with the objective of incentivising investment firms to finance ESG projects. Participants in the SRI Sukuk and Bond Grant Scheme were granted a new tax benefit, namely a five-year income tax exemption from 2021 to 2025 (Impact & ESG Performance Report, 2022).

The potential for ESG tax reform covers a number of key areas. First, it is essential to coordinate fiscal and monetary policies and to choose appropriate tax policy options. Second, the share of indirect taxes is expected to increase. Third, there is a possibility of an increase in the taxation of high-value real estate. In addition, it would be prudent to consider replacing many business levies with a corporate income tax, which would make it easier to do business. Finally, the assessment of fiscal sustainability in resource-rich countries should be based on the constant income hypothesis. It is imperative that a consensus be reached on the rapid development of standardised approaches to taxation at the global level. Furthermore, a review of tax disincentives is recommended, with due regard to the polluter-pays principle. Ultimately, it is imperative to modify existing tax instruments in a way that encourages ESG investment.

4. Conclusions

The strategic tax policy guidelines, situated within the ESG conceptual framework, encompass the stimulation of investment in sustainable technologies through the implementation of tax incentives for companies investing in renewable energy sources and environmentally friendly projects. The provision of support for social initiatives is achieved through the introduction of tax rebates for businesses that develop programmes for the advancement of local communities and the enhancement of working conditions. The regulation of corporate governance necessitates the reporting of companies' activities in relation to the environmental, social, and governance aspects. The promotion of a circular economy is contingent upon the implementation of tax incentives for organisations that adopt recycling and waste reduction practices. Support for small and medium-sized enterprises encompasses the provision of tax incentives for SMEs that implement environmental, social, and governance (ESG) standards, as well as the facilitation of their access to green finance. International cooperation entails the alignment

of tax policies with international ESG standards and participation in global tax transparency initiatives. Adaptation to climate change entails the imposition of taxes on greenhouse gas emissions and the transition to low-carbon business models. Green project financing involves the use of tax revenues to support green initiatives. Innovations in tax administration are being introduced through new technologies, and education and training include funding for ESG training programmes. These guidelines will help businesses adapt to new conditions, create sustainable value and meet modern environmental, social and governance requirements.

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