



RIA analysis of GCITA (green corporate income tax adjustment) as a fiscal instrument to promote the implementation of green accounting

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ABSTRACT

Background: The planet Earth has been facing the long-predicted impacts of climate change, which has resulted in changing weather patterns, land loss due to rising sea levels, more frequent forest fires, increasingly intense heat waves, and glacier retreat. The increased focus on climate change issues has called on accountants to support the recording, reporting, and management of companies so that they can adapt to climate change. Therefore, the implementation of green accounting needs to be encouraged through government policies because its impact can not only help companies manage environmental costs, but also strengthen their financial performance. **Methods:** This paper focuses on examining new fiscal policy opportunities to support the implementation of green accounting in Indonesia in order to address climate change challenges while improving corporate financial performance through Regulatory Impact Analysis (RIA). **Findings:** Based on the results of the RIA analysis, it is recommended that the government create a new fiscal policy, namely the Green Corporate Income Tax Adjustment (GCITA), because the benefits generated are greater than the costs incurred. GCITA is a policy that provides adjustments to the Corporate Income Tax (PPh) and Dividend Tax rates as an active policy tool to guide corporate behavior related to the implementation of green accounting. **Conclusion:** GCITA has strong potential to become a fiscal instrument to encourage the implementation of green accounting and strengthen sustainability commitments towards a green economy. This study is limited by its reliance on qualitative secondary data and a desk-based RIA framework. The analysis lacks quantitative fiscal modeling and empirical validation within the specific Indonesian economic context, which may affect the precision of the projected revenue impacts. **Novelty/Originality of this article:** The existence of new policy proposals that encourage the implementation of green accounting and the transition to a sustainable green economy that responds to global challenges.

KEYWORDS: fiscal policy; green accounting; RIA analysis.

1. Introduction

The planet Earth has been facing long-predicted impacts from climate change, which has resulted in changing weather patterns, land loss due to rising sea levels, more frequent forest fires, increasingly intense heat waves, and glacier retreat (Khosa et al., 2023). These environmental issues are currently one of the barriers to trade for market penetration in a country. These barriers take various forms of standardization, both international standardization, such as ISO (International Organization for Standardization) and ecolabels, as well as consumer demand related to the environment. Therefore, the Indonesian

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business world needs to anticipate these challenges so that it can continue to export Indonesian products to various export destination countries (Kusumastuti et al., 2022). Weather crises, plastic contamination of water sources, and air pollution have prompted reforms in accounting systems. At the corporate level, one of the fundamental causes of the current environmental crisis is the capitalist accounting system that underpins the neglect of external environmental costs (Huston, 2025).

Companies are key players in the business world that contribute significantly to national economic growth, job creation, and value addition in various industrial sectors. Strengthening the aggregate performance of companies will have a direct impact on macroeconomic stability and growth. However, the sustainability of the economic role of companies is highly dependent on their ability to maintain a balance between financial performance and environmental impact management. In practice, many companies utilize the environment as a source of production inputs as well as a place to dispose of waste, so that company operations have the potential to put pressure on environmental quality if not managed responsibly (Cahyaningsih, 2024).

Various studies show that companies still face challenges in managing the environmental impact of their operations, such as high waste production, inefficient energy consumption, and limited managerial awareness of sustainable business practices (Lubis et al., 2025). This condition indicates the need for a systematic approach that can integrate environmental aspects into business decision-making. One relevant approach is the application of green accounting. Green accounting is an accounting concept that emphasizes the recording and reporting of environmental costs and benefits as an integral part of a company's financial information system (Indriastuti & Mutamimah, 2023). The implementation of green accounting has proven to have a positive impact on corporate environmental management. Research by Yulianti et al. (2023) shows that the implementation of green accounting has a significant effect on improving waste management, which ultimately supports environmental sustainability. Through green accounting, companies can identify, measure, and control environmental costs more accurately, including waste management costs, energy efficiency, and investments in environmentally friendly technologies. Thus, green accounting serves as a managerial tool that helps companies improve operational efficiency while reducing negative impacts on the environment (Rusmariyani et al., 2025).

The increased focus on climate change issues and the positive impact of green accounting on companies has called on accountants to support the recording, reporting, and management of companies in order to adapt to climate change (Khosa et al., 2023; Ridayati et al., 2025). Research by Benson et al. (2021) in Nigeria indicates that a company's ROE and ROA can significantly increase by up to 5% if the company spends more money on environmental management practices, including the use of green accounting. These results show that the implementation of green accounting contributes to improved company performance (Benson et al., 2021). Therefore, the government needs to issue fiscal policies that encourage businesses to implement green accounting. By understanding and managing the impact of their operations on the environment, companies can adjust their business strategies to reduce the risks of climate change that could affect their financial performance (Ridayati et al., 2025). Green accounting has emerged as a relevant approach to addressing the environmental and economic challenges faced by companies.

Not only does it serve as a tool for regulatory compliance, green accounting also plays a role in promoting resource efficiency, controlling operating costs, and increasing the long-term competitiveness of companies. Therefore, the discussion of green accounting is important for understanding how companies can effectively manage environmental costs, increase company value, and contribute to sustainable economic development (Indriastuti & Mutamimah, 2023).

Law Number 3 of 2024 concerning Industry has positioned industry as one of the pillars of the economy and given the government a significant role in promoting the development of green industry in a planned manner. The Green Industry Standard (SIH) is a standard for realizing green industry regulated by the Ministry of Industry. Minister of Industry

Regulation No. 50 of 2020 states that green industry is an industry that prioritizes efficiency and effectiveness in the use of sustainable resources in its production processes so as to harmonize industrial development with environmental conservation functions and provide benefits to the community (Kusumastuti et al., 2022). However, despite the existence of these regulatory frameworks, there are still no specific and operational fiscal policy instruments that explicitly encourage or mandate the implementation of green accounting practices at the corporate level in Indonesia.

Green accounting itself is a revolutionary accounting framework designed to address fundamental failures in conventional accounting, namely its failure to take into account environmental costs and benefits as part of economic performance. Green accounting seeks to integrate ecological dimensions into recording, measurement, and reporting systems so that financial statements can reflect the condition of a company or country in a more holistic and sustainable manner (Endiana et al., 2020). The main objective is to provide comprehensive information so that stakeholders, including corporate management and government, can make better decisions to support sustainability. The fundamental principle of green accounting is sustainability, which seeks to produce integrated reports that support the sustainable growth of profits, social welfare, and ecological sustainability (Lako, 2019).

Green fiscal policy is the use of fiscal instruments, such as taxes, subsidies, and government spending, to achieve environmental and climate goals. Its main objective is to create strong economic incentives to reduce negative impacts on the environment and change the behavior of producers and consumers. This policy is based on the polluter pays principle, which stipulates that those who cause pollution must bear the costs of managing that pollution (Saputra, 2024).

The relationship between green accounting and green fiscal policy is symbiotic and causal. Green accounting serves as an information foundation that provides measurable and transparent data (input) that enables governments to design, implement, and evaluate fiscal policy instruments (output) (Wicaksono, 2025). Without accurate and standardized data from green accounting, the government will face significant difficulties in formulating effective, fair, and evidence-based policies. Nevertheless, prior studies have largely focused on the benefits and implementation of green accounting at the firm level, while limited attention has been given to how fiscal policy instruments can be specifically designed to incentivize its adoption, particularly in the Indonesian context. Given the many benefits of implementing green accounting, policymakers need to create new policies that encourage the accelerated implementation of green accounting in Indonesia. Policymakers can use these findings to develop policy regulations that standardize environmental reporting and promote sustainable business practices (Altarawneh et al., 2025).

For example, the Iranian government, through its policy packages, such as Section C, Paragraph 13 of the Financial Accounting Standards, Number 1, requires companies to provide optimal additional information when presenting financial statements when users of financial statements need to do more than comply with the requirements of Accounting Standards in recognizing the effects of certain transactions or other events on the financial position and financial performance of the company in accordance with the green accounting framework. Furthermore, in accordance with Paragraph 19 of this standard, company management must apply a set of procedures that enable the presentation of helpful information in financial statements if no specific accounting standards are available in this regard. In addition, in accordance with Article 33 of the Principles of Corporate Governance for Companies Listed on the Stock Exchange, the company is required to provide general information related to social and environmental obligations in its annual report. On the other hand, according to constitutional regulations and its own establishment, the High Court and Accounting have discussed and issued developments in free and special environmental accounting as an agenda focused on three areas, namely humans, nature, and the maritime environment (Birgani et al., 2022).

In China, research by Zheng et al. (2023) shows that government policies, including environmental taxes and research and development (R&D) tax incentives, can promote

green innovation from companies, such as green accounting innovation, and that the combination of the two has a mutually reinforcing effect. The existence of environmental taxes can overcome the problem of innovation strategy from R&D tax incentives by ensuring that companies receiving R&D tax incentives truly innovate as much as possible so that they can avoid environmental taxes. The implementation of environmental taxes positively affects the induction of green innovation from the perspective of policy implementation and supervision (Zheng et al., 2023).

Despite these international experiences, Indonesia has not yet developed a specific fiscal policy framework similar to a Green Corporate Income Tax Adjustment (GCITA) that directly links corporate taxation with the adoption of green accounting practices. This indicates a clear research and policy gap that needs to be addressed.

Therefore, considering the continuing emergence of environmental degradation issues in Indonesia and following the implementation of green accounting policies in various countries, this study aims to answer the following research question: how can a GCITA (Green Corporate Income Tax Adjustment) fiscal policy be designed to effectively encourage the implementation of green accounting in Indonesia? This study recommends a GCITA fiscal policy package focused on encouraging the use of green accounting, to be analyzed through a Regulatory Impact Analysis (RIA). In the future, data generated by implementing green accounting will form the basis for designing a stronger green fiscal policy package capable of accelerating the transition to a green economy.

2. Methods

2.1 Research design

This paper employs a qualitative, desk-based policy research design to examine new fiscal policy opportunities for supporting green accounting implementation in Indonesia. The primary objective is to assess how such policies can address climate change challenges while simultaneously improving corporate financial performance. To achieve this, the study adopts Regulatory Impact Analysis (RIA) as its core analytical framework. RIA is a systematic and communicative process used to evaluate the positive and negative impacts of proposed and existing regulations, ensuring that social benefits are maximized while potential costs and negative consequences are minimized (Purwanto et al., 2021; Clapham et al., 2023). This design is particularly suited to the study's goals, as it moves beyond formal legal compliance to assess policies based on their teleological capability—that is, their effectiveness in achieving specific objectives (Schmitt et al., 2021). The research design is structured to evaluate the feasibility and impact of the Green Carbon Incentive and Taxation Adjustment (GCITA) policy, treating fiscal instruments as rational tools that must be assessed for their suitability, effectiveness, and public interest outcomes.

2.2 Data collection

The study relies exclusively on secondary data, drawing from scientific publications and regulatory documents relevant to green fiscal policy and green accounting. To ensure methodological transparency and minimize selection bias, a structured, two-stage screening procedure was implemented. Sources were initially identified through academic databases (e.g., Scopus-indexed journals, Google Scholar) and official government publications. The inclusion criteria were: peer-reviewed journal articles or officially published policy documents; studies explicitly discussing green accounting, environmental fiscal policy, or RIA; publications from the last ten years (with exceptions for seminal works); and studies offering empirical or conceptual insights applicable to policy design. Non-scholarly sources, methodologically unclear studies, and literature not directly related to fiscal policy or environmental accounting were excluded. The screening process involved an initial review of titles and abstracts, followed by a full-text evaluation to confirm alignment with the research objectives. While this desk-based approach is common in

policy research and does not require ethics approval, it inherently carries limitations, such as dependence on existing literature, potential publication bias, and a limited capacity to capture real-time policy dynamics. These limitations are acknowledged in the interpretation of findings.

2.3 Analytical framework

The analysis is operationalized through the application of a five-stage RIA framework to evaluate the GCITA policy. The stages are as follows: (1) Policy Problem Formulation, which identifies the failure to internalize environmental externalities due to the lack of formal green accounting implementation; (2) Policy Objective Formulation, focused on increasing green accounting adoption, internalizing environmental costs, and enforcing financial reporting integrity; (3) Identification of Policy Alternatives, including the status quo, tax incentives, and tax disincentives; (4) Benefits and Costs Analysis, which compares the policy's impacts on the government, companies, and society; and (5) Feasibility Evaluation and Policy Recommendations, to determine the implementability of the GCITA policy. To enhance objectivity and reduce researcher bias in the qualitative cost-benefit assessment, a comparative and triangulation approach is applied, synthesizing findings from diverse international policy practices, empirical studies, and regulatory frameworks. Evaluation criteria for assessing policy alternatives were defined *ex ante* based on consistency with policy objectives, economic efficiency, environmental effectiveness, and administrative feasibility. This structured process ensures transparency, replicability, and a robust evidence base for the analysis, with the sequential stages visualized in Figure 1.

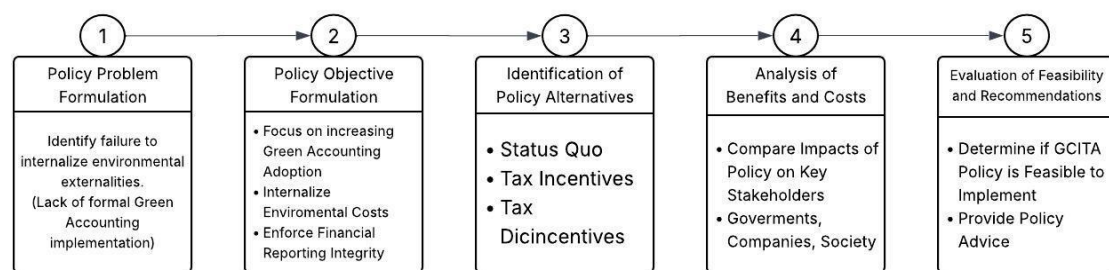


Fig. 1. Visualization of Application of Regulatory Impact Analysis (RIA) to GCITA Policy

3. Results and Discussion

3.1 Fiscal policy recommendations

The government needs to immediately formulate new fiscal policies that can encourage business actors to promptly implement green accounting. Research by Kurniati et al. (2025) provides evidence that fiscal policies supporting green accounting are able to promote both green accounting practices and sustainable financial practices. Therefore, this paper recommends a new fiscal policy that can be adopted by the government, namely GCITA. GCITA is a policy that provides adjustments to Corporate Income Tax (CIT) rates and Dividend Tax rates as an active policy instrument to steer corporate behavior related to the implementation of green accounting, as illustrated in Figure 2 (GCITA Policy Mechanism Flow).

The first adjustment is a tax incentive for companies that have implemented green accounting systems in the form of a 5% reduction in Corporate Income Tax. Previously, under Law Number 7 of 2021 concerning Tax Harmonization (HPP Law), Article 17 paragraph (1) letter b states that the Corporate Income Tax rate for resident corporate taxpayers and permanent establishments is 22% starting from the 2022 tax year. This provision should be amended to include a 5% tax reduction for corporate taxpayers that have implemented green accounting, thereby reducing the rate to 17%.

Previously, China in 2008 introduced tax incentives for companies that recorded and reported environmental costs in accordance with green accounting principles under the Corporate Income Tax (CIT), which led to a significant increase in the number of companies implementing environmental cost accounting (Xin et al., 2025). The 5% reduction is considered appropriate because it is not excessively high so as to significantly reduce state revenue, yet it remains attractive enough to incentivize business actors to adopt green accounting practices.

Second, companies that implement green accounting systems but lack transparency in their execution or are proven to engage in financial reporting manipulation—such as distributing high dividends while deliberately excluding environmental costs or committing other forms of fraud—should be subject to a tax surcharge on Dividend Tax of 2%, equivalent to an increase of approximately 20%. The objective is to anticipate the practice of pseudo-dividends, namely financial reporting manipulation by disguising or delaying the recognition of environmental costs in order to maintain dividend performance.

Research by Chen & Tian (2024) on the impact of environmental regulation on dividend management practices finds that companies tend to manipulate financial reporting when environmental regulations, such as green accounting, impose significant costs, in order to sustain dividend payments to shareholders. Previously, under Article 12 paragraph (2) letter c of Law Number 7 of 2021 (HPP Law), it is stated that “the tax rate imposed on dividend income distributed to resident individual taxpayers is a maximum of 10% and is final.” This provision should be amended to include an additional 2% tax for companies proven to commit fraud in the implementation of green accounting, increasing the Dividend Tax rate to 12%. Dividend Tax is chosen because companies engaging in fraudulent behavior tend to focus on maintaining higher dividend distributions.

This policy is expected to impose strict sanctions on fraudulent business actors, creating a deterrent effect and serving as a lesson for other companies implementing green accounting. Research by Belgodere & Casamatta (2023) shows that the imposition of a tax surcharge on certain taxpayer behaviors can reduce the number of taxpayers engaging in such behavior. For example, their study demonstrates that the introduction of a 20% tax surcharge on the purchase of a second home in France since 2015 led to a decline in the number of taxpayers purchasing second homes in subsequent years. This indicates that tax surcharges tend to generate fear among taxpayers due to the heavier tax burden imposed (Belgodere & Casamatta, 2023).

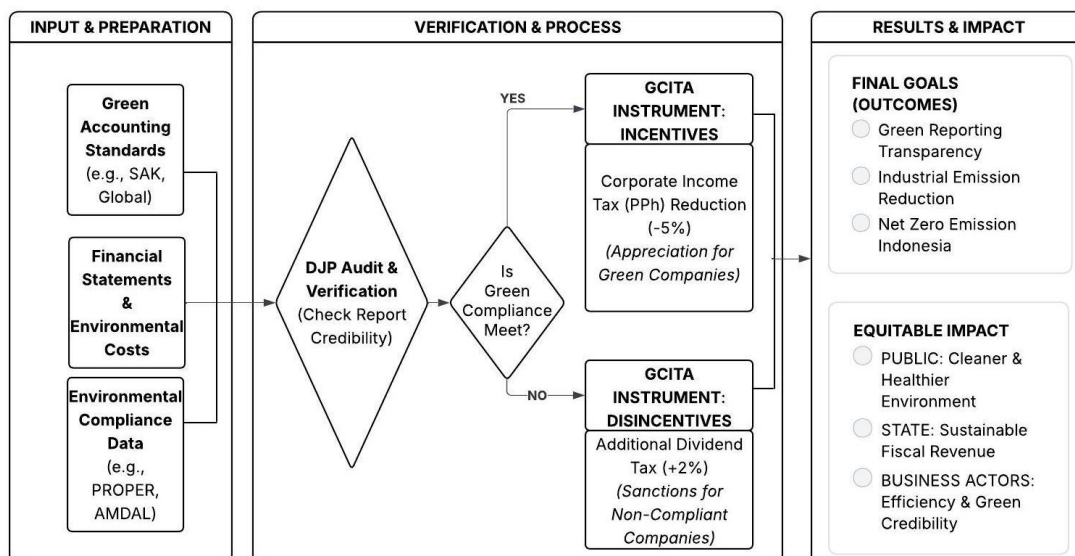


Fig. 2. Visualization of GCITA Policy Mechanism Flow

3.2 RIA analysis of GCITA

The evaluation of the GCITA policy is conducted using the Regulatory Impact Analysis (RIA) approach. Through this analysis, each stage is systematically examined to assess the extent to which the policy can achieve its intended objectives while minimizing potential risks. The following sections present the stages of evaluating the proposed policy using the RIA framework.

3.2.1 Problem definition

The primary issue underlying this policy proposal is the existence of negative externalities from business activities that are not recorded in conventional financial reporting. In Indonesia, green accounting practices have not been formally utilized, causing environmental losses—such as pollution and resource depletion—to remain uninternalized as costs (Rizal et al., 2025). This condition results in illusory profits that encourage environmentally irresponsible corporate behavior. Research by Kurniati et al. (2025) has shown that the absence of targeted fiscal instruments serves as a major barrier to the transition toward a green economy; therefore, strong fiscal policy intervention is required to break this cycle.

Specifically, there are three interconnected root causes. First, an environmental information gap has emerged due to the lack of formal regulations mandating green accounting as a standard for reporting environmental costs, creating a situation where the government lacks comprehensive data while companies fear high compliance costs. Second, a failure to internalize negative externalities occurs because environmental damage costs are omitted from financial statements, a phenomenon noted by Aghion et al. in Zenghelis et al. (2025) and Benabou & Tirole in Zhang et al. (2022). Their research highlights how the failure to internalize these costs forces the public to bear social burdens like pollution and health degradation, which empirically increases demands for corporate accountability and government intervention through stricter regulations or fiscal mechanisms. Third, the integrity of reporting remains low due to the absence of regulatory or fiscal sanctions against data manipulation, leading to a deadlock where the government sees an urgent need for policy while companies only adopt such practices when mandated to minimize business risk. Introducing new policies, companies tend to adopt green accounting only when it becomes mandatory in order to minimize business risk.

3.2.2 Policy objectives

The objectives of the GCITA policy are formulated to be specific, measurable, and outcome-oriented in addressing the issue of green accounting adoption by companies. Through GCITA as part of fiscal policy, three main objectives are expected to be achieved: establishing green accounting leadership, internalizing environmental externality costs, and enforcing financial reporting integrity.

Establishing green accounting leadership: This objective is measured by achieving a target of 75% of corporate taxpayers adopting green accounting practices and reporting environmental costs within five years of policy implementation. The policy is designed to promote uniform adoption and implementation of standards at the corporate level, ensuring that environmental costs are accurately reflected in profit calculations while addressing information gaps through incentive mechanisms.

Internalizing negative environmental externalities: This objective focuses on achieving a gradual reduction in environmental degradation following policy implementation. Strategically, the policy addresses the failure of externality internalization by integrating environmental costs into fiscal policy, specifically through tax deductions and fiscal incentives for compliant companies.

Enforcing financial reporting integrity: The final objective is to ensure honest financial reporting, with success measured by a decline in the number of companies subject to

dividend tax disincentives as the adoption of green accounting increases. The policy holistically discourages fraud and data manipulation while encouraging transparency in reporting environmental costs.

3.2.3 Policy alternatives

The identification of alternatives demonstrates that the proposed policy represents the most efficient and effective solution to the existing problem. The policy alternatives are divided into three options: status quo (A0), incentive-based alternative (A1), and disincentive-based alternative (A2).

A0-; Status Quo (Do Nothing), This alternative reflects the absence of new fiscal intervention, with Corporate Income Tax remaining at 22% under the HPP Law and no green accounting-based incentive or disincentive scheme. While it avoids additional administrative and compliance costs, it fails to address negative externalities and results in a slow transition toward a green economy.

A1-; 5% Corporate Income Tax Incentive, This alternative emphasizes a reduction in the Corporate Income Tax rate to 17% for companies that comply with and transparently implement Environmental Financial Accounting Standards. Its advantages include accelerating green accounting adoption and facilitating the transition toward a green economy. However, it carries the risk of reduced government revenue if adoption becomes widespread.

A2-; 2% Dividend Tax Disincentive, This alternative imposes a 2% surcharge on Dividend Tax for companies committing serious environmental violations or engaging in green accounting fraud. It provides a deterrent effect and strengthens reporting integrity but may risk creating an unfavorable investment climate and resistance from investors.

3.2.4 Cost-benefit analysis

This section provides a detailed Cost-Benefit Analysis (CBA), comparing the positive impacts (benefits) and negative impacts (costs) of the proposed alternatives—specifically the combination of A1 (incentives) and A2 (disincentives)—from the perspectives of three primary stakeholder groups: the government, corporations, and society. The analysis indicates that although there are immediate fiscal costs, such as the loss of Corporate Income Tax (CIT) revenue due to incentives, the long-term environmental and economic benefits including the internalization of externalities and improved compliance far outweigh these fiscal expenditures. This evaluation utilizes qualitative indicators to assess the shifting impacts on each group.

3.2.4.1 The government

The primary benefit for the government is the availability of more accurate and comprehensive environmental data in Indonesia to inform policymaking. This is supported by the research of Pankratz et al. (2023) and Kotsantonis & Serafeim in Zakriya (2023), which demonstrates that measurable, consistent, and standardized environmental data significantly improves the quality of public policy formulation by enabling more accurate, evidence-based impact assessments.

The transparency generated through corporate reporting significantly reduces policy uncertainty and enhances the effectiveness of applied fiscal instruments and environmental regulations. Furthermore, there is potential for increased state revenue through the disincentive mechanism (A2) and improved tax compliance among corporate taxpayers through the A1 scheme. However, the government must account for costs, namely the potential reduction in Corporate Income Tax revenue due to tax incentives (A1) and the emergence of administrative and specialized audit costs required to oversee the Green Accounting Financial Accounting Standards (SAK).

3.2.4.2. Corporations

For the business sector, the GCITA policy offers significant economic benefits through Corporate Income Tax rate reductions (A1), which directly improve cash flow and financial flexibility. This increased liquidity allows companies to allocate funds toward productive investments, including green technology, energy efficiency, and sustainable waste management. In the medium to long term, this policy has the potential to strengthen financial performance by lowering operational costs stemming from resource inefficiencies.

Beyond financial gains, the adoption of green accounting encouraged by GCITA will enhance a company's Environmental, Social, and Governance (ESG) reputation. A strong ESG profile is a crucial factor in increasing competitiveness in global markets, especially amid rising demands from consumers, investors, and international trading partners for transparency and environmental responsibility. Companies that demonstrate a genuine commitment to environmental preservation tend to gain greater trust from green investors and enjoy broader access to sustainable financing.

Nevertheless, corporations face certain costs and risks. Implementing green accounting standards requires compliance costs, such as adjusting accounting systems, human resource training, and costs for auditing and verifying environmental reports. Additionally, the disincentive policy (A2) in the form of a dividend tax surcharge for companies found to have manipulated or falsified reports increases financial risk for non-compliant management. Consequently, this policy creates an incentive-disincentive mechanism that compels companies to behave more transparently, accountably, and responsibly regarding the environmental impact of their business activities.

3.2.4.3. Society

Society is the group that receives the most direct positive impact from the implementation of the GCITA policy without bearing direct economic costs. The primary benefit felt by the public is the improvement of environmental quality through the reduction of pollution, emissions, and natural resource degradation resulting from the corporate internalization of environmental costs. Such improvements contribute directly to public health, reducing the risk of diseases caused by air, water, and soil pollution.

In addition to environmental and health benefits, society gains from increased transparency and accountability in corporate reporting. With the availability of open and standardized green accounting reports, the public has better access to information, enabling more effective social oversight of corporate activities. This transparency strengthens the public's position in demanding corporate responsibility for environmental impacts while increasing the social legitimacy of companies that adhere to sustainability principles. In the long run, this policy also holds the potential to create broader social benefits, such as increased public trust in both the business sector and the government, reduced social conflict arising from environmental damage, and the creation of a more sustainable living environment for future generations.

3.2.5 Recommended policy option

Alternative 1 and Alternative 2 are integrated into a single special fiscal policy package designed to be complementary and mutually reinforcing. This policy package balances a reward mechanism in the form of Corporate Income Tax (CIT) incentives for companies that are compliant and transparent in implementing green accounting, with a punishment mechanism in the form of dividend tax disincentives for companies proven to have violated regulations or engaged in manipulation regarding environmental cost reporting.

This integrated approach aims to create a clear and consistent policy signal: that compliance with green accounting practices not only provides fiscal advantages but also constitutes an obligation that is strictly monitored. Under this scheme, companies are encouraged to voluntarily internalize environmental externality costs into their financial

statements to secure fiscal benefits, while simultaneously facing tangible financial risks if they disregard the principles of transparency and reporting integrity.

Consequently, this policy package functions not only as an economic incentive instrument but also as an effective tool for behavioral regulation. The primary objective of merging these two alternatives is to expand the nationwide adoption of green accounting, enhance the quality of corporate environmental reporting, and accelerate Indonesia's transition toward a sustainable green economy without compromising the principles of fiscal equity and public accountability."

3.2.6 Bigger Benefits

The benefits arising from the implementation of this policy outweigh the associated costs, specifically encompassing the enhancement of corporate reputation and market value, thereby rendering it highly feasible for implementation. Several studies highlight the positive effects of adopting green accounting, such as opening access to international markets—given the global surge in green business campaigns—and improving a company's ESG (Environmental, Social, and Governance) standing. For instance, research by Ramadhan et al. (2024) demonstrates that green accounting fosters an improved corporate reputation and ESG image. This occurs because companies are perceived as transparent regarding their environmental impact and committed to environmental sustainability, thereby garnering greater trust and loyalty from customers. An enhanced ESG reputation also attracts a broader pool of investors interested in environmental and social governance, granting companies wider access to green investment financing and a more diverse investor base. Furthermore, Haerianti et al. (2025) found that increased transparency in environmental reporting through green accounting contributes significantly to strengthening stakeholder trust.

This trust subsequently plays a vital role in building social legitimacy, which is increasingly critical in a global economy that demands greater accountability and a stronger commitment to social and environmental responsibility. These findings are reinforced by a case study of PT Unilever Indonesia, which shows that the integrated application of green accounting within Corporate Social Responsibility (CSR) reports creates strategic added value while enhancing corporate competitiveness in international markets (Haerianti et al., 2025). Essentially, the implementation of green accounting serves as a competitive process leading to new strategies, such as mitigating environmental reputational risks, innovating strategies for international market entry, adapting to global standards, and providing other benefits, including contributions to the social and community development of the firm (Gonzalez & Peña-Vinces, 2023).

With the opening of international market access, the adoption of green accounting can increase a company's market value. Research by Lusiana et al. (2021) found that CSR practices, including green accounting, can influence financial performance, thereby impacting market value. The results of a study by Altarawneh et al. (2025) also indicate that green accounting has a statistically significant positive effect on increasing the market value of the firms that implement it. This research holds several implications for corporate managers, policymakers, and regulators in developing countries by providing a diagnostic tool for the status quo of green accounting practices and demonstrating their contribution to green production and the green economy. Consequently, for managers, these findings illustrate how transparent green accounting practices can enhance corporate reputation, maximize firm value, and attract investors (Altarawneh et al., 2025).

The higher a company's market value, the greater the investor interest. Moreover, a market value driven by green accounting can attract "green investors" who have a high interest in environmental issues. Empirical findings from previous studies suggest that green accounting practices integrated into CSR reporting can reduce information asymmetry and increase investor confidence in eco-friendly business practices. In this context, a sustainable financial reporting framework must embrace green accounting to develop transparent, environment-based financial reporting. This meets investor demand,

which is vital in reducing agency conflicts and impressing investors with strong green performance, ultimately improving firm value (Nicholls in Altarawneh et al., 2025).

Companies with robust sustainability practices develop a positive image and reputation among investors. This is because investors focus on both financial performance and sustainability practices when making investment decisions (Lusiana et al., 2021). The implementation of green accounting not only assists companies in managing environmental costs but also strengthens profitability, as evidenced by improvements in ROA (Return on Assets) and ROE (Return on Equity). By understanding and managing the environmental impact of their operations, companies can adjust their business strategies to mitigate climate change risks that could otherwise impair financial performance (Ridayati et al., 2025). Consequently, many companies are interested in investing capital in businesses that practice green accounting to boost profitability. High profitability reflects a company's ability to generate significant profits for distribution to shareholders. The higher the profit generated, the greater the capacity to pay dividends, which directly impacts firm value (Lusiana et al., 2021).

3.2.7 Policy consultation and critical risk analysis

This consultation phase constitutes a critical risk analysis to test the feasibility of the policy. Consultations must be conducted intensively and transparently with key stakeholders, focusing on the specific risks borne by each party should this policy be implemented. The assessment must encompass fiscal risks, accounting standardization risks, compliance cost risks, "greenwashing" risks (deceptive green marketing), and potential conflicts of interest. By raising highly critical, risk-based questions, the government can mitigate potential implementation failures from the outset.

3.2.7.1 Stakeholder Consultation Framework

This stage serves as a critical risk analysis to evaluate the viability of the GCITA policy. Intensive consultations involving various parties are conducted to preemptively mitigate implementation failures. The focus of these consultations is categorized by the specific roles and risks associated with each stakeholder.

The Government (Ministry of Finance: Directorate General of Taxes/DJP) Consultation questions for the tax authority focus on fiscal and administrative aspects to ensure operational viability. Technical inquiries include the timeline and stages for integrating green accounting data into the DJP's e-Filing system. Furthermore, the DJP must address how the Green CIT Adjustment will synergize with existing green tax incentives, such as the Super Tax Deduction, to avoid overlapping benefits. From a macro-fiscal perspective, questions arise regarding strategies to cover potential revenue deficits resulting from the massive 5% CIT incentive in the future. Fiscal equity is also a critical point, specifically, how to ensure these incentives are not exclusively enjoyed by large corporations, which could create fiscal injustice for SMEs. Finally, clarity is required regarding the specific parameters for tax auditors to verify the validity of Environmental Accounting Standards (SAK Lingkungan), alongside revenue estimates from the 2% Dividend Tax disincentive within the first three years.

Ministry of Environment and Forestry (KLHK) Consultation with the KLHK emphasizes environmental effectiveness, regulatory framework, and inter-institutional coordination. The primary focus is the mitigation of greenwashing risks: how the KLHK ensures that companies do not manipulate reports simply to chase tax incentives without making substantive changes to their environmental practices. Regarding supervisory technicalities, the mechanism for coordinating environmental violation data, to be automatically accessible by the DJP as a basis for dividend taxation, is under scrutiny. The KLHK also needs to evaluate whether the 5% incentive and 2% disincentive are significant enough to shift corporate capital allocation toward high-cost green investments. Other crucial questions include the KLHK's verification capacity to validate claims from thousands of companies,

the standardization of methodologies for the monetary valuation of ecosystem damage, and potential legal conflicts between new tax regulations and existing environmental laws.

Indonesian Institute of Accountants (IAI) As the standard-setting body, the IAI faces questions regarding standardization, professional training, and the interpretation of green accounting. Inquiries include concrete steps for formulating Environmental Accounting Standards (SAK Lingkungan) within a 1-to-2-year transition period. Additionally, the IAI must explain the readiness of mass training and certification programs for public accountants to ensure competency in auditing such reports. Risks regarding global consistency are also questioned—specifically, the extent to which these national standards will be compatible with international ESG reporting frameworks like GRI and IFRS for multinational corporations. The IAI must also clarify who holds final interpretative authority over "grey areas" that affect tax liabilities, how to overcome constraints regarding historical environmental data, and how to guarantee that standards remain practical and free from industry-specific bias.

The Corporate Sector The private sector is deeply concerned with issues of compliance, costs, and competitiveness. Their primary question is whether the estimated initial implementation costs of green accounting for capital-intensive industries are proportionate to the benefits of a 5% CIT reduction in the short term. Regarding sanctions, concerns have surfaced as to whether the 2% dividend tax will truly serve as a deterrent or instead trigger "exit strategies" for foreign investors. Companies also advocate for a minimum five-year transition period before sanctions are enforced, while questioning the impact of this policy on the pricing and competitiveness of export products in cost-sensitive global markets. Other inquiries concern the methods for measuring and proving tangible emission reductions from green investments and the perceptions of both domestic and foreign investors regarding the dividend tax levy.

Civil Society Organizations (CSOs) Civil society focuses on accountability, transparency, and social impact. Key questions involve how the government guarantees public accessibility to verified green accounting reports to enable independent oversight. CSOs also demand official mechanisms, such as whistleblower systems, to report suspected data manipulation to the DJP or KLHK. Regarding justice, questions have arisen as to whether this policy includes protections for communities to seek compensation for health impacts caused by corporate pollution. Lastly, CSOs highlight the risk of industry lobbying in standard-setting, the need for educational programs to help consumers understand complex reports, and the guarantee of social protection for workers directly affected by the green energy transition.

3.2.8 Implementation strategy

The implementation strategy must center on three fundamental pillars: Regulation, Administration, and Transition: a) **Regulation (Standardization)**: A pivotal step is for the Indonesian Institute of Accountants (IAI) to immediately establish Environmental Accounting Standards (SAK Lingkungan) as a mandatory prerequisite before the GCITA fiscal policy is enacted. Following this, a targeted amendment to the Harmonization of Tax Regulations Law (UU HPP) No. 7 of 2021 must be conducted to accommodate the specific rate adjustments for Corporate Income Tax and Dividend Tax; b) **Administration (Verification and Enforcement)**: The Directorate General of Taxes (DJP) must develop specialized audit and verification mechanisms. This includes comprehensive training for tax auditors to ensure the authenticity of green accounting reports and to enhance the detection of fraudulent reporting or malpractice; c) **Transition (Pilot Phase)**: It is recommended to implement a trial period or transition phase (e.g., two years) while initially restricting the 5% Corporate Income Tax incentive to high-environmental-impact industries or those that demonstrate advanced infrastructural readiness.

3.2.9 RIA statement

Based on the RIA analysis, GCITA demonstrates strong potential as a fiscal instrument to promote green accounting and strengthen sustainability commitments toward a green economy. Overall, the RIA results indicate that GCITA satisfies the key principles of effective regulatory design by addressing market failure, providing balanced incentive mechanisms, and generating long-term environmental and economic benefits that outweigh the associated implementation costs. Accordingly, the proposed policy offers a credible evidence-based foundation for future fiscal reforms aimed at accelerating green accounting adoption and supporting Indonesia's transition toward a sustainable low-carbon economy. A summary of the RIA stages is presented in Table 1.

Table 1. *RIA statement for green corporate income tax adjustment*

Green Corporate Income Tax Adjustment	
Problem Identification	The identification of problems shows that environmental information gaps still exist due to the absence of formal regulations requiring green accounting practices as a standard for environmental cost reporting. As a result, environmental damage costs are not internalized in financial reports, allowing negative externalities to continue. In addition, weak regulatory and fiscal sanctions make companies inclined to ignore environmental cost reporting or even manipulate data.
Objective formulation	The main objectives of this policy are to establish leadership in the implementation of green accounting, internalize negative environmental externalities into company financial reports, and uphold reporting integrity so that environmental information is presented in a transparent and accountable manner.
Policy alternatives	Three alternatives are considered: (A0) Status Quo (no policy intervention), (A1) a 5% corporate income tax incentive for compliant firms, and (A2) a 2% dividend tax disincentive for non-compliant firms.
Cost-benefit analysis	Under the baseline scenario (A0), the corporate income tax system remains unchanged at a rate of 22% without any integration of environmental performance indicators. This condition provides no fiscal motivation for firms to internalize environmental costs, resulting in the continued presence of negative externalities such as pollution and environmental degradation. As a consequence, the transition toward a green economy is slow and relies heavily on non-fiscal regulatory instruments, which may lack sufficient enforcement capacity. Alternative 1 (A1), which introduces a 5% corporate income tax incentive, offers a direct economic benefit for firms that comply with green accounting standards. By reducing the effective tax burden, this policy is expected to encourage firms to adopt environmentally responsible practices and improve the quality of environmental disclosures. In the long term, such incentives may enhance corporate ESG performance, strengthen reputational advantages, and increase access to global markets that prioritize sustainability. However, the policy may generate short-term fiscal costs in the form of reduced state revenue and requires robust administrative systems, including credible environmental audits and verification mechanisms, to prevent misuse. Alternative 2 (A2), which imposes a 2% dividend tax disincentive on non-compliant firms, introduces a punitive fiscal mechanism designed to deter environmental non-compliance and data manipulation. This approach is expected to strengthen enforcement by increasing the financial consequences of non-compliance, while also potentially generating additional state revenue. Furthermore, the disincentive may create behavioral pressure for firms to align with environmental standards. Nonetheless, this policy may increase the financial burden on firms,

particularly those with limited capacity to transition, and could face resistance from the business sector if perceived as overly punitive or inconsistently enforced.

Considering the complementary nature of these two instruments, a combined policy approach integrating both incentives and disincentives is recommended. This integrated framework balances positive reinforcement for compliant firms with enforcement mechanisms for non-compliant actors, thereby enhancing overall policy effectiveness. The combination is expected to improve environmental reporting integrity, optimize fiscal outcomes, and accelerate Indonesia's transition toward a sustainable green economy.

Consultation stakeholders	with	Stakeholder consultation is a critical component to ensure that the proposed policy is both technically feasible and broadly accepted. The consultation process involves key stakeholders, including government institutions (particularly the Directorate General of Taxes and the Ministry of Finance), professional accounting bodies such as the Indonesian Institute of Accountants, corporate representatives across various sectors, the Ministry of Environment and Forestry, and civil society organizations. Each stakeholder group provides distinct perspectives that are essential for policy refinement.
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From the government perspective, consultations focus on assessing system readiness, administrative feasibility, and the potential long-term fiscal impact of integrating environmental considerations into the tax system. This includes evaluating the compatibility of the proposed policy with existing tax regulations and identifying potential overlaps or conflicts. Professional accounting bodies play a crucial role in ensuring the standardization of environmental accounting practices, including the development of applicable financial reporting standards, capacity building for accountants, and alignment with international frameworks.

Input from the private sector is essential to understand the practical implications of policy implementation, particularly in terms of compliance costs, required adjustments in financial reporting systems, and potential effects on competitiveness and investment decisions. Meanwhile, the Ministry of Environment and Forestry contributes to the design of environmental data verification mechanisms, ensuring that reporting standards are measurable, reliable, and consistent with environmental regulations. Civil society organizations provide an external accountability perspective by emphasizing transparency, public access to environmental information, and the need for robust oversight mechanisms.

Implementation strategy	The expected outcome of this consultation process is the establishment of a shared understanding and consensus regarding policy design, including the structure of incentives and disincentives, the development of standardized accounting frameworks, and the creation of transparent and accountable monitoring systems. Such collaboration is essential to ensure policy legitimacy and long-term sustainability. The implementation of this policy requires a phased and coordinated approach that integrates regulatory development and administrative strengthening. Initially, standardized environmental accounting guidelines must be established as the foundation for policy implementation, followed by adjustments to existing tax regulations to incorporate green accounting into the corporate income tax system. From an administrative perspective, this policy depends on strengthening institutional capacity through the development of specialized audit procedures, training of tax officials, and the establishment of integrated data systems to enable accurate verification and reduce the risk of
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manipulation. The adoption of digital reporting platforms can further enhance transparency and efficiency.

A transition period of approximately two years is necessary to ensure gradual adaptation and minimize disruption for firms, beginning with pilot implementation in industries with significant environmental impact. During this phase, continuous evaluation and feedback mechanisms are essential to identify challenges and allow for timely policy adjustments, supported by targeted measures such as technical assistance and capacity-building programs. Overall, the effectiveness and sustainability of this policy depend on clear regulations, strong institutional readiness, and a well-managed transition process.

Note. DJP = Directorate General of Taxes; IAI = Indonesian Institute of Accountants; KLHK = Ministry of Environment and Forestry; ESG = Environmental, Social, and Governance.

4. Conclusions

Environmental issues, particularly climate change, have become a primary focus for global consumers and investors. Consequently, business entities are increasingly demanded to adopt sustainable practices in managing the environmental impacts of their operations, including the implementation of green accounting. Currently, however, Indonesia lacks a comprehensive fiscal policy framework that mandates companies to report environmental costs within a green accounting structure; as a result, these costs remain uninternalized in corporate financial statements. Therefore, the Green Corporate Income Tax Adjustment (GCITA) policy is recommended to the government as a vital fiscal intervention to drive the adoption of green accounting in Indonesia. Through a Regulatory Impact Analysis (RIA), the qualitative assessment of the GCITA policy suggests that its projected benefits to environment and transparency outweigh its associated immediate fiscal and compliance costs, rendering it a promising green fiscal instrument for Indonesia. This policy is designed to catalyze the transition toward a sustainable green economy that effectively addresses global challenges.

However, it is crucial to acknowledge several key limitations of this study. The analysis is purely desk-based, relying on secondary qualitative data and the dynamic steering logic, without the support of country-specific quantitative fiscal data or scenario-based modeling to substantiate the precise revenue impacts of the proposed 5% CIT reduction or 2% dividend tax surcharge. Consequently, the claim of the policy's viability rests primarily on conceptual reasoning and international parallels rather than empirical Indonesian validation. Furthermore, the reliance on certain gray literature sources and the purely qualitative nature of the cost-benefit analysis which asserts that benefits exceed costs without measurable indicators undermines the immediate scientific robustness of the findings. To address these limitations, a future research agenda must prioritize quantitative empirical studies. This includes developing econometric models or fiscal simulations using actual Indonesian tax data to estimate the optimal incentive rates and revenue impacts, as well as conducting genuine stakeholder consultations to assess practical implementation barriers and capacity readiness of auditing institutions. Notwithstanding these constraints, it is strongly recommended that the Indonesian Institute of Accountants (IAI) promptly formulate Green Accounting-based Financial Accounting Standards (SAK), including clear guidance on abbreviations like SAK and DJP, to provide a clear and consistent foundation for Indonesian companies. Simultaneously, the government is urged to adopt the conceptual framework of GCITA ideally through a phased pilot approach with rigorous data collection to accelerate national green accounting adoption, while corporate management is expected to prepare for strict compliance once the policy is enacted to ensure the integrity of environmental reporting.

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Author Contribution

Conceptualization, D.S.H. and E.S.S.; methodology, D.S.H. and E.S.S.; formal analysis, D.S.H. and E.S.S.; investigation, D.S.H. and E.S.S.; writing—original draft preparation, D.S.H. and E.S.S.; writing—review and editing, D.S.H. and E.S.S. All authors have read and agreed to the published version of the manuscript.

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The data used in this study were obtained from secondary sources, including scientific articles, policy reports, and official documents available to the public. All data supporting the research findings can be accessed through the public sources listed in the references. This study did not generate any new primary data.

Conflicts of Interest

The authors declare that there are no conflicts of interest in this study. There are no financial relationships, personal interests, or other affiliations that could influence or be interpreted as influencing the presentation and interpretation of the research results. This study was not funded by any party, and there was no role for funders in the design of the study, collection, analysis, or interpretation of data, writing of the manuscript, or decision to publish the results of the study.

Declaration of Generative AI Use

In the process of preparing this manuscript, the author utilized artificial intelligence (AI) tools to assist with language editing, sentence clarity improvements, and academic writing style adjustments. After utilizing these tools, the author reviewed and re-edited the entire manuscript and takes full responsibility for the substance, interpretation, and conclusions presented in this publication.

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