



ADVANCED INTERNATIONAL JOURNAL  
OF BUSINESS, ENTREPRENEURSHIP  
AND SMES  
(AIJBES)

[www.gaexcellence.com/aijbbs](http://www.gaexcellence.com/aijbbs)



## THE IMPACT OF GREEN TAX INCENTIVES ON ESG PERFORMANCE OF SMES

Ahmad Saiful Azlin Puteh Salin<sup>1\*</sup>, Mohamad Iruwan Ghuslan<sup>2</sup>, Nurfarizan Mazhani Mahmud<sup>3</sup>, Maizura Meor Zawawi<sup>4</sup>, Haslinawati Che Hasan<sup>5</sup>, Sunarti Halid<sup>6</sup>, Roslan Abd Wahab<sup>7</sup>, Wan Razazila Wan Abdullah<sup>8</sup>

<sup>1</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [ahmad577@uitm.edu.my](mailto:ahmad577@uitm.edu.my)

 <https://orcid.org/0000-0001-9652-712X>

<sup>2</sup> Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia.

 [iruwan@uitm.edu.my](mailto:iruwan@uitm.edu.my)

 <https://orcid.org/0000-0002-9940-814X>

<sup>3</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [nurfa004@uitm.edu.my](mailto:nurfa004@uitm.edu.my)


 <https://orcid.org/0000-0002-3472-3843>

<sup>4</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [maizu169@uitm.edu.my](mailto:maizu169@uitm.edu.my)

 <https://orcid.org/0009-0003-4875-9593>

<sup>5</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [hasli929@uitm.edu.my](mailto:hasli929@uitm.edu.my)

 <https://orcid.org/0000-0003-0235-661X>

<sup>6</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [sunar892@uitm.edu.my](mailto:sunar892@uitm.edu.my)

 <https://orcid.org/0000-0003-1848-8430>

<sup>7</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [roslanawahab@uitm.edu.my](mailto:roslanawahab@uitm.edu.my)

 <https://orcid.org/0000-0002-6180-6097>

<sup>8</sup>Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus, Malaysia

 [wanrazz@uitm.edu.my](mailto:wanrazz@uitm.edu.my)

 <https://orcid.org/0009-0000-4546-1255>

\*Corresponding Author

### Article Info:

#### Article history:

Received date: 10.03.2026

Revised date: 26.03.2026

Accepted date: 21.04.2026

Published date: 04.06.2026

### Abstract:

This article discusses the impact of green tax incentives on driving Environmental, Social, and Governance (ESG) transformation among the small and medium enterprises (SMEs) in Malaysia. ESG activities should be well adopted by large corporation, but it is yet to be fully understand and adopted by smaller businesses. ESG for SMEs is crucial because SMEs with robust ESG policies and activities will have a competitive edge and visibility among the investors, consumers and public at large. Thus, this paper explores how targeted tax policies can help SMEs in promoting sustainable business practices, reducing

**To cite this document:**

Salin, A. S. A. P., Ghuslan, M. I., Mahmud, N. M., Zawawi, M. M., Che Hasan, H., Halid, S., Abd Wahab, R., & Abdullah, W. R. W. (2026). The Impact of Green Tax Incentives on ESG Performance of SMEs. *Advanced International Journal of Business Entrepreneurship and SMEs*, 8 (28), 137-149.

DOI:10.35631/AJBES.828009

environmental impact, and fostering innovation. By incentivizing renewable energy, waste reduction, and resource efficiency, green tax incentives support small and medium-sized enterprises in meeting ESG goals and contributing to global sustainability targets as stated in Sustainable Development Goals (SDGs). The study highlights the role of government in designing effective tax frameworks, the benefits for businesses adopting these incentives, challenges and recommendations on the long-term economic and environmental advantages of a robust ESG transformation driven by green taxation.

**Keywords:**

ESG, Sustainability, SDGs, Tax, SMEs, Green Accounting



© The authors (2026). This is an Open Access article distributed under the terms of the Creative Commons Attribution (CC BY NC) (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits non-commercial re-use, distribution, and reproduction in any medium, provided the original work is properly cited. For commercial re-use, please contact [aijb@gaexcellence.com](mailto:aijb@gaexcellence.com).

**Introduction**

Amidst a time marked by increasing environmental worries, it has become crucial to incorporate sustainability into business operations. Green accounting is a concept that combines environmental issues with financial accounting. It provides a comprehensive method for analysing economic operations while taking into account their ecological impact. In order to expedite the implementation of environmentally friendly policies, governments and regulatory agencies across the globe have resorted to utilising tax incentives as an effective mechanism. These incentives, such as tax cuts, deductions, or credits, encourage organisations and people to adopt green accounting concepts (Ge et. al, 2025).

Malaysia as a progressive developing country also cannot runaway from this. With the government pledge to be a Net Zero Country by 2050, many efforts are taken to achieve this. Most recently, Malaysian government had announced many initiatives to reduce carbon dioxide (CO<sub>2</sub>) and greenhouse emission. These includes RM12 million matching grant for research to enhance electric vehicles (EVs) and LEDs and support to SMEs amounting to RM 1 billion to reduce carbon footprint. In term of policy, National Energy Transformation Roadmap (NETR) had been launched to accelerate energy transition efforts that shift traditional fossil fuels-based economy to high value green economy. It covers six energy transition levers namely, energy efficiency (EE), renewable energy (RE), hydrogen, bioenergy, green mobility, and carbon capture, utilisation and storage (CCUS). On the other hand, the New Industrial Master Plan 2030 also emphasised sustainability as one of its core missions. To support this mission, several mission-based projects are established such as creating Malaysia as a hub for design of electric

vehicle and renewable energy, creating decarbonisation pathway role model and deploy large scale carbon caption utilisation storage.

The ESG transformation not only applicable to huge corporation but also need to be implemented by the SMEs (Garrido-Ruso et al., 2014). ESG activities are becoming increasingly vital as these businesses recognize the strategic advantages beyond mere compliance. While SMEs traditionally face challenges such as limited resources, lack of awareness, and navigating complex regulations in adopting ESG practices, studies show that integrating ESG can lead to significant benefits including enhanced corporate image, increased trust, improved financial performance, lower risk, and better access to capital (Salin et al., 2024; CSR Tools, 2025; Giese, 2019; Friede, 2015; Velte, 2017; Alareeni & Hamdan, 2020). Furthermore, adopting ESG principles allows SMEs to meet evolving market demands, strengthen brand reputation, attract and retain talent, and foster innovation, ultimately contributing to their long-term resilience and competitiveness in a rapidly changing global landscape (InCorp Malaysia, 2025). As ESG transformation projects are relatively new and risky, the industry player wishing more government assistance and guidance especially on tax deductions and incentives.

However, the decision or rules to award the tax bracket and incentives are not easy. It is because different business may have a different needs and strategies. Particularly, business that operate in different industry will appeal different type of tax incentives. For example, machine and technology intensive industry wish to have more tax allowances for capital expenditure. However, services industry may require more assistance in term of human capital and resources. On the other hand, size of the firm will determine the tax incentives. Small size of the company such as micro, small and medium enterprises may require low interest financing or rebate on the financial cost while big corporation that involve in global may require lower custom taxes and levi for imported goods. Due to this different requirement, the policy makers need to carefully consider what is the best tax incentives that useful and appropriate and beneficial to the most business players.

Besides, the government also need consider the trade-off between giving the tax incentives with the lost of potential tax revenue. With the urgency for country development and safeguarding the welfare of the public, the government could not afford to lost so many tax sources as this will reduce the country sources of revenue. In addition, the clarity of the tax incentives provided also important to ensure the incentives given able to encourage and accelerate the specific objectives pre-determined before.

Based on this scenario, there is a huge gap on the study of the tax incentives in the literature. Many studies of tax-incentive effects and ESG performance use samples consisting primarily of large, listed firms or firms in advanced economies. Evidence that tax incentives increase investment in green technologies or raise aggregate ESG scores therefore does not necessarily generalize to SMEs, which differ in finance, governance, administrative capacity, and exposure to informal markets. There is less SME-specific causal evidence documenting whether and how tax incentives translate into material changes in environmental practices and governance standards among SMEs (Hu et al., 2025).

In addition, for many SMEs, compliance with ESG standards is driven less by tax incentives and more by buyer requirements such as large multinational purchasers imposing sustainability criteria. The current literature has not adequately studied the interplay between demand-side pressures and supply-side fiscal incentives in shaping SME behavior.

Based on this gap, the purpose of this paper is then to examine the type of tax incentives, benefits and challenges of introducing tax incentives to enhance green accounting activities, with the emphasis on the small and medium type of business. In short, this paper intent to answer the following research question: *To what extent green tax incentives influence ESG transformation among SMEs?*

This paper is novel as it also moots some recommendations to improve the tax incentives provided. Integrating tax incentives into the structure of green accounting provides multiple benefits for both enterprises and the environment. These incentives primarily improve the competitiveness of the enterprises that participate. Businesses can deploy resources towards innovative sustainability projects and product improvements (Yu et al., 2022) by reducing operational expenses through tax deductions and credits. Amidst a society where individuals are becoming more concerned about the environment, implementing such efforts enhances a company's reputation, rendering it more attractive to environmentally sensitive clients. As a result, companies that place importance on sustainability are likely to attract a dedicated group of customers and may even gain an advantage over their competitors in the market.

In addition, financial incentives are in line with changing environmental standards, so decreasing the possibility of incurring penalties for non-compliance. Companies that operate in a tax climate that supports green accounting are more inclined to quickly adjust to changing legislative obligations, therefore avoiding expensive legal conflicts. The incentives additionally stimulate research and development in environmentally friendly technologies (He at al., 2023), promoting innovation and facilitating the establishment of a sustainable economy. Tax incentives promote sustainable practices by providing rewards, creating a loop of positive reinforcement that eventually benefits the earth.

Tax incentives have a vital role in minimising ecological footprints from an environmental perspective. These incentives directly assist to mitigating climate change and boosting resource efficiency by encouraging businesses to invest in cleaner technologies and greener practices (Fu and Zhang, 2025). Implementing green accounting principles can result in significant decreases in carbon emissions, safeguarding delicate ecosystems, and preserving essential resources like water and minerals. Therefore, tax incentives are crucial in directing economic activities towards a more sustainable path.

### **Type of Tax Incentives for Green Accounting**

Tax incentives aimed at promoting green accounting can come in various forms, each specifically geared to encourage certain aspects of environmental responsibility. An effective method is granting tax deductions for expenses related to sustainable activities. Companies who allocate resources towards renewable energy systems, energy-efficient technology, waste reduction methods, and pollution control devices may experience a decrease in their tax obligations. These incentives not only reduce financial constraints but also motivate organisations to actively participate in measures that result in lower carbon emissions and the conservation of natural resources.

Another technique involves providing tax credits that are tied to the achievement of preset environmental objectives. Shafi (2023) finds that investment tax credit related to the environmental sustainability and climate change are becoming more popular in developing countries, whereas introducing green tax incentives related to the environment and climate change helps and meets the sustainability objectives of growth and development. These credits are dependent on quantifiable results, such as decreases in greenhouse gas emissions, accomplishments in water conservation, or the implementation of circular economy principles. The progressive nature of these credits incentivises firms to consistently improve their operations and surpass their environmental goals. Furthermore, they establish a direct correlation between a company's ecological endeavours and its financial rewards, emphasising the incorporation of green accounting into corporate plans.

In Malaysia, the government has implemented various initiatives to accelerate green technology adoption to support the country ambition to achieve net zero emissions by 2050. Among the initiative is introducing Green Technology Tax Incentives which broadly categorise into four group. First is Green Investment Tax Allowance (GITA). This incentive is applicable to companies that acquire approved green technology assets for their own use. Second is GITA for green projects. This incentive is awarded to company that participated in green project such as generation of energy in a form of electricity, heat, steam and chilled water using renewable energy sources such as biomass, solar power and other for own use. Third is GITE on Green Services. This incentive is provided to company that provide green technology services to their customer that embarking green technology project such as renewable energy, energy efficiency, electric vehicles, green building, green township and green data centres. Last is GITE on Solar Leasing Services. This incentive is available to investor that undertake solar leasing activities particular on solar photovoltaic systems (Solar PV).

## **Benefits of Tax Incentives**

### ***Reduced Environmental Impact***

Tax incentives facilitate the reduction of enterprises' environmental effect (He et al., 2023) by incentivising investments in energy-efficient technologies, renewable energy sources, and other environmentally friendly practices. This can aid in mitigating climate change, enhancing air quality, and safeguarding natural resources. Tax incentives have the potential to mitigate environmental effect by enhancing the affordability of green practices adoption for enterprises. For instance, tax credits can enhance the affordability of energy-efficient equipment for businesses, so aiding in the reduction of energy consumption and greenhouse gas emissions. Businesses can utilise tax benefits to mitigate the expenses associated with the installation of solar panels or other forms of renewable energy systems. Exemptions might incentivise enterprises to establish themselves in proximity to public transportation or other environmentally friendly facilities.

### ***Increased Innovation***

Tax incentives might additionally stimulate innovation in environmentally friendly technologies (Li and Li, 2022). Tax incentives can expedite the shift towards a more sustainable economy by offering financial rewards to enterprises that create and implement innovative green technologies. Tax incentives can enhance innovation in green technology by rendering it more economically feasible for enterprises to allocate resources towards research and

development (R&D). Tax exemptions, for instance, enable firms to entirely evade tax obligations on specific sources of income. They can incentivise corporations to allocate resources towards research and development in targeted sectors, such as renewable energy or energy efficiency.

### ***Reduce Regulatory Burden***

Tax incentives facilitate firms in alleviating their regulatory burden by simplifying their compliance with environmental requirements. This can liberate resources that can be allocated to invest in environmentally friendly initiatives. They have the ability to enhance the affordability of enterprises' adoption of environmentally friendly practices. This might mitigate the necessity for firms to allocate resources towards costly pollution control equipment or implement operational modifications to ensure compliance with regulations. For instance, the implementation of a tax credit specifically aimed at incentivising the acquisition of solar panels might effectively reduce the financial burden for firms seeking to embrace environmentally friendly practices (Borenstein, 2017). This can assist businesses in diminishing their dependence on fossil fuels and adhering to regulations that restrict the release of greenhouse gas emissions.

### ***Job Creation***

Green accounting tax incentives can stimulate job growth in the clean energy industry. This can contribute to the stimulation of the economy and the alleviation of unemployment. They have the ability to enhance the affordability of enterprises' adoption of environmentally friendly practices. This can result in a surge in investment in the clean energy industry, hence generating employment opportunities in manufacture, installation, and maintenance. They have the ability to assist businesses in reducing energy expenses. This can reallocate resources that can be utilised to invest in novel technology or to recruit additional personnel. They have the ability to assist firms in attracting and retaining highly skilled individuals. Workers are progressively seeking employment opportunities with organisations that have a strong dedication to sustainability. Tax incentives can reduce the financial burden for firms when providing eco-friendly perks to their employees, such as implementing on-site recycling programs or installing electric vehicle charging stations. Prior study on employment growth in the United States suggest that reduction in the corporate income tax rate is associated with faster job creation (Shuai and Chmura, 2013).

### **Supported Theory of Green Tax Incentives**

This paper used the Natural Resource-Based View Theory (Hart, 1995) explaining how firms develop competitive advantage through environmental capabilities, especially when responding to external policy instruments such as green tax incentives. For SMEs, which typically have limited resources, NRBV helps illuminate how fiscal incentives remove resource constraints and facilitate the accumulation of green capabilities necessary for ESG transformation.

For example, any tax-based incentives for pollution prevention will increase SMEs capabilities to reduce waste, emissions, and inefficiencies. Green tax incentives may lower the cost of adopting pollution-control technologies, enabling SMEs to upgrade operations that contribute to improved environmental performance. The incentives also may encourage SMEs to adopt

sustainable product design, green supply chain engagement, eco-labelling, and ESG reporting. All this process are central to ESG governance.

### **Current Challenges with Tax Incentives**

Although tax incentives present a promising method to encourage green accounting, they are not without difficulties and factors to consider. This essay examines the intricate array of difficulties related to tax incentives in green accounting and investigates the essential factors that need to be resolved in order to guarantee their efficacy and credibility.

### ***Greenwashing and Genuine Environmental Impact***

A major obstacle related to tax incentives for green accounting is the risk of greenwashing. Greenwashing is the act of portraying a distorted or deceptive perception of being environmentally responsible, without actually implementing significant improvements. Delmas and Burbano (2011) concurred that incidence of greenwashing can have profound negative effects on consumer and investor confidence in green products. Companies may take advantage of tax advantages by doing superficial actions to create the appearance of environmental consciousness without actually addressing their true ecological impact. This undermines the intended aim of tax incentives, as they are designed to reward and foster genuine environmental advancements.

In order to tackle this dilemma, it is crucial to create stringent standards to ensure that tax incentives are only given to projects that yield quantifiable and confirmable environmental advantages. Transparent reporting and third-party verification processes can mitigate greenwashing and guarantee that tax incentives are allocated to activities that truly contribute to sustainability.

### ***Complexity of Measurement and Reporting***

Measuring and communicating environmental effects in a consistent and precise way can be intricate. Various companies and sectors employ different methods to assess their environmental performance, which poses difficulties in establishing a standardised framework for determining eligibility for tax incentives. Furthermore, determining a cause-and-effect relationship between particular behaviours and their environmental consequences might be complex, necessitating advanced measurement techniques.

To tackle this intricacy, it is essential to create standardised measurement techniques that can cater to different sectors. The establishment of credible and appropriate standards and indicators across sectors can be achieved through collaborative initiatives involving governments, industry professionals, and environmental organisations. Streamlined reporting procedures and user-friendly tools can also motivate enterprises to engage and adhere.

### ***Balancing Financial Incentives and Revenue Generation***

Governments frequently encounter the task of finding a middle ground between offering substantial financial incentives for environmentally friendly accounting practices and guaranteeing the generation of sustainable revenue. Although tax incentives are important for stimulating enterprises, an excessive decrease in tax collection can put a burden on public

finances and have an adverse effect on necessary services. Maashani et al. (2025) finds that excessive tax incentives and tax exemptions to local and foreign business contributes to a slower economic growth of the country. It is imperative for governments to thoroughly assess the financial ramifications of tax incentives, taking into account both immediate budget limitations and long-term environmental objectives.

One possible approach is to provide tax incentives that are gradual and tied to specific environmental goals. This approach guarantees that the financial advantages are directly linked to proven environmental enhancements. Periodic evaluations of the influence of tax incentives on government revenue and public services might assist policymakers in making well-informed choices regarding the suitable magnitude and duration of incentives.

### ***Complexity of Environmental Impact Assessment***

Assessing the precise environmental consequences of a certain undertaking can be complex because of the interdependence of ecosystems and the long-lasting repercussions. For example, investing in renewable energy can directly reduce carbon emissions, but there may also be indirect effects such as habitat disturbance or alterations in local microclimates. Evaluating these intricate interconnections necessitates a comprehensive methodology that surpasses instant results.

In order to tackle this difficulty, tax incentive schemes should promote the use of a life cycle assessment (LCA) strategy. Life Cycle Assessments (LCAs) take into account the complete life cycle of a product or process, encompassing activities such as extracting raw materials, manufacturing, shipping, usage, and disposal. This thorough assessment offers a more precise comprehension of environmental effects and aids in preventing unforeseen repercussions.

### ***Adapting to Evolving Technological Advances***

The dynamic nature of green technologies and practices poses difficulties in formulating tax incentives that endure in relevance as time progresses. A reward system tailored to a particular technology or behaviour may become outdated if newer, more environmentally friendly options arise. In order to maintain the durability of tax incentive programs, it is crucial that they possess the ability to be flexible and adaptable in order to fit the ever-changing technological improvements.

To address this difficulty, it is necessary to integrate evaluation tools into tax incentive programs. Regular evaluations can measure the efficacy of incentives in attaining their intended ecological objectives and pinpoint possibilities to revise criteria or broaden eligibility to encompass emerging technology.

### ***Ensuring Equitable Distribution of Incentives***

A frequently disregarded factor in tax incentive programs is the fair allocation of advantages. It is crucial to guarantee that tax incentives are not unfairly biased towards big corporations or specific industries, so putting smaller businesses or marginalised populations at a disadvantage. The structure of incentives should be designed to foster diversity and offer possibilities for businesses of all kinds to engage and reap advantages.

In order to tackle this issue, governments might adopt strategies such as implementing graduated incentives that recognise the scale and capability of enterprises. In addition, outreach and educational initiatives can guarantee that smaller enterprises and marginalised populations are informed of and able to utilise the incentives that are already accessible.

## **Recommendation for Improvement**

### ***More Engagement with Industry Players***

The tax authority should increase their level of participation and facilitate open discussions with industry stakeholders. This is particularly true for small businesses, such as SMEs, who have restricted access to tax counsel compared to large corporations that have greater resources and convenient access to tax consulting services.

### ***Clear Tax Rules and Regulations***

Precise and unambiguous tax rules and regulations are essential for effectively encouraging ESG initiatives, ensuring predictability, easing compliance, and promoting openness and confidence. In order to enhance the effectiveness of ESG-related tax incentives, it is advisable to clearly establish the criteria for eligibility, standardise the requirements for reporting, establish strong mechanisms for verification, offer clear guidance and training, ensure consistency across different jurisdictions, include flexibility to adjust to changing standards, and increase public awareness and participation. These measures will provide a reliable structure, incentivising corporations to embrace sustainable practices and have a positive impact on broader ESG objectives. Elkins (2025) suggest that a clear roadmap for well-advised taxpayers will ensure taxpayers achieve a favourable tax result. In opposite, the lack of certainty in law deprives it of its ability to perform its functions effectively, to form a stable legal order, and to direct and guide people's behavior (Demin, 2020).

### ***Strengthen Tax Audit and Investigation***

Enhancing tax audit and investigation systems is crucial for tackling the difficulties in offering tax incentives for ESG operations. Kasper and Alm (2022) finds that effective tax audits increase post-audit tax compliance while ineffective audits have the opposite effect. The effectiveness of tax audit can be accomplished by improving the training of tax auditors, employing sophisticated data analytics, working together with ESG experts, conducting regular audits, enforcing clear documentation standards, promoting transparency through public disclosure, implementing whistleblower programs, and fostering international cooperation. These techniques guarantee adherence, deter deceit, and bolster the efficiency and honesty of ESG tax incentives, thereby promoting greater sustainable and socially responsible business behaviours.

### ***Disclosure on Tax Governance***

The industry especially the public listed company that comprise public as a shareholder should be more transparent in utilising the green tax incentives by the government. For instance, the company can disclose in their annual report the governance of tax which include tax policies, tax contributions and other related matters to enhance their visibility (Mgammal, 2020; Mgammal et al., 2018) on the utilisation of green incentives and tax provided by the

government. Emphasis should be made also to demonstrate how this tax basically will contribute to country sustainable development and giving back to communities. This is also consistent with Global Reporting Initiative 207 (GRI 207) which recommend company to disclose company approach to tax, tax governance, control and risk management, stakeholder engagement and management of concerns related to tax and country-by-country reporting.

## Conclusion

Tax incentives for green accounting transcend immediate financial gains, having far-reaching implications for the future of business, society, and the environment. By incentivizing sustainable practices, these measures facilitate the transition towards a low-carbon and resource-efficient economy. As businesses integrate green accounting principles into their core strategies, they contribute to a paradigm shift in the way industries operate, laying the foundation for a more equitable and sustainable world.

In the essence, tax incentives for green accounting represent a potent strategy for motivating businesses and individuals to embrace sustainability in their financial decision-making processes. These incentives, ranging from deductions for sustainable investments to tax credits tied to environmental performance, forge a link between financial gains and ecological responsibility. The benefits such as enhanced competitiveness, reduced environmental impact, and accelerated innovation will underscore their significance in shaping a greener and more prosperous future. While challenges pertaining to measurement, verification, and financial feasibility persist, the potential transformative power of tax incentives in advancing green accounting renders them an indispensable tool on the journey towards global sustainability.

Tax incentives have the potential to be powerful drivers of green accounting, incentivizing businesses and individuals to adopt environmentally responsible practices. However, these incentives must be designed and implemented thoughtfully to address the challenges and considerations that arise. Preventing greenwashing, standardizing measurement, balancing financial and environmental concerns, accounting for complexity, adapting to evolving technologies, and ensuring equitable distribution are all critical aspects that demand careful attention. By addressing these challenges and considerations, tax incentives can truly fulfill their role in catalyzing sustainability and promoting the integration of green accounting principles into business practices for a more sustainable future.

- 
- Acknowledgements:** The authors would like to acknowledge and extended special gratitude to the Faculty of Accountancy, Universiti Teknologi MARA Perak Branch Tapah Campus who granted the Publication Grant Scheme for this project.
- Funding Statement:** No Funding
- Conflict of Interest Statement:** The authors declare that there is no conflict of interest regarding the publication of this paper. All authors have contributed to this work and approved the final version of the manuscript for submission to the Advanced International Journal of Business, Entrepreneurship and SMEs (AIJBES).
- Ethics Statement:** This study did not involve any human participants, animals, or sensitive data requiring ethical approval. The authors confirm that the research was conducted in accordance with accepted academic integrity and ethical publishing standards.
- Author Contribution Statement:** All authors contributed significantly to the development of this manuscript. Mohamad Iruwan Ghuslan, Nurfarizan Mazhani Mahmud and Maizura Meor Zawawi was responsible for the conceptualization and methodology. Haslinawati Che Hasan, Sunarti Halid, Roslan Abd Wahab and Wan Razazila Wan Abdullah handled the study analysis, and interpretation of results. Ahmad Saiful Azlin Puteh Salin contributed to the critical revision of the manuscript and supervised the overall research. All authors read and approved the final version of the manuscript prior to submission.
-

## References

- Alareeni, B. A., & Hamdan, A. (2020). ESG impact on performance of US S&P 500-listed firms. *Corporate Governance: The International Journal of Business in Society*, 20(7), 1409-1428.
- Borenstein, S. (2017). Private net benefits of residential solar PV: The role of electricity tariffs, tax incentives, and rebates. *Journal of the Association of Environmental and Resource Economists*, 4(S1), S85-S122.
- CSR Tools. (2025). ESG business case: Why sustainability pays off for SMEs. <https://csr-tools.com/en/blog-en/esg-business-case-why-sustainability-pays-off-for-smes/> Accessed on 18 October 2025.
- Delmas, M. A., & Burbano, V. C. (2011). The drivers of greenwashing. *California Management Review*, 54(1), 64-87.
- Demin, A. V. (2020). Certainty and uncertainty in tax law: Do opposites attract? *Laws*, 9(4), 30.
- Elkins, D. (2025). Rules, standards, and the value of certainty in tax law. *Berkeley Business Law Journal*, 22, 40.
- Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210-233.
- Fu, X., & Zhang, X. (2025). Tax burden and enterprises' ESG performance. *International Review of Financial Analysis*, 103, 104223.
- Garrido-Ruso, M., Otero-González, L., López-Penabad, M. C., & Santomil, P. D. (2024). Does ESG implementation influence performance and risk in SMEs? *Corporate Social Responsibility and Environmental Management*, 31(5), 4227-4247.
- Ge, H., Yang, X., Guo, Y., Zhu, J., & Wang, J. (2025). Research on the impact of cut taxes and administrative fees on green total factor productivity in China. *Finance Research Letters*, 76, 107001.
- Giese, G., Lee, L. E., Melas, D., Nagy, Z., & Nishikawa, L. (2019). Foundations of ESG investing: How ESG affects equity valuation, risk, and performance. *Journal of Portfolio Management*, 45(5), 69-83.
- Hart, S. L. (1995). A natural-resource-based view of the firm. *Academy of management review*, 20(4), 986-1014.
- He, X., Jing, Q., & Chen, H. (2023). The impact of environmental tax laws on heavy-polluting enterprise ESG performance: A stakeholder behavior perspective. *Journal of Environmental Management*, 344, 118578.
- He, Y., Zhao, X., & Zheng, H. (2023). How does the environmental protection tax law affect firm ESG? Evidence from the Chinese stock markets. *Energy Economics*, 127, 107067.
- InCorp Malaysia. (2025). ESG for SMEs: Tapping opportunities and building a sustainable future. <https://malaysia.incorp.asia/blogs/esg-for-smes-build-a-sustainable-future/> Accessed on 18 October 2025.
- Kasper, M., & Alm, J. (2022). Audits, audit effectiveness, and post-audit tax compliance. *Journal of Economic Behavior & Organization*, 195, 87-102.
- Li, J., & Li, S. (2022). Environmental protection tax, corporate ESG performance, and green technological innovation. *Frontiers in Environmental Science*, 10, 982132.
- Maashani, S. S. S., Gamal, A. A. M., Shaarani, A. Z., AbdulJalil, N., & Abd. Hadi, F. S. (2025). Examining the asymmetric influence of tax revenue policy in an oil-dependent economy: evidence from Oman. *Journal of Financial Economic Policy*, 17(5), 699-720.

- Mgammal, M. H. (2020). Corporate tax planning and corporate tax disclosure. *Meditari Accountancy Research*, 28(2), 327-364.
- Mgammal, M. H., Bardai, B., & Ku Ismail, K. N. I. (2018). Corporate governance and tax disclosure phenomenon in the Malaysian listed companies. *Corporate Governance: The International Journal of Business in Society*, 18(5), 779-808.
- Salin, A. S. A. P., Raman, S. A., Kamarudin, N. N. A. N., & Shaari, S. N. M. (2024). Examining Islamic environmental, social and governance (ESG) current and future research—a bibliometric analysis. *Information Management and Business Review*, 16(3), 899-912.
- Shafi, M., Ramos-Meza, C. S., Jain, V., Salman, A., Kamal, M., Shabbir, M. S., & Rehman, M. U. (2023). The dynamic relationship between green tax incentives and environmental protection. *Environmental Science and Pollution Research*, 30(12), 32184-32192.
- Shuai, X., & Chmura, C. (2013). The effect of state corporate income tax rate cuts on job creation. *Business Economics*, 48(3), 183-193.
- Velte, P. (2017). Does ESG performance have an impact on financial performance? Evidence from Germany. *Journal of Global Responsibility*, 8(2), 169-178.
- Yu, W., Haoyu, W., & Shuang, X. (2022). Greening of tax system and corporate ESG performance: A quasi-natural experiment based on the environmental protection tax law. *Journal of Finance and Economics*, 48(09), 47-62.