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Research Article

Financial Performance and Tax Avoidance in Large and Small Firms

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Abstract
This study analyzes the influence of liquidity, activity, profitability, and solvency on tax avoidance, with firm size as a moderating variable in consumer goods manufacturing companies listed on the Indonesia Stock Exchange during 2020–2024. The study was motivated by inconsistent findings regarding the relationship between financial performance and tax avoidance, particularly in manufacturing companies with complex operations and significant tax exposure. A quantitative approach was employed using purposive sampling, with panel data obtained from companies' annual financial reports. Data were analyzed using panel regression and moderation testing in EViews. The results indicate that liquidity, activity, profitability, and solvency each have a significant effect on tax avoidance. Firm size moderates the relationships between liquidity and profitability and tax avoidance, suggesting that larger companies adopt different tax management strategies and possess greater financial flexibility than smaller firms. However, firm size does not moderate the relationships between activity, solvency, and tax avoidance. These findings contribute to the tax compliance and corporate finance literature by highlighting the moderating role of firm size in corporate tax behavior. Practically, the results provide insights for regulators to develop governance-based tax supervision policies that improve transparency and sustainable tax compliance in the manufacturing sector.

Keywords: Liquidity, Activity, Profitability, Solvency, Company Size, Tax Avoidance, Manufacturing Companies.

JEL Classification: G30, H25, M14

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1. Introduction
Taxes are a major source of state revenue and play a strategic role in financing national development and public welfare. According to Law Number 28 of 2007 concerning General Provisions and Tax Procedures, taxes are mandatory contributions imposed on individuals and entities without direct compensation, with the proceeds used to support government expenditures and economic development. In Indonesia, tax revenue consistently accounts for the largest share of the State Budget (APBN), making tax compliance an important factor in maintaining fiscal sustainability. However, for companies, taxes are often viewed as a burden that reduces net profit, prompting management to implement various tax-planning strategies, including tax avoidance.

Tax avoidance refers to legal efforts undertaken by companies to minimize tax obligations by exploiting loopholes in taxation regulations. Although tax avoidance does not violate formal regulations, it creates ethical and economic concerns because it reduces potential state revenue. The Tax Justice Network (2020) estimated that Indonesia loses approximately IDR 68.7 trillion annually due to corporate tax avoidance practices. This condition indicates that tax avoidance remains a significant issue, particularly in sectors with extensive operations and high financial complexity, such as manufacturing.

Financial performance is considered one of the major determinants influencing corporate tax avoidance behavior. Liquidity, activity, profitability, and solvency ratios reflect a company's financial condition and managerial decisions regarding operational efficiency and tax strategies. Companies with high liquidity may seek to maintain cash-flow efficiency through tax planning. Firms with high activity ratios and asset utilization may exploit depreciation expenses to reduce taxable income. High profitability increases tax burdens and may encourage management to pursue tax-saving strategies, while high solvency enables firms to deduct interest expenses. However, previous empirical findings regarding the relationship between financial performance and tax avoidance remain inconsistent. Some studies found that profitability and solvency increase tax avoidance, while others reported negative or insignificant relationships. These contradictory findings suggest that the relationship between financial performance and tax avoidance may depend on additional contextual factors.

Firm size is one factor that may explain these inconsistencies. Large companies generally possess greater financial resources, sophisticated tax planning capabilities, and access to professional tax consultants, enabling them to manage taxes more efficiently. At the same time, large firms face stricter scrutiny from regulators, investors, and the public, which may discourage aggressive tax avoidance practices. In contrast, smaller firms often face stronger liquidity pressures and limited access to resources, which can lead to more aggressive tax behavior. Therefore, firm size may strengthen or weaken the influence of financial performance on tax avoidance.

This study focuses on manufacturing companies in the consumer goods subsector listed on the Indonesia Stock Exchange during 2020–2024. The manufacturing sector was selected because it is one of the largest contributors to Indonesia's economy and tax revenue, yet it faces high operational costs, complex inventory management, and significant tax exposure. In recent years, the manufacturing sector has also experienced fluctuations in tax contributions, indicating potential differences in corporate tax behavior that require further investigation.

The novelty of this study lies in examining firm size as a moderator of the relationship between financial performance and tax avoidance in consumer goods manufacturing companies. Unlike previous studies that primarily analyzed the direct effect of financial ratios on tax avoidance, this research offers a broader perspective by explaining how company size influences managerial incentives and corporate tax strategies. Therefore, this study contributes to the development of the tax compliance and corporate finance literature, particularly in emerging economies, while also providing practical implications for regulators, investors, and tax authorities for strengthening proportional, governance-based tax supervision policies.

2. Literature Review and Hypothesis

Signal Theory

In Signaling Theory, explains that companies need to provide signals to users of financial reports about management's performance in achieving owners' objectives. Good financial reports are a positive signal (good news) that the company is operating well. In contrast, negative information (bad news) tends to be delayed because it can trigger negative reactions from investors (Santosa et al., 2020).

Tax evasion

Liquidity represents a company's ability to fulfill short-term obligations using its current assets. Subramanyam (2017) defines liquidity as a firm's capacity to meet short-term liabilities, while Wild (2017) emphasizes the ability to convert assets into cash efficiently. In the context of taxation, liquidity plays an important role because companies with strong cash positions may have greater flexibility to meet tax obligations, thereby reducing incentives for aggressive tax avoidance.

However, agency theory suggests that managers may still pursue tax-efficiency strategies to maintain cash flow stability and maximize operational flexibility. Previous empirical findings remain inconsistent. Some international studies report that highly liquid firms are less likely to engage in tax avoidance because they face lower financial pressure. In contrast, others show that excess liquidity can motivate firms to optimize profits through tax planning activities. This inconsistency suggests that liquidity may influence tax avoidance differently across managerial incentives, corporate governance quality, and company size (Santosa, 2019).

Activity

Activity ratios reflect how effectively companies use assets to support operations and generate revenue. Harahap (2019) states that activity ratios describe the efficiency of company operations, including sales, inventory management, and asset utilization. In this study, activity is proxied by capital intensity, defined as the ratio of fixed assets to total assets.

Capital intensity is important in tax avoidance analysis because fixed assets generate depreciation expenses that can reduce taxable income. According to agency theory, managers may utilize asset investment strategies to minimize tax burdens and improve financial performance. International studies show mixed results regarding the relationship between capital intensity and tax avoidance. Some studies suggest that firms with high fixed-asset intensity tend to engage in less tax avoidance because depreciation already provides legal tax benefits. Other studies argue that greater asset intensity creates more opportunities for earnings management and tax planning. Therefore, the effect of activity on tax avoidance remains context-dependent and requires further empirical investigation.

Profitability

Profitability measures a company’s ability to generate earnings from its assets and operations. Gitman (2016) explains that Return on Assets (ROA) reflects management's effectiveness in using company resources to generate profits. Companies with high profitability generally face larger tax obligations, which may encourage management to adopt tax-planning strategies to reduce tax expenses (Santosa, 2020b).

Agency theory holds that managers are motivated to maximize shareholder wealth and maintain financial performance, thereby increasing incentives for tax avoidance. However, legitimacy theory argues that highly profitable firms are also subject to greater public attention and regulatory scrutiny, encouraging them to maintain tax compliance and corporate reputation. Empirical evidence remains inconsistent. Some international studies find that profitability increases tax avoidance because firms seek to preserve higher after-tax earnings. In contrast, others show that profitable firms tend to avoid aggressive tax behavior to protect legitimacy and investor confidence.

Solvency

Solvency reflects a company’s ability to fulfill long-term obligations and the extent to which operations are financed through debt. Kasmir (2017) states that solvency ratios measure the balance between debt and equity financing. Companies with high leverage generally use interest expense as a tax deduction, creating opportunities for tax avoidance.

From the perspective of trade-off theory, debt financing provides tax shield benefits through deductible interest expenses. Agency theory further explains that managers may intentionally increase debt structures to reduce taxable income and improve short-term financial outcomes.

Nevertheless, excessive leverage also increases financial risk and the likelihood of regulatory scrutiny. International empirical findings are contradictory: some studies find that highly leveraged firms engage in more aggressive tax avoidance. In contrast, others find insignificant relationships due to stricter debt regulations and corporate governance monitoring (Santosa, 2020a).

Company Size

Firm size reflects a company's scale and operational complexity and is commonly measured by total assets, total sales, or market capitalization. Larger firms possess greater operational resources and broader business activities compared to smaller firms.

In tax avoidance research, firm size is often associated with both political cost theory and legitimacy theory. Large firms generally have greater access to professional tax consultants and sophisticated tax-planning strategies, enabling more efficient tax management. However, large firms are also subject to greater public scrutiny, media attention, and regulatory oversight, which may discourage aggressive tax avoidance. Smaller firms, by contrast, may face greater financial pressure and weaker governance systems, increasing incentives for opportunistic tax behavior.

Recent international literature suggests that firm size not only directly influences tax avoidance but may also moderate the relationship between financial performance and tax behavior. Larger companies often balance tax efficiency with reputational concerns and sustainability objectives, making firm size an important contextual factor in explaining variations in corporate tax strategies, particularly within emerging-market manufacturing sectors.

Conceptual Framework

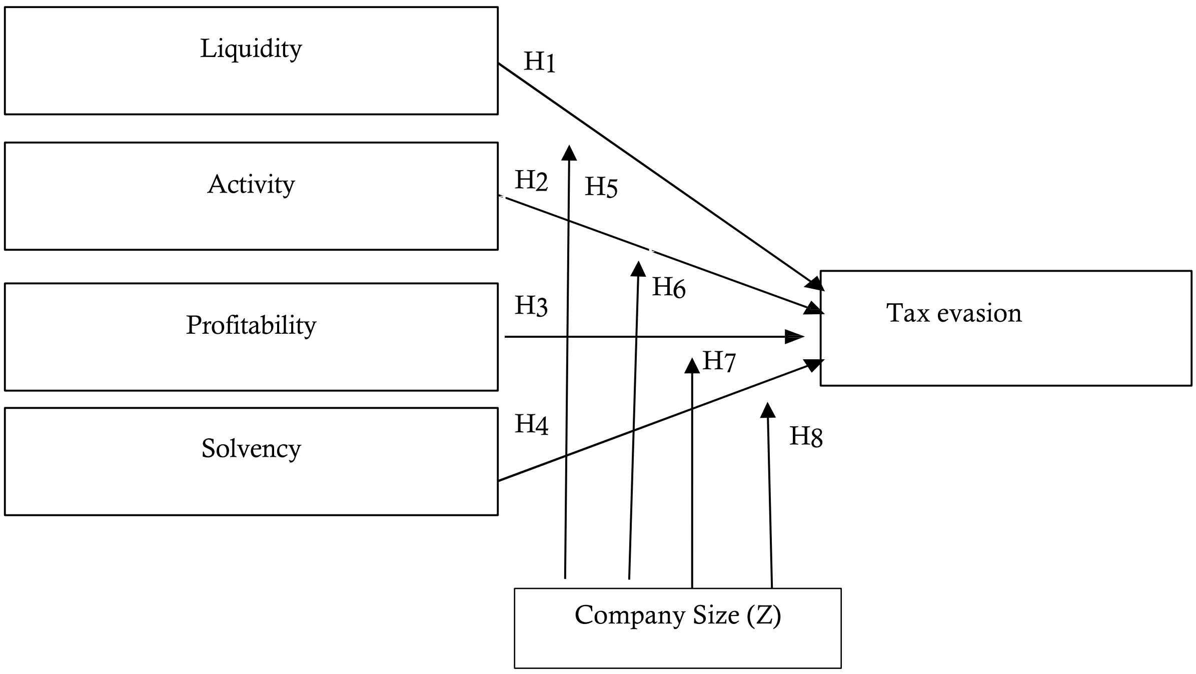

Figure 1. Conceptual Framework

Hypothesis Development

The Influence of Liquidity on Tax Avoidance

Liquidity reflects a company's ability to fulfill short-term obligations using current assets (Kasmir, 2015). Companies with strong liquidity generally have sufficient cash flow to meet operational and tax obligations without resorting to aggressive tax planning. From the perspective of agency theory, firms with adequate liquidity face lower financial pressure, thereby reducing managerial incentives to minimize taxes opportunistically. Conversely, companies experiencing low liquidity may seek to preserve cash flow through tax-avoidance strategies to maintain operational stability and financial flexibility.

However, the relationship between liquidity and tax avoidance is not always consistent. Highly liquid firms may also engage in tax planning to maximize retained cash and improve shareholder returns. In contrast, firms with stronger governance and greater reputational concerns may avoid aggressive tax practices despite liquidity pressures. Previous studies report mixed findings regarding the effect of liquidity on tax avoidance, indicating that managerial incentives and company characteristics influence this relationship differently across firms and industries. Therefore, liquidity is expected to influence corporate tax avoidance behavior.
H1: Liquidity affects tax avoidance.

The Influence of Activities on Tax Avoidance
Activity ratios, proxied by capital intensity, reflect the extent to which companies invest in fixed assets to support operational activities. Companies with high capital intensity generally possess larger fixed assets that generate depreciation expenses, which can legally reduce taxable income. From the perspective of agency theory, managers may strategically use asset structures to optimize tax efficiency and improve financial performance.

Nevertheless, the influence of activity on tax avoidance depends on managerial incentives and the effectiveness of monitoring. Firms with high fixed-asset intensity may rely on depreciation benefits as a legitimate tax shield, reducing the need for aggressive tax avoidance. In contrast, companies with lower capital intensity may seek alternative tax-planning strategies because they lack significant depreciation deductions. International empirical findings remain inconsistent, suggesting that the relationship between activity and tax avoidance varies across industries, governance quality, and financial strategies.
H2: Activities have an impact on tax avoidance.

The Effect of Profitability on Tax Avoidance
Profitability reflects a company's ability to generate earnings from operational activities (Kasmir, 2016). Highly profitable firms generally face larger tax obligations, increasing managerial incentives to implement tax-planning strategies that reduce taxable income. According to agency theory, management seeks to maximize shareholder wealth by improving after-tax profits, which may encourage tax avoidance behavior.

However, legitimacy theory suggests that profitable companies also face stronger public scrutiny and reputational pressure, motivating them to maintain compliance with taxation regulations. Firms with high profitability may avoid aggressive tax strategies to preserve investor confidence, corporate reputation, and long-term sustainability. These competing incentives explain why previous studies have produced contradictory findings regarding the relationship between profitability and tax avoidance. Therefore, profitability is expected to influence tax avoidance depending on the balance between profit-maximization motives and reputational considerations.
H3: Profitability affects tax avoidance.

The Effect of Solvency on Tax Avoidance
Solvency reflects the extent to which a company's operations are financed through debt (Kasmir, 2017). Companies with high debt levels incur interest expenses that can be deducted from taxable income, creating opportunities to reduce taxes. Trade-off theory explains that firms may intentionally use debt financing to obtain tax shield benefits and optimize capital structure efficiency.

From an agency theory perspective, managers may exploit debt financing to reduce tax burdens while improving short-term financial performance. However, excessive debt also increases financial risk, the need for creditor monitoring, and regulatory scrutiny, which may discourage aggressive tax avoidance. Empirical findings remain inconsistent, indicating that the relationship between solvency and tax avoidance depends on corporate governance quality, debt management policies, and firm-specific financial pressures.
H4: Solvency affects tax avoidance.

Firm Size Moderates the Effect of Liquidity on Tax Avoidance
Firm size reflects a company's scale and operational complexity and is commonly measured by total assets. Large companies generally possess more stable liquidity management systems, stronger governance mechanisms, and stricter external monitoring from regulators and investors. Consequently, even when liquidity conditions fluctuate, larger firms tend to avoid aggressive tax behavior because of reputational and compliance concerns.

In contrast, smaller firms often face greater liquidity pressures and weaker monitoring systems, increasing managerial incentives to engage in tax avoidance to maintain cash flow. Therefore, firm size may strengthen or weaken the relationship between liquidity and tax avoidance depending on the level of financial pressure and governance effectiveness.
H5: Firm size moderates the effect of liquidity on tax avoidance.

Firm Size Moderates the Effect of Activities on Tax Avoidance
The relationship between activity and tax avoidance may differ according to company size. Large, capital-intensive firms generally have more sophisticated governance systems and face stronger public scrutiny, thereby reducing the incentives to exploit depreciation for tax purposes aggressively. Smaller firms, however, may use asset structures more opportunistically because they experience weaker monitoring and greater flexibility in financial reporting.

This indicates that firm size can influence how effectively companies use fixed assets and depreciation strategies to manage their tax obligations. Thus, the moderating role of firm size is important in explaining variations in the relationship between activity and tax avoidance.
H6: Firm size moderates the effect of activities on tax avoidance.

Firm Size Moderates the Effect of Profitability on Tax Avoidance
The influence of profitability on tax avoidance may become stronger or weaker depending on firm size. Large profitable firms generally attract greater attention from tax authorities, investors, and the public, encouraging them to prioritize compliance and transparency to protect corporate legitimacy. Therefore, large firms may avoid aggressive tax strategies despite high profitability.

Conversely, smaller profitable firms may face greater pressure to maximize financial returns and preserve cash, potentially increasing tax avoidance incentives. This suggests that firm size moderates the relationship between profitability and tax avoidance through differences in governance quality, reputational concerns, and regulatory monitoring.
H7: Firm size moderates the effect of profitability on tax avoidance.

Firm Size Moderates the Effect of Solvency on Tax Avoidance
The relationship between solvency and tax avoidance may also vary according to firm size. Large firms with high leverage generally have more structured financial management systems and stronger oversight by creditors, regulators, and investors, thereby limiting aggressive tax practices. In contrast, smaller firms with high debt levels may be more motivated to engage in tax avoidance to reduce financial pressure and maintain profitability.

From the perspective of agency theory, the effectiveness of monitoring mechanisms determines whether debt financing is used primarily for operational efficiency or opportunistic tax reduction. Therefore, firm size is expected to moderate the influence of solvency on tax avoidance.
H8: Firm size moderates the effect of solvency on tax avoidance.

3. Data and Method

Research Strategy and Methods
This study applies a quantitative, causal-associative design to examine the influence of liquidity, activity, profitability, and solvency on tax avoidance, with firm size as a moderating variable. Panel-data regression is employed because it combines cross-sectional and time-series observations,

enabling a more comprehensive analysis of corporate tax behavior over time. The study focuses on consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024, a sector that contributes significantly to national tax revenue and has intensive operational activities, creating opportunities for tax planning and tax avoidance.

The panel-data estimation model selection was conducted through the Chow test, Hausman test, and Lagrange Multiplier test to determine the most appropriate model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The REM was selected because it produced the most efficient and consistent estimates, indicating that individual company effects were random and uncorrelated with the explanatory variables. To strengthen methodological rigor, robustness procedures, including tests for multicollinearity, heteroscedasticity, and autocorrelation, were also conducted to ensure model reliability.

Population and Research Sample

Research Population

According to Sugiyono (2017), a population is a general area consisting of objects or subjects with specific characteristics that researchers determine to be studied, and from which conclusions are drawn. The population in this study was 53 consumer goods industry companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.

Samples and Sampling Techniques

A sample is a subset of a population with specific characteristics (Sugiyono, 2017). This study employed a purposive sampling technique, which selects samples based on specific considerations or criteria (Sugiyono, 2017). The criteria for selecting the sample are: Consumer goods industry companies listed consecutively on the IDX during 2020–2024; publishing companies that audited financial statements during the period; companies with complete data on the research variables; and companies that consistently made profits during the research period.

Data and Data Collection Methods

This study uses secondary quantitative data obtained from annual reports and audited financial statements of consumer goods manufacturing companies listed on the IDX. Data were collected from documentation on the official IDX website and in the company's annual reports. Additional CSR-related information and sustainability disclosures were obtained from company sustainability reports and supporting databases such as the Global Reporting Initiative
. The use of audited reports ensures data reliability and consistency for empirical accounting research.

4. Results

Panel Data Estimation Model Test Analysis

Chow Test

Table 1. Chow Test

Effects Test	Statistics	df	Prob.
Cross-section F	3.470940	(14.55)	0.0005

Source: Processed data (2025)

The results of the Chow Test in Table 1 above indicate that H0 is rejected and H1 is accepted because the Cross-section Probability F result is smaller than alpha ($0.0005 < 0.05$), so the model used in this study is the Fixed Effect Model.

Hausman test

Table 2. Hausman Test Correlated

Random Effects - Hausman Test Equation: Untitled
Cross-section random effects test

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	2.879606	5	0.0085

Source: Processed data (2025)

Based on the Hausman Test, H0 is rejected, and H1 is accepted, as the Random Cross-section Probability is smaller than alpha (0.0085 < 0.05). Therefore, the model used in this study is the Fixed Effect Model.

Lagrange Multiplier Test

Table 3. Summary of Panel Data Regression Model Testing

Effect Test	Best Model	
	Determination Test	Information
Pool Least Squares (PLS)	Chow Test (PLS vs FE)	Fixed Effect
Random Effect (RE)	Hausman Test (FE vs RE)	Fixed Effect
Fixed Effect (FE)	LM Test (RE vs PLS)	-

Source: Processed data (2025)

Classical Assumption Test
Normality Test

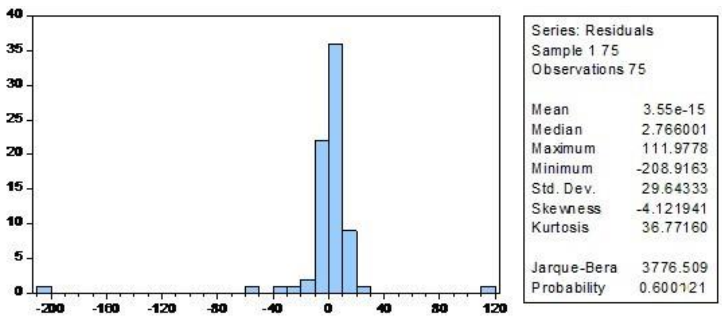

Figure 2. Data Normality Test

The conclusion is that, at the 95% confidence level, the error term is normally distributed. The results of the normality test above indicate that the data are normally distributed because the p-value is 0.600121 > 0.05; therefore, no transformation is needed to ensure normality.

Multicollinearity Test

Table 4. Multicollinearity Test

	Y_CETR	X1_CR	X2_CAPIN	X3_ROA	X4_DER	Z_SIZE
Y_CETR	1,000,000	-0.100064	0.001132	0.078122	0.045009	0.198690
X1_CR	-0.100064	1,000,000	-0.218247	0.112930	-0.082715	-0.346536
X2_CAPIN	0.001132	-0.218247	1,000,000	-0.012090	0.304116	0.086132

X3_ROA	0.078122	0.112930	-0.012090	1,000,000	0.061636	0.178589
X4_DER	0.045009	-0.082715	0.304116	0.061636	1,000,000	0.117740
Z_SIZE	0.198690	-0.346536	0.086132	0.178589	0.117740	1,000,000

Source: Processed data (2025)

From Table 4 above, we can see that the correlation coefficients among the independent variables are all less than 0.90. Therefore, the data in this study can be identified as free from multicollinearity problems between the independent variables, and this model can estimate the effects of liquidity, activity, profitability, solvency, and company size on tax avoidance in manufacturing companies in the consumer goods sub-sector listed on the IDX for the 2020-2024 period.

Table 5. Variance Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1291,806	102,8069	NA
X1_CR	0.000345	4.493036	1.227920
X2_CAPIN	577.0493	5.031520	1.149836
X3_ROA	0.072511	1.704097	1.074206
X4_DER	2.366510	1.607345	1.115351
Z _SIZE	4.327111	86.43369	1.210313

Source: Processed data (2025)

Based on the multicollinearity test results shown in Table 5 above, the Coefficients (Tolerance and VIF values) indicate that, of the four independent variables, the Centered VIF values are less than 10, and the Tolerance values are less than 10. It can be concluded that the regression model does not suffer from multicollinearity.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test

Heteroskedasticity Test: Glejser

F-statistic	4.320967	Prob.F(5.69)	0.0018
Obs*R-squared	17.88384	Prob. Chi-Square (5)	0.1031
Scaled explained SS	38.05568	Prob. Chi-Square (5)	0.2637

Source: Processed data (2025)

The results of the heteroscedasticity test indicate that H0 is accepted because the probability result of each independent variable is 0.1031, which is greater than alpha (0.05), or in other words, the regression coefficient value of the independent variable, so that the data in this regression model can be said to have no heteroscedasticity problem.

Autocorrelation Test

Table 7. Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	7.720348	Prob.F(2.67)	0.1010
Obs*R-squared	14.04709	Prob. Chi-Square (2)	0.1209

Source: Processed data (2025)

The results of the autocorrelation test indicate that H0 is accepted because the probability result of each independent variable is 0.1209, which is greater than alpha (0.05), or in other words, the regression coefficient value of the independent variable, so that the data in this regression model can be said to have no autocorrelation problem.

Multiple Linear Regression Equation Analysis
Results of Moderated Regression Analysis

Table 8. Moderated Regression Analysis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	158.2789	39.39025	4.018225	0.0002
CR	0.002011	0.006982	3.288075	0.0157
CAPIN	20.30302	14.30286	2.419507	0.0214
ROA	0.065343	0.041337	1.780746	0.0197
DER	0.085093	0.211769	2.401821	0.0394
SIZE	0.034681	0.157912	1.732451	0.0254
CR_SIZE	0.164335	0.249358	3.659032	0.0005
CAPIN_SIZE	0.006941	0.052931	0.131142	0.8961
ROA_SIZE	0.100241	0.683.123	2.127861	0.0035
DER_SIZE	0.088202	0.083184	0.060327	0.7017
R-squared	0.678158	Mean dependent variable		0.138325
Adjusted R-squared	0.553938	SD dependent var		0.143778
SE of regression	0.096026	Akaike info criterion		1.612363
Sum squared residual	0.525601	Schwarz criterion		0.927531
Log likelihood	87.49453	Hannan-Quinn criterion.		1.337794
F-statistic	5.459343	Durbin-Watson stat		1.823994
Prob(F-statistic)	0.000000			

Source: Processed Data (2025)

The analysis results show that liquidity and solvency positively affect tax avoidance, while activity and profitability negatively affect it. Firm size strengthens the relationship between financial performance and tax avoidance, indicating that financial variables influence tax avoidance behavior more strongly for larger firms.

Hypothesis Test (t) Test

Table 9. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	158.2789	39.39025	4.018225	0.0002
CR	0.002011	0.006982	3.288075	0.0157
CAPIN	20.30302	14.30286	2.419507	0.0214
ROA	0.065343	0.041337	1.780746	0.0197
DER	0.085093	0.211769	2.401821	0.0394
SIZE	0.034681	0.157912	1.732451	0.0254
CR_SIZE	0.164335	0.249358	3.659032	0.0005
CAPIN_SIZE	0.006941	0.052931	0.131142	0.8961
ROA_SIZE	0.100241	0.683.123	2.127861	0.0035
DER_SIZE	0.088202	0.083184	0.060327	0.7017

Source: Processed Data (2025)

The partial test results show that liquidity, activity, profitability, and solvency have a significant effect on tax avoidance (H1–H4 are accepted). Company size moderates the effect of liquidity and profitability on tax avoidance (H5 and H7 are accepted), but does not moderate the effect of activity and solvency (H6 and H8 are rejected).

5. Discussion

The Effect of Liquidity on Tax Avoidance

Based on Table 9, liquidity has a significant effect on tax avoidance. Companies with high liquidity generally possess stronger cash flow and greater flexibility in meeting short-term obligations, including tax payments. From an agency theory perspective, adequate liquidity reduces financial pressure on management, thereby decreasing incentives to engage in aggressive tax avoidance. At the same time, companies with strong liquidity also have greater resources to conduct legal tax planning efficiently.

This finding supports Amalia (2021), who states that companies with stable liquidity tend to maintain tax compliance because they do not face severe cash constraints. However, contradictory findings across previous studies may arise from differences in industrial characteristics and monitoring intensity. In the consumer goods manufacturing sector, companies are generally subject to tighter scrutiny from regulators, suppliers, and investors because of their high contribution to national economic activity. Consequently, firms tend to prioritize financial stability and long-term reputation over aggressive tax strategies.

The Influence of Activities on Tax Avoidance

The results indicate that activity significantly influences tax avoidance. High capital intensity enables companies to deduct depreciation expenses, thereby reducing taxable income. This finding is consistent with agency theory and political cost theory, which explain that managers tend to use accounting flexibility to minimize tax burdens while maintaining reported profitability.

This result aligns with Amalia (2021), who found that fixed-asset intensity affects tax avoidance through depreciation mechanisms. Nevertheless, contradictory evidence in prior research may reflect differences in accounting standards, tax incentives, and industry structures across countries. Manufacturing firms in Indonesia rely heavily on fixed assets and production facilities, making depreciation policies a strategic instrument in tax management, unlike service-oriented industries with lower capital intensity.

The Effect of Profitability on Tax Avoidance

Profitability significantly affects tax avoidance. Highly profitable firms face higher tax liabilities, creating incentives for management to reduce tax burdens through tax planning. Agency theory explains that managers attempt to maximize after-tax earnings to satisfy shareholder expectations and improve financial performance indicators.

The findings support Ainniyya & Sumiati (2021) and Irianto et al. (2017), who show that profitability increases the likelihood of tax avoidance. However, international studies have produced mixed evidence. Some research suggests that profitable companies tend to avoid aggressive tax practices because they are more exposed to public scrutiny and reputational risks. In Indonesia's manufacturing sector, profitability may drive tax planning, as firms face competitive operating costs and pressure to maintain efficiency amid a volatile economic environment.

The Effect of Solvency on Tax Avoidance

Solvency significantly affects tax avoidance because debt financing generates interest expenses that can reduce taxable income. This finding supports the trade-off theory, which explains that companies use debt not only as a financing mechanism but also as a tax-shielding strategy. High leverage, therefore, creates opportunities for firms to minimize their tax obligations legally.

The results are consistent with Arimurti et al. (2022) and Sopiyana (2022). However, contradictory findings across studies may be due to stricter debt-monitoring regulations and differences in corporate governance quality. In Indonesia, manufacturing companies often rely on external financing to support operational expansion, making leverage an important component of tax-planning strategies.

The Effect of Liquidity on Tax Avoidance is Moderated by Company Size

Firm size strengthens the relationship between liquidity and tax avoidance. Large companies with high liquidity generally possess better financial management systems, stronger access to professional tax consultants, and more sophisticated tax-planning capabilities. Resource dependence theory explains that larger firms have broader access to expertise and information, enabling them to optimize tax efficiency more effectively than smaller firms.

These findings support the findings of Yulyani (2022). However, large firms are simultaneously subject to greater regulatory oversight and reputational pressure, meaning their tax strategies are usually designed within legal and transparent boundaries. This demonstrates that company size can both facilitate tax planning and encourage compliance, given its higher public visibility.

The Effect of Activity on Tax Avoidance is Moderated by Company Size

Firm size does not moderate the relationship between activity and tax avoidance. This indicates that the influence of capital intensity on tax management is relatively consistent across company sizes. Depreciation-based tax-reduction strategies are largely determined by operational asset policies rather than by firm size itself.

This finding reflects the reality of the manufacturing sector, where both large and small firms depend heavily on production assets. Therefore, asset utilization efficiency becomes more important than company scale in determining tax behavior. The absence of moderation also suggests that tax authorities may apply depreciation regulations that are relatively similar across firms regardless of size.

The Effect of Profitability on Tax Avoidance is Moderated by Company Size

Firm size moderates the relationship between profitability and tax avoidance. Large, profitable companies tend to be more cautious in pursuing aggressive tax strategies because they face greater public scrutiny, reputational concerns, and regulatory oversight. In contrast, smaller firms may engage in more aggressive tax planning due to financial pressure and lower visibility.

This finding supports legitimacy theory, which argues that large corporations seek to maintain social legitimacy and public trust by demonstrating higher compliance. The result also supports Suyanto & Nur Amiah (2022) and Isabela & Nurdin (2024). Differences from prior studies may stem from variations in institutional environments and enforcement quality across countries.

The Effect of Solvency on Tax Avoidance is Moderated by Company Size

Firm size does not moderate the relationship between solvency and tax avoidance. This suggests that debt utilization as a tax strategy depends more on financial policy and capital structure decisions than on company scale. Both large and small companies can use debt financing to obtain tax benefits through interest deductions.

The findings are consistent. From a governance perspective, this result indicates that leverage-related tax strategies are shaped primarily by managerial financing decisions rather than monitoring intensity associated with firm size. This also reflects the relatively standardized treatment of debt expenses under Indonesian tax regulations, limiting the moderating role of company size.

6. Conclusion

This study concludes that liquidity, activity, profitability, and solvency significantly influence tax avoidance in consumer goods manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Liquidity and profitability were found to have stronger relationships with tax avoidance when moderated by firm size, while firm size did not moderate the effects of activity and solvency. These findings indicate that internal financial conditions and corporate scale are important determinants of corporate tax behavior.

Theoretically, this study contributes to the tax compliance and corporate governance literature by confirming that financial performance influences managerial incentives in determining tax strategies. The findings support agency theory and legitimacy theory, showing that larger companies tend to be more cautious in tax planning because they face greater reputational risks, stronger public scrutiny, and stricter regulatory oversight. Conversely, smaller firms are relatively more vulnerable to aggressive tax avoidance practices due to financial pressure and weaker monitoring mechanisms.

From a managerial perspective, companies are encouraged to strengthen ethical governance practices and improve transparency in financial reporting to maintain corporate accountability and long-term sustainability. For policymakers and tax authorities, these results provide empirical evidence that governance-based supervision and proportional tax monitoring are essential in improving fiscal compliance, especially within emerging economies such as Indonesia, where manufacturing industries play a strategic role in national tax revenues and economic growth.

Recommendation

Based on the findings, manufacturing companies in the Consumer Goods sub-sector are advised to strengthen governance-based tax compliance by improving financial transparency, implementing ethical tax-planning policies, and optimizing liquidity and profitability management without engaging in aggressive tax avoidance practices. Companies should also enhance the competency of boards and audit committees by including members with expertise in taxation, accounting, and corporate governance to improve the effectiveness of tax oversight and risk management.

Furthermore, firms are encouraged to implement integrated transparency reporting that combines financial performance, tax compliance, and sustainability disclosures to strengthen corporate accountability and stakeholder trust. Large companies, in particular, should establish internal tax governance mechanisms and conduct periodic tax risk evaluations given their more complex financial structures and greater exposure to regulatory scrutiny.

For regulators and the Directorate General of Taxes (DGT), stricter governance-based monitoring mechanisms are needed, especially for high-profitability manufacturing companies with complex debt structures and significant asset intensity. Regulators should also strengthen audit committee competency standards, encourage transparent tax disclosures, and provide sector-specific supervision to improve tax compliance and fiscal accountability within Indonesia's manufacturing industry.

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