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The Effect of Financial Performance and Company Size on Tax Aggressiveness

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ABSTRACT

Taxes are the primary source of state revenue, playing a crucial role in financing development and improving public welfare. Although tax revenue realization in Indonesia continues to increase, the government still faces challenges in the form of tax aggressive practices by companies through tax avoidance and evasion to minimize the tax burden. This practice is triggered by a conflict of interest between companies oriented towards maximizing profits and the government's efforts to optimize state revenue. Factors such as profitability, leverage, and company size are thought to influence the tendency of companies to engage in tax aggressiveness. High profitability encourages companies to manage profits to lower tax burdens, leverage provides tax reduction benefits through debt interest expenses, while large companies have greater resources and complexity in tax planning. This study aims to analyze the effect of financial performance and company size on tax aggressiveness in food and beverage companies listed on the Indonesia Stock Exchange. The study population is 26 manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period, selected through a purposive sampling method. This study uses quantitative methods with secondary data obtained from sustainability reports and annual reports. The data were analyzed using multiple linear regression with the help of IBM SPSS 27. The results showed that profitability influences corporate tax aggressiveness, while company size does not.

INTRODUCTION

The source of funding for the State treasury and financing of State households is mostly taken from tax collection. Tax is an important component in assisting the micro and macro economic development of a State as regulated in Law no. 16 of 2009 concerning KUP (General Provisions on Taxation). Tax is a mandatory contribution to the state owed by individuals or bodies that is mandatory based on the Law, without receiving direct compensation and is used for state needs for the greatest prosperity of the people [1]. Tax is one of the largest sources of state revenue in financing state expenditures, both routine and development. Development carried out by the government aims for the welfare of the Indonesian people. The government can implement its programs to encourage economic growth through the development of infrastructure and other public facilities. To be able to implement the program, the government needs funds in the form of state revenue. Therefore, the government maximizes the collection of taxes owed to individuals and bodies with the conditions of justice: tax collection must be fair, legal conditions: based on the law, economic conditions: tax collection does not disrupt the smooth running of economic activities, financial conditions: efficient in collection costs, and simple conditions: the tax collection system must be as simple as possible, so that it makes it easier for the public to fulfill their obligations. Based on the data attached to the official website of the Central Statistics Agency [2] the state revenue of the 2022 State Budget was realized at IDR 2,626.4 trillion or 115.9% of the target based on Presidential Regulation Number 98 of 2022 of IDR 2,266.2 trillion. This realization grew by 30.6% in line with the increasingly strong and maintained economic recovery and the push for relatively high commodity prices, the realization of tax revenue reached IDR 2,034.5 trillion or 114% of the target of Presidential Regulation 98/2022 of IDR 1,784 trillion, growing 31.4% from the realization in 2021 of IDR 1,547.8 trillion. The realization of this tax revenue was supported by tax and customs and excise revenues. Tax revenues managed to reach IDR 1,717.8 trillion or 115.6% based on the target of Presidential Regulation 98/2022, growing 34.3% This figure far exceeds the 2021 tax growth of 19.3%. This indicates improved tax performance, as evidenced by the realization exceeding the target for two consecutive years. [3]

According to Frank, Lynch & Rego (in Gunawan, 2022), engineering taxable income in a company, whether planned and planned through legal or illegal means, constitutes tax aggressiveness within the company. Tax aggressiveness is implemented to minimize the company's tax burden. However, the amount used by company managers to carry out this tax aggressiveness requires a significant amount of funds. Therefore, if the company engages in tax aggressiveness, it does not provide benefits to the company [4]. This government effort faces obstacles, namely the existence of tax avoidance practices through tax avoidance (illegal tax avoidance) and tax evasion (tax evasion), also known as tax burden minimization strategies or tax aggressiveness [4]. Tax aggressiveness is defined as an explicit tax reduction, which Tax strategies encompass a variety of tax strategies, from legitimate to aggressive (Hanlon, M., & Heitzman, 2018). Companies engage in this because tax costs can reduce their profits. Paying taxes in accordance with the regulations would certainly conflict with a company's primary goal of maximizing profits. Therefore, companies strive to minimize their tax costs. Companies use tax planning. There are two types of tax planning: tax avoidance and tax evasion/tax sheltering. Tax avoidance is conducted legally in accordance with applicable laws and regulations. Tax evasion/tax sheltering is conducted illegally and violates existing regulations[5].Tax aggressiveness often arises from a conflict of interest between corporate taxpayers and the government. The goal of establishing a company is to maximize profits for the welfare of shareholders, while the government increases state revenue through taxes for national development and the welfare of the people (Yoehana, 2016). This difference drives taxpayers to engage in tax planning. Tax aggressiveness through tax avoidance or tax evasion has led to a decline in revenue in the state tax sector [6]. The decline in state revenue will be detrimental to the government.

Signalling Theory

Signaling theory explains why companies are motivated to provide financial reporting information to external parties.[7] state that signaling theory discusses how companies provide information or signals, both positive and negative, to shareholders. If a company is doing well, it will intentionally send signals to the market. This is expected to help the market distinguish between good and bad companies. The signals referred to here are anything management does that can provide investors with clues about how management views the company's future prospects[8].

From the perspective of Signaling Theory, financial information disclosed by companies serves as a signal to investors regarding managerial quality and future business prospects. Decisions related to tax planning may also be interpreted by investors as signals of managerial efficiency or, conversely, as indicators of higher regulatory risk. Therefore, financial performance and firm size are expected to influence managers' decisions regarding tax aggressiveness because these factors affect both corporate reputation and investor perceptions.

Financial Performance. According to [9], financial performance is an analysis conducted to determine the extent to which a company has implemented its financial implementation rules properly and correctly. Company performance is a depiction of a company's financial condition, analyzed using financial analysis tools, so that the company's financial condition, which reflects its performance over a certain period, can be determined. Recent studies suggest that financial performance influences corporate tax planning because highly profitable firms have stronger incentives to minimize tax expenses in order to maintain earnings and shareholder value[10] (Kovermann & Velte, 2023). Profitable firms tend to adopt more sophisticated tax planning strategies compared to less profitable firms.[11]

Company Size

Company size is a scale or value by which companies can be classified as large or small based on total assets, total sales, share value, and so on[12]. Company size is a characteristic of large companies. Large companies tend to receive greater attention from analysts and investors than small companies. Therefore, large companies avoid drastic profit fluctuations, as increased profits will result in increased taxes. Conversely, decreased profits will reflect negatively on the company's image. Therefore, large companies tend to smooth profits. According to [13], company size can be defined as the size of a company, as measured by its equity value, company value, or total assets. Company size is stated as a determinant of financial structure in almost every study for various reasons [14]. Firm size is also considered an important determinant of tax aggressiveness. Larger firms generally possess greater financial resources, more experienced tax professionals, and better access to tax planning opportunities. However, they are simultaneously exposed to greater regulatory monitoring and public scrutiny, which may discourage overly aggressive tax behavior[15].

Tax Aggressivines. In the current Indonesian tax law, there is no clear understanding or definition of tax planning, tax aggressiveness and tax avoidance[1]. However, several previous researchers have tried to define tax aggressiveness, including [13]. According to Frank et al (2009) tax aggressiveness is an action that has the aim of minimizing a company's taxable profits through tax planning, either by means of tax avoidance (legal) or tax evasion (illegal). Tax aggressiveness is an action that not only originates from taxpayers' non-compliance with tax regulations, but also originates from savings activities that comply with applicable regulations[16].

Recent literature defines tax aggressiveness as a continuum of tax planning strategies ranging from legal tax avoidance to more aggressive practices that exploit loopholes in tax regulations[17]. Previous studies have emphasized that tax aggressiveness is influenced by both firm-specific characteristics and external institutional environments [3]

The influence of financial performance on tax aggressiveness. Agents are always required to perform at their best to achieve planned financial targets for the welfare of shareholders. As company managers, agents strive to ensure that profits are reflected favorably in financial reports. This can reassure the principal that their performance is optimal. High profits are good for the company, but can also be detrimental, as they will incur higher taxes. Behavioral theory suggests that this will shape the agent's attitude and intention. Companies are encouraged to fulfill their tax obligations by minimizing corporate taxes through tax aggressiveness, as agents perceive that tax aggressiveness can increase the company's net profit [18]. This research, supported by, demonstrates that profitability has a significant positive effect on tax aggressiveness the effect of company size on tax aggressiveness [19]

Company size can be seen from the financial capabilities of a company. Companies that have large amounts of assets can be called large companies. Company size can be interpreted as a scale where companies are classified as large or small from various points of view, one of which is starting from the size of the assets owned by the company. The assets owned by a company are related to the size of the company, the greater the assets owned, the larger the company. The large number of assets owned by the company is expected to be able to support existing operational activities so that it can maximize the company's profits, so the company needs aggressive tax planning to reduce the company's tax burden. This is supported by research which states that company size influences tax aggressiveness[12]. Although tax aggressiveness has been extensively examined in previous studies, empirical evidence regarding its determinants remains inconsistent. Several studies reported that financial performance significantly influences corporate tax aggressiveness , while other studies found insignificant or even opposite results (Kovermann & Velte, 2023). Likewise, the effect of firm size on tax aggressiveness remains inconclusive, with some studies suggesting that larger firms are more likely to engage in tax planning because they possess greater financial resources and tax expertise, whereas others argue that large firms tend to avoid aggressive tax practices due to greater public scrutiny and reputational concerns [15]

Moreover, most previous studies have focused on manufacturing companies in general or used broader industrial sectors. Limited attention has been given specifically to food and beverage manufacturing companies in Indonesia during the post-pandemic period (2021–2023), when firms experienced substantial changes in profitability, operational costs, and taxation policies. This sector plays an important role in the Indonesian economy and has shown relatively stable growth despite global economic uncertainty.

Therefore, this study aims to examine the effect of financial performance and firm size on tax aggressiveness in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023. The novelty of this study lies in its focus on the post-pandemic period and a specific industrial sector that has received relatively limited empirical attention, thereby providing updated evidence regarding corporate tax aggressiveness in Indonesia.

METHODS

The selection of an appropriate research method is essential in scientific research because it provides a systematic approach to achieving the research objectives. This study employs a quantitative approach with descriptive, explanatory, and verification methods. Quantitative research, based on the positivist paradigm, is used to examine the relationship between variables through statistical analysis and hypothesis testing [20]. The explanatory approach is applied to analyze the causal relationship between financial performance, firm size, and tax aggressiveness. This study was conducted on food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period using secondary data obtained from the companies' annual financial reports published on the official IDX website. The population consisted of 26 companies, and all eligible companies were selected using a purposive sampling technique. Purposive sampling was chosen because not all listed companies met the research requirements. The sample was determined based on predetermined criteria, including companies that were consistently listed on the IDX during the observation period, published complete annual financial statements, and provided the information required to calculate all research variables. Consequently, 26 companies met these criteria and were included in the study.

The independent variables in this study are financial performance and firm size. Financial performance is measured using the profitability ratio, represented by Return on Assets (ROA), because ROA reflects the company's ability to generate profits from its total assets. Firm size is measured by the natural logarithm of total assets (Ln Total Assets), which is widely used to reduce data variability and represent the overall scale of a company. The dependent variable is tax aggressiveness, measured using the Effective Tax Rate (ETR), calculated as income tax expense divided by profit before tax. ETR was selected because it is one of the most commonly used proxies for tax aggressiveness in prior empirical studies, as it reflects the proportion of taxes actually paid relative to pre-tax income. A lower ETR generally indicates a higher level of tax aggressiveness, suggesting that the company employs tax planning strategies to reduce its tax burden. Data were collected using the documentation method by compiling financial information from the published annual reports. The data were analyzed using descriptive statistics, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), multiple linear regression analysis, partial significance tests (t-tests), and the coefficient of determination (Adjusted R^2). All statistical analyses were performed using IBM SPSS Statistics to test the proposed research hypotheses

RESULTS AND DISCUSSION

Table 1 Descriptive Statistics of Research Data

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	78	-.03	6.89	.2618	.94760
X2	78	13.30	32.90	23.3513	3.77568
Y	78	-.11	30.06	1.0618	3.51085
Valid N (listwise)	78				

Based on the table above, the profitability variable has a total of 78 data (N) with a minimum value of -0.03 and a maximum value of 6.89. The average (mean) value obtained was 0.2618, while the standard deviation was 0.94760. A standard deviation value that is greater than the average value (0.94760 > 0.2618) indicates that the profitability data has a fairly high level of spread or is heterogeneous. This indicates that the level of profitability of the companies in the research sample varies quite significantly. Apart from that, the value range of 6.92 (6.89 – (-0.03)) further shows that there are differences in profitability levels between companies.

The company size variable has a total of 78 data points (N) with a minimum value of 13.30 and a maximum value of 32.90. The average value is 23.3513 with a standard deviation of 3.77568. The average value is greater than the standard deviation (23.3513 > 3.77568) indicating that the data distribution is relatively low so that the characteristics of the company size in the sample tend to be homogeneous. Although there is a range of values of 19.60, most of the data is still concentrated around the average value, so that the variation in company size is not too large

The tax aggressiveness variable has a total of 78 data points (N) with a minimum value of -0.11 and a maximum value of 30.06. The average value is 1.0618, while the standard deviation is 3.51085. The standard deviation value is greater than the average value (3.51085 > 1.0618) indicating that the tax aggressiveness data has a high level of distribution or is heterogeneous. This indicates that the level of tax aggressiveness of companies in the sample varies greatly. The fairly wide range of values, namely 30.17 (30.06 – (-0.11)), also indicates a significant difference in the level of tax aggressiveness between companies during the study period.

Normality testing in this study was carried out using the One Sample Kolmogorov Smirnov test. If the significance value is > 0.05, then the data is normally distributed

Table 2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		78
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.83017709
Most Extreme Differences	Absolute	.328
	Positive	.328
	Negative	-.279
Test Statistic		.328
Asymp. Sig. (2-tailed)		.200[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

The results of the normality test above, the Asymp Sig. (2-tailed) value obtained is 0.200 (> 0.05) so it can be concluded that the data is normally distributed, because the significance value obtained is > 0.05.

Table 3 Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1	.857	1.167
	X2	.857	1.167

The profitability ratio has a tolerance value of 0.857 (> 0.10) and a VIF value of 1.167 (< 10), so there is no multicollinearity and Company size has a tolerance value of 0.857 (> 0.10) and a VIF value of 1.167 (< 10), so there is no multicollinearity

Table 4 Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.295[a]	.087	.063	1.85442	1.856

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

Based on the data processing results above, it is known that the DW value is 1.856. The Durbin Watson value lies between 1.80 and 2.20, indicating that there is no autocorrelation in this research model. Therefore, it can be concluded that there is no autocorrelation in this model because the calculated D-W value is between 1.80 and 2.20, namely 1.856.

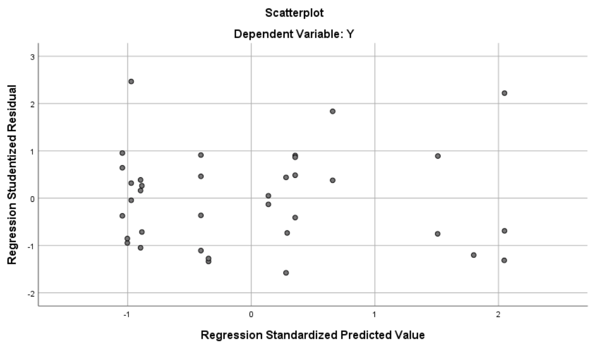

Figure 1 Heteroscedasticity test

Based on the scatter plot above, it can be seen that the points are spread randomly and are spread above, below, and above the number 0 on the Y axis. So, in general, it can be concluded that in this regression model, there is no heteroscedasticity.

Table 5 Multiple Linear Regression

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	.983	1.465		.672	.504		
	X1	.538	.229	.280	2.353	.021	.857	1.167
	X2	-.017	.060	-.034	-.281	.779	.857	1.167

a. Dependent Variable: Y

The following are the results of the multiple regression equation based on the data in the table above:

Y = 0.983 + 0.538X1 - 0.017X2

Based on the regression equation above, it can be interpreted that the regression equation shows that the profitability ratio has a positive influence on the tax aggressiveness of Food and Beverage Companies Listed on the Indonesian Stock Exchange, meaning that the higher the profitability ratio, the tax aggressiveness of Food and Beverage Companies Listed on the Indonesian Stock Exchange will increase, conversely, the lower the profitability ratio, the tax aggressiveness of Food and Beverage Companies Listed on the Indonesian Stock Exchange will decrease.

Company size has a negative influence on the tax aggressiveness of Food and Beverage Companies Listed on the Indonesian Stock Exchange, meaning that the higher the company size, the tax aggressiveness of Food and Beverage Companies Listed on the Indonesian Stock Exchange will decrease, conversely, the lower the company size, the tax aggressiveness of Food and Beverage Companies Listed on the Indonesian Stock Exchange will increase.

Table 6 Hypothesis testing

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.983	1.465		.672	.504
	X1	.538	.229	.280	2.353	.021
	X2	-.017	.060	-.034	-.281	.779

Based on the processed SPSS data above, the following explanations are obtained:

1. Testing the First Hypothesis (H1). The profitability ratio variable obtained a significance value of 0.021 < 0.05. Based on the calculated sig. value, it can be concluded that the profitability ratio has an influence on the tax aggressiveness of food and beverage companies listed on the Indonesia Stock Exchange. The first hypothesis is accepted.
2. Testing the Second Hypothesis (H2). The company size variable obtained a significance value of 0.779 > 0.05. Based on the calculated sig. value, it can be concluded that company size has no influence on the tax aggressiveness of food and beverage companies listed on the Indonesia Stock Exchange. The second hypothesis is rejected.

Tabel 7 Determination Coefficient Test R^2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.295[a]	.087	.063	1.85442	1.856	.295[a]

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

Based on the test results above, it is known that the R square value is 0.063. This means that 6.3% has a low but definite influence, the tax aggressiveness of food and beverage companies listed on the Indonesia Stock Exchange is influenced by the two independent variables used, namely the profitability ratio and company size. While the rest is influenced by other factors outside the research model, such as corporate governance.

The Effect of Financial Performance on Tax Aggressiveness

The results indicate that financial performance, measured by profitability (ROA), has a positive and significant effect on tax aggressiveness among food and beverage manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023. This finding suggests that companies generating higher profits tend to engage more actively in tax planning strategies to reduce their tax burden. As profitability increases, taxable income also rises, creating stronger incentives for management to minimize tax expenses while maintaining corporate earnings.

From the perspective of Signaling Theory, companies seek to maintain strong financial performance as a positive signal to investors regarding managerial efficiency and future business prospects. However, higher profitability is accompanied by greater corporate income tax obligations. Consequently, managers may adopt legal tax planning strategies to preserve earnings without reducing the quality of financial performance reported to investors. In this context, tax aggressiveness can be viewed as a managerial response to balancing profitability with tax efficiency.

This finding is consistent with previous empirical studies by, which reported that profitable firms are more likely to engage in tax planning to reduce tax expenses[19]. Argued that companies with higher profitability possess stronger incentives to manage their tax liabilities in order to maximize shareholder wealth. Therefore, the present study reinforces the argument that profitability is an important determinant of corporate tax aggressiveness [21].

Nevertheless, the magnitude of this relationship should be interpreted cautiously. Although profitability significantly affects tax aggressiveness, tax management decisions are also influenced by other organizational and institutional factors that were not included in this study. These include corporate governance quality, leverage, audit quality, ownership structure, executive characteristics, and regulatory enforcement. Consequently, profitability should not be viewed as the sole determinant of tax aggressiveness.

The Effect of Firm Size on Tax Aggressiveness

The results further reveal that firm size has no significant effect on tax aggressiveness. This finding indicates that the amount of corporate assets does not necessarily determine whether a company adopts aggressive tax planning strategies. Both large and small companies appear to exhibit relatively similar levels of tax compliance.

The absence of a significant relationship may reflect the characteristics of the Indonesian food and beverage industry. Although larger companies generally possess greater financial resources and access to professional tax consultants, they are also subject to greater regulatory scrutiny, external audits, and public attention. As a result, the potential benefits of aggressive tax planning may be offset by higher legal and reputational risks. Conversely, smaller firms have fewer tax planning resources but also tend to avoid aggressive tax behavior to maintain business continuity and comply with tax regulations.

These findings differ from previous studies, which reported a significant influence of firm size on tax aggressiveness. The discrepancy may be attributed to differences in research periods, industrial sectors, and measurement approaches. Unlike previous studies covering broader manufacturing sectors, this study focuses specifically on food and beverage manufacturing companies during the post-pandemic period (2021–2023), when firms operated under changing economic conditions and evolving tax policies. These contextual differences may explain why firm size was not found to significantly influence tax aggressiveness[22].

Implications of the Model

The coefficient of determination shows an Adjusted R^2 of 6.3%, indicating that financial performance and firm size explain only a small proportion of the variation in tax aggressiveness. This suggests that corporate tax aggressiveness is a complex phenomenon influenced by numerous financial and non-financial factors beyond those examined in this study.

The relatively low explanatory power does not invalidate the significance of the findings. Instead, it indicates that tax aggressiveness is shaped by multidimensional managerial decisions involving governance mechanisms, ownership structure, leverage, audit quality, political connections, executive incentives, and changes in taxation regulations. Therefore, future studies should incorporate these additional variables to develop a more comprehensive model capable of explaining corporate tax behavior more effectively.

CONCLUSIONS

Based on the empirical analysis, this study concludes that financial performance, measured by profitability, has a positive and significant effect on tax aggressiveness among food and beverage manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023. Companies with higher profitability tend to implement more intensive tax planning strategies in order to reduce tax expenses while maintaining earnings. This finding supports Signaling Theory, which suggests that managers attempt to preserve favorable financial performance as a positive signal to investors while simultaneously improving tax efficiency.

In contrast, firm size does not have a significant effect on tax aggressiveness. This finding indicates that the scale of a company's assets is not the primary determinant of aggressive tax behavior. Large companies may possess greater tax planning capabilities but are also exposed to higher regulatory and reputational risks, whereas smaller firms tend to maintain compliance to ensure business sustainability.

Furthermore, the relatively low Adjusted R^2 value (6.3%) suggests that financial performance and firm size explain only a limited proportion of variations in tax aggressiveness. Therefore, future research should incorporate additional determinants, such as leverage, corporate governance, audit quality, ownership structure, and managerial characteristics, to provide a more comprehensive explanation of corporate tax aggressiveness. These findings contribute to the literature on corporate taxation by providing updated evidence from Indonesian food and beverage manufacturing companies during the post-pandemic period and offer practical implications for policymakers and corporate managers in designing effective tax compliance strategies.

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