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Measuring the Impact of Financial Performance and Firm Age on Tax Avoidance

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Abstract

Purpose – This study aims to examine the influence of Financial Performance using the Return on Assets (ROA) and Debt to Equity Ratio (DER) proxies as well as Company Age on Tax Avoidance in Public Companies in Indonesia in the non-cyclical sector in 2019-2023.
Design/Methodology/Approach – This study uses a quantitative approach, where the collected numbers are processed using the statistical tool STATA using the selected Fixed Effect /Model. The tests carried out were balanced panel data regression and data testing, namely autocorrelation test, multicollinearity and heteroscedasticity test. The research population amounted to 125 non-cyclical companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 with a selected sample using purposive sampling totaling 35 companies so that the total number of data processed was 175.

Findings – The results of the study show that there is a partial significant influence of Financial Performance by proxy of Return on Asset and Debt to Equity Ratio and Company Age on Tax Avoidance.
Research limitations/Implications – With new research data can be an input for policymakers related to decisions related to policies in the tax sector, especially for companies that have been operating for a long time and have a high level of profit and debt burden that will be able to trigger tax avoidance.

Keywords: Company Size, Financial Performance, Tax Avoidance

Introduction

The government is very interested in maintaining the level of tax revenue, including maintaining the impact of taxes on sustainability and equitable distribution of reforms in the long term (Toussaint, Schultis, & Seuffert, 2025). The importance of taxes as a source of state revenue (Azagba, Ebling, & Korkmaz, 2024) to be able to finance state operations and other infrastructure development. Another important function of taxes is as a mechanism to redistribute income and improve social welfare (Yang & Si, 2025).

However, the government's efforts to improve taxpayer compliance in Indonesia are inseparable from various obstacles. Many factors affect the level of compliance of taxpayers, including due to the limited law enforcement capacity in the tax authority and the lack of tax understanding from the taxpayer side (Tourek, 2022). This is also because taxpayers consider taxes as a burden that will reduce income that must be minimized (Johnson, Breunig, Olivo-Villabrille, & Zaresani, 2024). One of the efforts to minimize the tax burden is through the practice of tax avoidance (Mas-Montserrat, Durán-Cabré, & Esteller-Moré, 2025).

Tax avoidance is basically an effort to minimize the amount of tax payable, where taxpayers use loopholes in existing tax rules (Apostol & Pop, 2019; Knuutinen, 2014). Although it does not violate the provisions of the law, the practice of minimizing the tax burden remains a question regarding its legitimacy even though the intention to minimize the tax burden is considered normal in the business realm (Anesa, Gillespie, Spee, Sadiq, & Society, 2019). Tax avoidance also means that there have been savings on the amount of taxes that should be owed to the State, so that the funds owned by taxpayers can be allocated for other purposes, such as business operations to business expansion.

According to Darussalam & Septriadi (2008), tax avoidance practices can be carried out in several forms, including: substantive tax planning and formal tax planning. Substantive tax planning is carried out by transferring taxes to countries that provide special treatment for a type of income, moving objects to countries that are categorized as countries that provide special tax treatment for a type of income, and moving tax subjects and tax objects to countries that are categorized as providing special treatment for a type of income. Formal tax planning is tax avoidance by maintaining the economic substance of a transaction by choosing various formal forms of transaction types that provide a lower tax burden.

Tax evasion also occurs in America. At least a quarter of companies in America do tax avoidance by paying less than 20% in taxes. This is in contrast to the average tax that companies have to pay, which is close to 30% (Dyreng, Hanlon, & Maydew, 2008). In Indonesia, in 2005, 750 Foreign Investment (FDI) companies were reported to have suffered losses for five consecutive years and did not pay taxes to the state. However, in 2012, 4000 PMAs reported zero taxes because they suffered losses for seven consecutive years. According to Tanzil & Arrozi (2020), this business is usually engaged in the manufacturing and processing of raw materials.

There are many factors that affect tax avoidance, including Return on Asset (ROA). Return on Asset (ROA) is an indicator that reflects a company's financial performance (Sari & Somoprawiro, 2020). Some studies suggest that firms with higher ROA are more likely to engage in tax avoidance. The more profitable firms may adopt aggressive tax strategies to minimize tax liabilities (Saragih, Suyanto, & Pratama, 2025). As ROA rises, corporations typically encounter heightened tax obligations, prompting them to optimize tax management to preserve net income.

Another financial performance that affects tax avoidance is the Debt to Equity Ratio (DER). DER is a ratio that describes the amount of debt that a company has compared to the capital it has. Debt will incur an interest expense that will reduce pre-tax profits (Apriani & Sunarto, 2022). The burden that must be carried by the business, including bankruptcy fees, agency fees, increased interest costs, and so on, increases with the amount of debt (Muti'ah & Ahmad, 2021).

The age of a company is measured from the date of listing of a company on the Indonesia Stock Exchange (Gurusinga, Hidayat, & Lobion, 2024; Setiawan, 2020). The extended longevity of a corporation may negatively impact its tax avoidance strategies. A corporation's lifespan also reflects the management's ability to sustain the business (going concern), which leads to greater transparency and caution in handling tax financing (Widayanti & Rikah, 2022). However, a company's age can also positively influence its tax avoidance strategies. As a company matures, it gains greater experience in navigating complex tax regulations, often developing more sophisticated tax planning techniques. Older companies typically have access to better resources, including expert tax advisors, enabling them to take advantage of legal tax avoidance strategies, such as profit shifting, leveraging tax loopholes, and utilizing offshore entities

Literature Review & Hypothesis

Agency Theory

Agency theory explains that agency relationships arise when one or more principals hire another person (agent) to provide a service and then delegate decision-making authority to that agent (Jensen & Meckling, 1976). A company is seen as a set of contracts between the company's manager and the shareholders. The principal or owner of the company hands over the management of the company to the management. Managers as the party authorized over the company's activities and obliged to provide financial statements will tend to report something that maximizes its utility and sacrifices the interests of shareholders.

As a company manager, managers will know more about the company's internal information and prospects than the owner (shareholders). The manager is obliged to provide signals regarding the condition of the company. to the owner as a form of responsibility for the management of the company, but the information conveyed is sometimes not received in accordance with the actual condition of the company, so this spurs the occurrence of agency conflicts. In such a condition, this is known as information asymmetry. Agency theory states that a company is a legal contractual relationship between a principal and an agent (Jensen & Meckling, 1976), in this relationship, conflicts often arise due to differences in interests. The principal typically seeks to maximize the firm's value, while the agent may prioritize their own personal goals, such as increasing compensation or reducing risk.

Financial Performance with Return on Asset Proxy for Tax Avoidance

Financial performance is a measure used to evaluate how well an entity, such as a company, organization, or individual, manages their financial resources (Revanza & Wahyuni, 2023). Financial performance is an important factor in business and investment decision-making, as it provides a clear view of the success or failure of an entity in achieving their financial goals (Wahyuni & Erawati, 2019). Financial performance reflects the extent to which the entity is successful in achieving the financial objectives that have been set.

Some of the formulas used to measure financial performance include: Gross Profit Margin, which is the comparison between gross profit (the difference between revenue and production costs) and total revenue; Net Profit Margin: is a comparison between net profit and total revenue; Return on Investment (Gardner et al.): a measure that measures how well an investment makes a profit compared to the initial investment cost; Debt-to-Equity Ratio: is a comparison between the amount of debt and own capital used in an entity; Asset Turnover: measures how efficiently an entity uses its assets to generate revenue; Liquidity Ratios: there are current and fast ratios to measure an entity's ability to meet short-term obligations quickly; Free Cash Flow: is the amount of money available after all operating costs, investments, and debt payments have been taken into account. It indicates a company's ability to generate cash available for investment or distribution to shareholders; Earning Per Share (Panda & Leepsa): is one of the financial metrics used to measure a company's profitability and measure how much net profit per share issued by a company; and as used in this study, it is Return on Assets (ROA). Handayani's research (2018) resulted in a significant influence of return on assets on tax avoidance, which was strengthened by the results of research by Sari & Somoprawiro (2020).

H1: It is suspected that financial performance with return on asset proxy has an effect on tax avoidance

Financial Performance with Debt to Equity Ratio on Tax Avoidance

Regulatory tax avoidance has a significant impact on risk and value creation incentives in a business context. When a company or individual takes advantage of legal loopholes or legitimate tax planning strategies, this often creates an incentive to take on greater risk (Suprapti, Sudarma, Rosidi, & Baridwan, 2016). By having a lot of debt, companies can take advantage of tax incentives through a reduction in taxable profits due to interest expenses.

A higher debt-to-equity ratio makes managers more likely to take actions that are not in line with the interests of the owner, because it prioritizes the interests of creditors and at the same time indicates the existence of agency problems between managers and owners, which causes creditors to limit debt contracts (Suprapti et al., 2016). However, research states that increasing the use of debt will lower the cost of equity, and hold back the distribution of capital. Debtors can also encourage cooperation from managers (Adeoye, Islam, & Adekunle, 2021). Research by Nindita et al. (2021) proves the influence of DER on tax avoidance supported by the research results of Riyadi & Rahmayani (2022).

H2: It is suspected that financial performance with a proxy Debt to Equity Ratio affects Tax Avoidance

The Age of the Firm on Tax Avoidance

The age of the company affects the approach to tax management, with younger companies tending to be more aggressive in tax avoidance, while older companies are more cautious and compliant with regulations, (Li, 2024). Young companies are more likely to be aggressive in tax avoidance due to limited resources and experience, while older companies have more experience, so they are more cautious and tend to comply with tax regulations. Older companies will pay more attention to reputation and stability so they will be more careful in tax avoidance to avoid negative impacts. By having more resources, older companies will be more adaptive to regulatory changes because they have the resources to monitor and adjust their strategies.

The tax burden that will ultimately reduce profits (Suprapti et al., 2016) makes stakeholders try to reduce it, at this point between the company owner and the manager have a common interest. In the context of agency theory, tax avoidance is often an arena for conflicts of interest between the principal who wants tax compliance and the manager (agent) who may be more interested in short-term profits. Managers may be more likely to take risks related to tax avoidance if their incentives, such as profit-based bonuses, encourage such actions. On the other hand, company owners may prioritize tax compliance to avoid legal risks and maintain the company's reputation (Hanlon & Heitzman, 2010). The results of the research of Sinambela & Nuraini (2021) state that there is an influence of company age on tax avoidance which is strengthened by the research of Gurusinga et al. (2024).

H3: It is suspected that the age of the company has an effect on tax avoidance.

Conceptual Framework

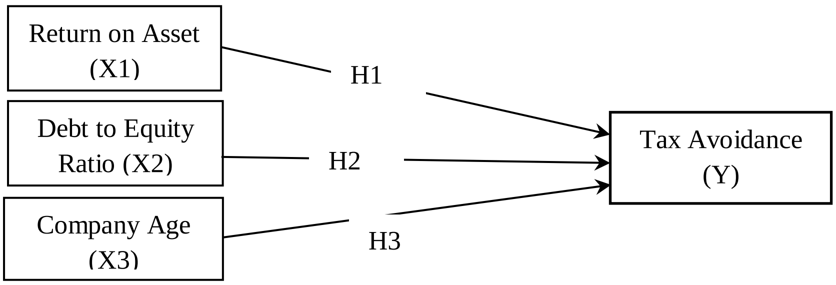

Figure 1
Research Framework

Research Method

Types of Research

This research is quantitative research that aims to see the influence of financial performance and company age on tax avoidance. The research population is 125 with a selected sample of 35 companies during the five-year period, namely 2019-2023, so that the research data amounts to 175 data. Sample selection using purposive sampling method. The test was a multiple linear regression using a selected model that was previously tested with the Chow Test, Hausman Test, Lagrange Multiplier Test, and analysis of descriptive statistics, partial t test and determination coefficient results. All tests were conducted using the statistic tool STATA.

Variables and Measurements

Table 1
Research Variables

Variable Name	Measurement Indicators	Authors
Financial Performance Return on Asset (ROA)	$ROA = \frac{Net\ Income}{Total\ Asset.}$	Kothari, Leone, & Wasley (2005); Handayani (2018); Rusni et al. (2025)
Debt to Equity Ratio (DER)	$DER = \frac{Debt}{Equity.}$	Muti'ah & Ahmad (2021)
Company Age	Number of Years Since IPO	Cumming & Nguyen (2025); Wang, Richardson, & Cao (2024)
Tax Avoidance	$ETR = \frac{Income\ Tax\ Expense}{Profit\ Before\ Tax}$	Suwardi, Sholihin, Arifa, & Saragih (2024); Zhang et al. (2022)

Results and Discussion

Result

Regression Model Test

The data collected totalled 175 tests to determine the best model between common effect (CEM), fixed effect (FEM), or random effect (REM) models. The tests carried out are the Chow test, the Hausman Test and the Lagrange Multiplier Test with the help of STATA. The test results are as follows:

Table 2
Regression Model Selection Test Results

	Purpose	Result	Decision
Chow Test	Choosing between CEM and FEM	Prob > F = 0.0000 which means it is smaller than 0.05.	FEM
Hausman Test	Choosing between FEM and REM	Prob > chi2 = 0.000 which means it is less than 0.05	FEM
Lagrange Multiplier Test	There is no need to do it because the previous two tests were consistent with FEM results		

Classic Assumption Test

To test the quality of the sample data, data normality, heteroscedasticity, multicollinearity and autocorrelation test were used, with the following results.

Table 3
Classical Assumption Test Results

Test For	Test Name	Result	Decision
Normality Test	Shapiro–Wilk	Prob>z = 0.00000 which means < 0.05	The data is not normally distributed, so it uses the Central Limit Theorem, because the data is > 100, so it is assumed to be normal
Heteroscedasticity	Glejser Test	Prob > chi^2 = 0.0000, which means < 0.05	Data violates heteroscedasticity assumptions, then it is done robust.
Multicollinearity	Correlation test	All variables independent partial correlation < 0.8	No relationship between independent variables
Autocorrelation	Wooldridge test	Prob > F = 0.0001 which means < 0.05	Data violates the assumption of autocorrelation, then it is done robust

Descriptive Statistic

Table 4
Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
ETR	175	0.2499616	0.1076364	0.02185	0.921846
FA	175	22.47571	10.84499	1.25	42.08
ROA	175	0.12758	0.105924	0.0028	0.778
DER	175	1.111794	1.133106	0.0169	6.3542

The results of the descriptive statistical analysis in table 4 can be found that the mean value (average value) > standard deviation, (0.2499616 > 0.1076364) shows a data deviation of variable Y, which occurs low, meaning that the data distribution is even, this indicates a better result so that it shows normal results and does not cause bias, then it can be said that the data is homogeneous. For Tax Avoidance with ETR proxy, the minimum value is 0.02185 obtained by Mayora Indah Tbk. in 2021, while the maximum value of 0.9218 is obtained by Sawit Sumbermas Sarana Tbk. in 2019.

The results of the descriptive statistical analysis in table 3 can be found that the mean value of > Sd (0.12758> 0.105924) shows a deviation of the data of the variable X1, which occurs low, meaning that the distribution of data is even, this indicates a better result so that it shows normal results and does not cause bias, then it can be said that the data is homogeneous. For Return on Asset (ROA) the minimum value is 0.0028 by Sekar Bumi Tbk. in 2021, the maximum value is 0.8146 by Sekar Bumi Tbk. in 2019.

The results of the descriptive statistical analysis in table 3 can be found that the mean value of mean < Sd (0.111794 < 0.133106) shows a deviation of the data of the X1 variable, which occurs high, meaning that the distribution of data is uneven, this indicates abnormal results so that it shows normal results and causes bias, then it can be said that the data is heterogeneous. The minimum value of the Debt to Equity Ratio (DER) is 0.0169 by Ultrajaya Milk Industry & Trading in 2019, and the maximum value is 6.3542 by Sawit Sumbermas Sarana Tbk. in 2021.

The results of the descriptive statistical analysis in table 3 can be found that the mean value (average value)> standard deviation, (22.47571 > 10.84499) shows a deviation of the data of variable Y, which occurs low, meaning that the distribution of the data is even, so that it shows normal results and does not cause bias, then it can be said that the data is homogeneous. The minimum value for the company's life is 1.25 years by Garuda food Putra Putri Jaya Tbk in 2019 while the maximum value is 42,083 years by Multi Bintang Indonesia Tbk. in 2023

Regression Equations

Table 5
Robust Fixed Effect Model Regression Result

Variable	Coefficient	Std. Err.	t	P>|t|
FA	-0.0162966	0.0031793	-5.13	0
ROA	-0.3532172	0.0982826	-3.59	0.001
DER	-0.0600641	0.0167682	-3.58	0.001
_cons	0.7280807	0.0879433	8.28	0

Based on the table above, after regression is carried out using a robust fixed effect model, the regression equation in this study is as follows:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4C1 + \beta 5C2 + e$

Tax Avoidance = 0.7280807-0.3532172ROA - 0.0600641DER – 0.0162966AGE + e

A constant value of 0.7280807 means that the tax avoidance value is 0.7280807, if all independent variables are valued at 0. The value of the financial performance variable coefficient with the ROA proxy of -0.3532172 means, if there is an increase in the ROA variable by 1 point, the ETR variable will decrease, or tax avoidance will increase by 0.3532172. The value of the financial performance variable coefficient with the DER proxy of -0.600641 means that if there is an increase in the debt to equity variable by 1 point, then the

ETR variable will decrease, or tax avoidance will increase by 0.600641. The value of the company size variable of -0.162966 means that if there is an increase in the company size variable by 1 point, then the ETR variable will decrease, or tax avoidance will increase by 0.0162966.

F Test Results

Table 6
F Test Results

Number of obs	175		
F(3,34)	10.82	Prob > F	0.0000

F-statistically = 10.82 and p-value = 0.0000 which is smaller than 0.05 indicates that this regression model is statistically significant. The independent variables used in the model have a significant relationship with the dependent variables. This gives confidence that the model used to analyze this data is a fairly good model.

Determination Coefficient Results

Table 7
Determination Coefficient Results

Number of obs	175	R-squared Within	0.2673
Number of groups	35	R-squared Between	0.0112
		R-squared Overall	0.0204

The R-squared value Within = 0.2673 indicates that about 26.73% of the variation in the dependent variable can be explained by the model taking into account the variation in the group while 73% of the variation in the data cannot be explained by the model. Higher R-squared within compared to R-squared between and overall suggests that the model is better at explaining variations within groups than variations between groups or overall data.

Table 8
Results of the t-test (Partial)

Variable	(1) ETR (CEM)	(2) ETR (FEM)	(3) ETR (REM)	(4) ETR (Robust)
FA	-0.0007	-0.0163***	-0.0013	-0.0163***
	(-0.3890)	(0.0000)	(-0.2680)	(0.0000)
ROA	-0.280***	-0.353***	-0.318***	-0.353***
	(-0.0010)	(0.0000)	(0.0000)	(-0.0010)
DER	0.0154**	-0.0601***	-0.0069	-0.0601***
	(-0.0250)	(0.0000)	(-0.4770)	(-0.0010)

Table 8 presents the outcomes of the (partial) t-test across four regression types. The initial regression used a common effect model, revealing that the company's age variable exerts no influence, however the return on assets and debt to equity ratio variables significantly impact tax evasion. The fixed effect model indicates that all independent variables exert a significant partial effect on tax avoidance, and the robust regression results corroborate this finding, demonstrating that all independent variables significantly influence tax avoidance, as reflected in the robust results column. In the random regression model, only the return on assets variable demonstrates a significant effect, whilst the firm age and debt-to-equity ratio variables have no effect.

In the robust fixed effect regression model, the Return on Assets (ROA) shows a coefficient of -0.3532172 with a significance level of 0.001, indicating that ROA has a negative and significant effect on the Effective Tax Rate (ETR), or conversely, a positive and substantial influence on tax evasion. As a company's profitability (ROA) rises, its likelihood of engaging in tax avoidance also increases. The profitable companies face higher taxes, which provides an incentive to seek ways to reduce their tax burden legally. Additionally, they have the financial resources and expertise to implement complex tax avoidance strategies, which results in a lower effective tax rate and potentially higher tax evasion activity.

The Debt-to-Equity Ratio (DER) has a coefficient of -0.0600641 and a significance level of 0.001, implying that DER negatively and significantly affects ETR, or alternatively, positively influences tax evasion. A higher debt to equity ratio suggests an increased likelihood of tax evasion, possibly due to the pressure on heavily indebted companies to maintain favorable relationships with investors and tax authorities.

The company's age has a coefficient of -0.0162966 with a significance value of 0.000, indicating a negative and significant effect on ETR, or a positive influence on tax evasion. As a firm matures, its tendency to engage in tax evasion increases. Older companies generally have more resources and expertise to implement tax avoidance strategies.

Discussion

Effect of Financial Performance with Return on Asset in Indonesia Cyclicals Sector Firms

The t-test results indicate that financial performance, quantified by Return on Assets (ROA), significantly influences tax evasion. ROA exhibits a coefficient of -0.3532172 with a significance level of 0.001. ROA is a profitability metric that assesses a company's efficiency in generating net profit from its assets. An elevated ROA indicates that the organization is effectively utilizing its assets to produce profits. In the realm of tax avoidance, companies with elevated ROA may be more predisposed to leverage tax loopholes to diminish their tax liabilities, thereby enhancing their net profit. The results align with the studies conducted by Mkadmi & Ali (2024); Prasetyo & Wulandari (2021); Safteria, Merliyana, & Management (2023), all of which emphasize the impact of ROA on corporate tax aggressiveness. From an agency perspective, corporate managers are more likely to see the potential for short-term financial performance improvements that could lead to higher bonuses or job security. However, this behavior may conflict with the interests of shareholders, who may prefer the company focus on long-term growth and sustainability rather than engaging in practices that could expose it to legal risk or damage its reputation.

Effect of Financial Performance with Debt to Equity Ratio in Indonesia Cyclicals Sector Firms

The Debt to Equity Ratio (DER) shows a coefficient of -0.0600641 with a significance level of 0.001. This suggests that higher profitability and a stronger capital structure are associated with a greater tendency toward tax evasion. Highly profitable firms often seek to aggressively reduce their tax burdens, leveraging their stronger financial capacity to meet tax obligations. Moreover, companies with a well-balanced mix of debt and equity frequently exploit substantial interest expenses to lower taxable income, thereby employing this as a tax evasion strategy.

These results are consistent with Shin & Woo (2017) who found that the debt ratio weakens the positive relationship between tax avoidance and the cost of debt capital. However, the findings contradict those of (Muti'ah (2021) and (Sumantri, Kusnawan, & Anggraeni (2022) who reported that the debt to equity ratio has no significant impact on tax avoidance. The positive influence of the debt ratio on tax avoidance can be seen as an extension of the agency problem. Management might exploit the debt tax shield for short-term gains, which could conflict with the shareholders' long-term interests, thereby exacerbating the principal-agent conflict within the firm.

Effect of Firm Age on Tax Avoidance in Indonesia Cyclicals Sector Firms

With a coefficient of -0.0162966 and a significance level of 0.000, the t-test demonstrated that the age of the company negatively affects ETR which means positive impact on tax evasion. Based on these findings, it appears that tax dodging is more common among older companies. Companies that have been around for a while typically know their way around tax legislation to minimize the tax burden. This decreasing ETR also correlate with a higher tax avoidance as the company seeks ways to further reduce its tax burden. The more established businesses can afford to take a cautious approach to taxes and adhere to all relevant regulations because they have access to more trustworthy and knowledgeable resources. In Agency Theory, older companies may increase tax avoidance as management, motivated by short-term personal gains, feels more secure in exploiting tax loopholes due to established financial stability and relationships with regulators. This creates a principal-agent conflict, as shareholders prioritize long-term growth and compliance, while management seeks to maximize immediate profits through tax avoidance.

Conclusion and Recommendation

Conclusion

Based on the results of the test and discussion of the influence of financial performance and the age of the company on tax avoidance, it was concluded that both Financial

Performance with the proxy of Return on Asset and Debt to Equity Ratio as well as the Company's Age partially affected tax avoidance. By using a fairly new data set, the results of the research can be a good enough input for stakeholders related to tax policy to focus more on companies that have gone public for a long time because based on the results of this research, they are more likely to have resources that can be used to carry out tax avoidance actions than companies that have just gone public. Likewise, to companies that have a lot of debt so that they can take advantage of interest expenses as a deduction of taxable profits.

Recommendation

In the preparation of this study, there are several limitations, including the use of secondary data that allows errors in the calculation. Another limitation is the use of samples that are only from cyclical sector companies so that it is not sufficient to generalize for all sectors. Therefore, for further research, it can use a wider sample of not only one sector and can complete the analysis by using a combination of quantitative and qualitative methods to obtain more in-depth analysis results

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