# *DO FIRM CHARACTERISTICS AFFECT TAX AVOIDANCE? A SENSITIVITY ANALYSIS*

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***Abstract***

*This study examines the effect of firm characteristics on tax avoidance using an empirical approach. The research utilizes a sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, selected through purposive sampling, resulting in 305 firm-year observations. The study employs multiple regression analysis and sensitivity testing to ensure robustness. The findings reveal that firm size and sales growth have no significant effect on tax avoidance, while profitability has a negative and significant effect. This suggests that firms with higher profitability are less likely to engage in tax avoidance practices. The study contributes to the literature by providing empirical evidence on the role of firm characteristics in tax strategies. It offers practical insights for policymakers and regulators in designing effective tax compliance policies. The results of the profitability sensitivity test on tax avoidance proxied from GAAP ETR to Cash ETR support the main test results, indicating that the findings of this study are robust and independent of the proxy used.*

***Keywords**: firm characteristics, tax avoidance, profitability, firm size, sales growth.*

**Abstrak**

Penelitian ini menganalisis dampak karakteristik perusahaan terhadap penghindaran pajak dengan pendekatan empiris. Sampel penelitian terdiri dari perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) periode 2019-2023, yang dipilih menggunakan metode purposive sampling, sehingga menghasilkan 305 observasi firm-year. Studi ini menggunakan analisis regresi berganda serta uji sensitivitas untuk memastikan ketahanan hasil penelitian. Hasil penelitian menunjukkan bahwa ukuran perusahaan dan pertumbuhan penjualan tidak berpengaruh signifikan terhadap penghindaran pajak, sedangkan profitabilitas memiliki pengaruh negatif dan signifikan. Temuan ini mengindikasikan bahwa perusahaan dengan tingkat profitabilitas lebih tinggi cenderung lebih patuh dalam membayar pajak. Studi ini memberikan kontribusi terhadap literatur dengan menghadirkan bukti empiris mengenai peran karakteristik perusahaan dalam strategi perpajakan serta menawarkan wawasan praktis bagi pembuat kebijakan dan regulator dalam merancang kebijakan kepatuhan pajak yang lebih efektif. Hasil uji sensitivitas profitabilitas terhadap penghindaran pajak yang diproksikan dari GAAP ETR menjadi Cash ETR mendukung hasil uji utama penelitian mengindikasikan bahwa temuan penelitian ini robust dan tidak tergantung pada proksi yang digunakan.

**Kata Kunci**: karakteristik perusahaan, penghindaran pajak, profitabilitas, ukuran perusahaan, pertumbuhan penjualan.

## INTRODUCTION

Tax avoidance can be defined as a managerial strategy employed by firms to reduce their tax burden by exploiting regulatory gaps, without explicitly violating tax laws. From the perspective of agency theory, tax avoidance may represent an opportunistic behavior by managers, aimed at increasing the firm's net income and enhancing their own compensation (Meckling & Jensen, 1976; Watts & Zimmerman, 1990). A conflict of interest frequently emerges between managers and tax authorities, as firms tend to seek methods to minimize tax payments, while regulators focus on optimizing national tax revenues (Dewi & Jati, 2014).

Managerial decisions related to tax avoidance are significantly affected by the characteristics of the firm. Firm characteristics refer to the distinct attributes that define a business entity, which can be evaluated across various dimensions, including firm size, profitability, liquidity, and investment decisions (Surbakti, 2012). These characteristics not only differentiate one firm from another but also play a critical role in shaping the financial and tax strategies implemented by the firm (Anggraeni et al., 2023).

Previous studies examining the correlation between firm characteristics and tax avoidance have produced inconsistent findings. Regarding firm size, several studies have identified a positive and significant effect of firm size on tax avoidance, including those by Joachim (2024), Susanto (2022), Swingly & Sukartha (2015), Darmawan & Sukartha (2014), Dewinta & Setiawan (2016), and Mulyati et al (2019). Conversely, Kurniasih & Sari (2013) found a negative and significant effect between firm size and tax avoidance, while Anggraeni et al (2023), Subagiastra et al (2016), and Susilowati et al (2018) reported no significant effect of firm size on tax avoidance.

Inconsistencies have also been observed in the effect of sales growth on tax avoidance. Hidayat (2018) found a negative and significant effect between sales growth and tax avoidance. However, Dewinta & Setiawan (2016) and Nabilla & ZulFikri (2018) reported a positive and significant effect. Other studies, such as those by Susanto (2022) and Swingly & Sukartha (2015), found that sales growth has no significant effect on tax avoidance.

Several studies have produced differing findings regarding the effect between profitability and tax avoidance. Some studies have found that profitability has a negative and significant effect on tax avoidance, as reported by Arianandini & Ramantha (2018), Budianti & Curry (2018), Damayanti & Susanto (2015), Hidayat (2018), Wahyuni et al (2019), Maharani & Suardana (2014), Saputra et al (2019), and Susilowati et al (2018). On the other hand, Susanto (2022), Dewinta & Setiawan (2016), and Putri & Lautania (2016) reported a positive and significant effect of profitability on tax avoidance. In contrast, Joachim (2024) and Yuliesti & Sapari (2017) concluded that profitability has no significant effect on tax avoidance. These inconsistent findings highlight the complexity of the correlation between profitability and tax avoidance.

Based on the inconsistencies in the empirical findings, this study aims to examine and analyze the effect of firm characteristics on tax avoidance, considering firm size, sales growth, and profitability. The study also conducts sensitivity tests to ensure the robustness of the results. Using a sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2023, this research is expected to provide more comprehensive empirical evidence regarding the effect between firm characteristics and tax avoidance strategies in Indonesia.

This study contributes to the tax literature in three main ways. First, it enriches the understanding of the factors affecting tax avoidance in the context of developing countries, particularly Indonesia. Second, it offers a new perspective by including sensitivity tests to assess the stability of the research results. Third, the findings of this study can serve as a reference for regulators in formulating more effective tax policies and for company managers in developing more transparent and sustainable financial strategies.

This study differs from earlier studies in that it evaluates the risk and resilience of different investment choices using a sensitivity test, a crucial tool in accounting and finance. Using this technique helps decision makers develop more resilient strategies to uncertainty.

## THEORETICAL FOUNDATION AND HYPOTHESIS DEVELOPMENT

### Agency Theory

Agency theory can be defined as the relationship between firm owners (principals) and managers (agents), which may lead to conflicts of interest (Meckling & Jensen, 1976). Managers, as the individuals responsible for managing the firm, possess superior information compared to shareholders and may act opportunistically for personal gain, including in the management of corporate taxes (Watts & Zimmerman, 1990). One form of opportunistic behavior exhibited by managers is tax avoidance practices, where managers seek ways to reduce the tax burden in order to increase net profits, which may, in turn, affect the incentives and bonuses they receive.

Conflicts of interest, in the context of taxation, also arise between firm management and tax authorities. Tax authorities require companies to pay taxes in accordance with applicable regulations, while managers have incentives to minimize taxes paid in order to increase the firms' profits (Dewi & Jati, 2014). Therefore, company owners need to implement the control mechanisms to reduce opportunistic behavior by managers, which could negatively affect the firms' image and their compliance with tax regulations.

### Firm Characteristics

The factor of firm characteristics is a fundamental element that can affect the financial and tax policies of an entity. Firm characteristics are defined as the distinctive features of a firm, which can be identified through various indicators such as firm size, profitability, liquidity levels, and investment decisions (Surbakti, 2012). These factors can determine the extent to which a firm engages in tax avoidance practices.

Anggraeni et al (2023) assert that each firm possesses unique characteristics that distinguish it from others. These differences can affect policies, including those related to taxation. Therefore, this study focuses on three key factors commonly associated with tax avoidance: firm size, sales growth, and profitability.

### Tax Avoidance

Tax avoidance refers to actions taken by managers to exploit loopholes in tax regulations in order to minimize the tax burden that the firm must pay to the tax authorities. Companies engage in tax avoidance practices because the tax burden reduces the portion of profits generated by the firm. This condition affects the level of prosperity for managers, particularly those who are oriented toward the bonuses or compensation they will receive. Tax avoidance can be measured in various ways. However, one of the most commonly used measures of tax avoidance by researchers is the effective tax rate (ETR) (Hanlon & Heitzman, 2010).

### Firm Size and Tax Avoidance

Firm size is a fundamental factor that reflects a firm's capacity and operational scale. Larger firms tend to have more resources to develop tax strategies, both in terms of compliance and tax avoidance. Furthermore, larger firms are also more susceptible to scrutiny by tax authorities, which makes tax-related decisions more complex compared to smaller firms.

Previous studies have yielded diverse results regarding the effect of firm size on tax avoidance. Joachim (2024), Susanto (2022), Swingly & Sukartha (2015), Darmawan & Sukartha (2014), Dewinta & Setiawan (2016), and Mulyati et al (2019) found a positive and significant effect of firm size on tax avoidance, indicating that the larger the firm, the higher the tendency to engage in tax avoidance. However, Kurniasih & Sari (2013) found a negative and significant effect, suggesting that larger firms are more compliant in paying taxes. In contrast, Anggraeni et al (2023), Subagiastra et al (2016), and Susilowati et al (2018) concluded that firm size has no significant effect on tax avoidance. Considering these varying findings, this study proposes the following hypothesis:

**H1:** Firm size has an effect on tax avoidance

**Sales Growth and Tax Avoidance**

Sales growth reflects how effectively a firm can increase its revenue over time. In the context of taxation, companies with higher sales growth are likely to generate larger profits, which in turn leads to higher tax liabilities. As a result, managers may be incentivized to pursue tax avoidance strategies to reduce the firm's tax obligations.

However, the effect of sales growth on tax avoidance has also shown inconsistent results in previous studies. Hidayat (2018) found a negative and significant effect between sales growth and tax avoidance, suggesting that companies with higher sales growth tend to be more compliant in paying taxes. Conversely, Dewinta & Setiawan (2016) and Nabilla & ZulFikri (2018) found a positive and significant effect, indicating that as sales growth increases, the tendency for companies to engage in tax avoidance also increases. Other studies, such as those by Susanto (2022) and Swingly & Sukartha (2015), concluded that sales growth has no significant effect on tax avoidance. Considering these varying findings, this study proposes the following hypothesis:

**H2**: Sales growth has an effect on tax avoidance.

**Profitability and Tax Avoidance**

Profitability is a key indicator of a firm performance, reflecting its ability to generate profit. More profitable companies are subject to higher tax liabilities, creating an incentive for management to minimize tax obligations through various tax avoidance strategies.

However, the effect of profitability on tax avoidance has also shown inconsistent results in previous studies. Arianandini & Ramantha (2018), Budianti & Curry (2018), Hidayat (2018), Wahyuni et al (2019), Maharani & Suardana (2014), Saputra et al (2019), and Susilowati et al (2018) found a negative and significant effect between profitability and tax avoidance, indicating that more profitable companies tend to be more compliant in paying taxes. Conversely, Susanto (2022), Dewinta & Setiawan (2016), and Putri & Lautania (2016) found a positive and significant effect, suggesting that as profitability increases, so does the tendency for companies to engage in tax avoidance. Studies by Joachim (2024) and Yuliesti & Sapari (2017) concluded that profitability has no significant effect on tax avoidance. Considering these varying findings, this study proposes the following hypothesis:

**H3**: Profitability has an effect on tax avoidance.

## RESEARCH METHOD

### Research Design

This study employs a quantitative approach to examine the effect of firm characteristics on tax avoidance, utilizing multiple linear regression analysis. To ensure the robustness of the findings, a sensitivity analysis is also conducted using alternative proxies for tax avoidance.

### Population and Sample

The population of this study comprises manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2023. The manufacturing sector was selected due to its more intricate financial structures and its frequent inclusion in research focused on corporate tax policies.

The sample for this study was selected using purposive sampling based on the following criteria:

1. Manufacturing firms that were consistently listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2023.
2. Firms that published comprehensive annual financial statements throughout the study period.
3. Firms with complete data on all variables included in this study.
4. Firms that did not experience extreme events, such as delisting or bankruptcy, during the study period.

Based on these criteria, a total of 305 firm-year observations were included in the analysis.

### Data Sources and Data Collection Techniques

This study utilizes secondary data obtained from the annual financial statements of companies available on the official website of the Indonesia Stock Exchange (www.idx.co.id) as well as from the respective companies' annual reports. Data related to tax avoidance are estimated based on the information presented in the financial statements, specifically in the sections concerning concerning earnings before tax and tax expenses.

### Operational Definitions and Variable Measurement

This study employs two categories of variables: independent variables and dependent variables, with the following definitions and measurements:

### Independent Variables

The independent variable in this study is the firm characteristics, which are measured by:

### Firm Characteristics

The measurement of firm characteristics is divided into firm size, sales growth, and profitability. The measurements are as follows:

a. Firm Size
Firm size is measured using the natural logarithm of total assets (Ln Total Assets), a method commonly used in previous research (Dewinta & Setiawan, 2016).

Firm Size = Natural Logarithm of Total Assets

b. Sales Growth
Sales growth is calculated as the ratio of sales change compared to the previous year (Weston, 1974).

$$Sales\ Growth = \frac{(Sales\ t\ -\ Sales\ t-1)}{Sales\ t-1}$$

c. Profitability
Profitability is measured using the Return on Assets (ROA), which indicates the firm's ability to generate profit from its assets (Susilowati et al., 2018).

$$Return\ on\ Assets\ (ROA) = \frac{Net\ Income}{Total\ Assets}$$

### Dependent Variable

The dependent variable in this study is tax avoidance. Tax avoidance is measured using two main approaches: GAAP ETR (*Effective Tax Rate based on GAAP financial statements*) and Cash ETR (*Effective Tax Rate based on cash tax flows*), as employed in the study by Hanlon & Heitzman (2010) using ETR. The main analysis uses GAAP ETR, while Cash ETR is employed for sensitivity testing. The measurements are formulated as follows:

$$GAAP\ ETR = \frac{Tax\ Expense}{Earnings\ Before\ Tax}$$

$$\text{CAS ETR} = \frac{\text{Tax Payments}}{\text{Earnings Before Tax}}$$

GAAP ETR is used in the main analysis, while Cash ETR is employed in the sensitivity tests to ensure the robustness of the research findings.

**Data Analysis Method**

**Classical Assumption Tests**

Before performing multiple linear regression, classical assumption tests are conducted to ensure that the regression model is not biased. The classical assumption tests used in this study include: Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

**Regression Model**

The main analysis is conducted using multiple linear regression, with the following model:

**ETRi = β0 + β1SIZEi + β2SGi + β3ROAi + ϵi**

Information:

ETR = Tax Avoidance (GAAP ETR or Cash ETR)
SIZE = Firm Size (Log of Total Assets)
SG = Sales Growth
ROA = Return on Assets
$\beta_0$ = Constant
$\beta_1$, $\beta_2$, $\beta_3$ = Regression Coefficients
ε = Error term

**Tests of Significance**

The Tests of Significance is conducted using:

1. **t-Test** is employed to examine the individual effect of each independent variable on the dependent variable.
2. **F-Test** is employed to examine the simultaneous effect of all independent variables on the dependent variable.
3. **Coefficient of Determination ($R^2$)** is employed to examine the extent to which the independent variables explain the variation in the dependent variable.

**Sensitivity Analysis**

To ensure the robustness of the research findings, a sensitivity test is conducted by substituting the tax avoidance proxy from GAAP ETR to Cash ETR. If the results from both models are consistent, it can be concluded that the research findings are robust and not affected by the choice of proxy used.

## RESULTS AND DISCUSSION

**Descriptive Statistics**

Descriptive statistical analysis is used to provide an overview of the sample characteristics. Table 1 presents the descriptive statistics for the research variables.

**Table 1. Descriptive Statistics**

| Variable | Min | Max | Mean | Std Dev. | Obs. |
|---|---|---|---|---|---|
| Firm Size | 8.053 | 39.2809 | 23.6671 | 5.2046 | 305 |
| Sales Growth | -0.4482 | 0.6294 | 0.0906 | 0.1796 | 305 |
| Profitability (ROA) | -0.2062 | 0.401 | 0.0974 | 0.1012 | 305 |
| GAAP ETR | -0.7951 | 1.3871 | 0.2960 | 0.3637 | 305 |
| Cash ETR | -1.5908 | 2.3992 | 0.4042 | 0.6650 | 305 |

*Source: Secondary data processed by the researcher.*

Based on Table 1, Firm size as measured by the logarithm of total assets has a value ranging from 8,053 to 39,2809, and the average is 23.6671 with a standard deviation of 5.2046, indicating substantial variation in the firm size. Sales growth has a value ranging from -0,4482 to 0,6294, and the average is 0.0906, suggesting that the companies in the sample exhibit relatively stable growth. Profitability (ROA) has a value ranging from -0,2062 to 0,4010, and the average is 0.0974, which indicates that most companies in the sample have a net profit margin of approximately 9.74% relative to their total assets.

The average GAAP ETR of 0.2960 indicates that, on average, companies in the sample pay taxes amounting to approximately 29.60% of their earnings before tax. In contrast, the higher average Cash ETR of 0.4042 suggests that cash-based tax payments are higher than those measured by GAAP ETR, indicating a discrepancy between the accounting approach and the cash-based tax liability of the companies.

**Results of Regression Testing**

The main testing is employed to examine the effect of firm characteristics on tax avoidance. Table 2 presents the results of the main testing using the GAAP ETR proxy, which examine the effect of firm characteristics, including firm size, sales growth, and profitability.

**Table 2. Result of Main Testing**

| Independent Variable | Dependent Variable: GAAP ETR | | |
|---|---|---|---|
| | Coefficient | t-Statistic | Prob. |
| Firm Size | 0,001 | 0,148 | 0,883 |
| Sales Growth | -0,144 | -1,242 | 0,215 |
| Profitability | -0,612 | -2,794 | 0,006** |
| Constanta | 0,354 | 3,190 | 0,002** |
| **F-Statistic** | 3,927 | | |
| **Prob (F-Statistic)** | 0,009 | | |
| **$R^2$** | 0,038 | | |
| ***Adjusted $R^2$*** | 0,028 | | |
| **Durbin-Watson** | 1,810 | | |

*Note: This study is free from heteroscedasticity, as confirmed by the Glejser test, and free from autocorrelation, based on the Durbin-Watson value (DW) ranging from -2 to 2* (Santoso, 2010).

*Source: Secondary data processed by the researcher.*

Based on the analysis results presented in Table 2, there are three hypotheses tested in this study regarding the factors that affect tax avoidance. The results of the tests for each hypothesis are as follows:

**The Effect of Firm Size on Tax Avoidance (H1)**

The analysis results demonstrate that the first hypothesis, which tests the effect of firm size on tax avoidance, has a coefficient of 0.001, a t-statistic of 0.148, and a significance level of 0.883 (> 0.05). With a significance level higher than 0.05, it can be concluded that firm size has no significant effect on tax avoidance, thus ***H1 is not supported***.

This finding suggests that the scale of a firm's operations, measured through total assets, has no significant effect on tax avoidance. This aligns with previous studies by Anggraeni et al (2023), Subagiastra et al (2016), and Susilowati et al (2018), which also found similar results. However, this finding contradicts the studies by Joachim (2024), Susanto (2022), and Darmawan & Sukartha (2014), which found a positive and significant effect between firm size and tax avoidance. The differences could be due to variations in industrial sectors, differing tax regulations across periods, or other factors such as the quality of corporate governance, which was not accounted for in this study.

Additionally, large firms, with substantial assets, tend to attract higher attention from regulators, making tax avoidance less likely due to stringent oversight. Tax authorities can more easily monitor large firms to ensure compliance with tax regulations (Dewi & Jati, 2014).

**The Effect of Sales Growth on Tax Avoidance (H2)**

The second hypothesis, which examines the effect of sales growth on tax avoidance, demonstrates an insignificant result, with a coefficient of -0.144, a t-statistic of -1.242, and a significance level of 0.215 (> 0.05), thus, ***H2 is not supported***. This condition explains that large companies that have good sales growth are usually better able to pay taxes. In addition, large companies tend to avoid aggressive tax avoidance because they want to stay in society for a long time.

This finding indicates that the firm's sales growth rate has no effect on tax avoidance directly. This result is consistent with studies by Susanto (2022) and Swingly & Sukartha

(2015), which also found no significant effect between sales growth and tax avoidance. However, this finding contradicts the study by Hidayat (2018), which found that sales growth has a significant and negative effect on tax avoidance. The differences may be due to variations in the tax proxies used or the industrial sectors studied.

Sales growth plays a crucial role in affecting a firm's performance, as fluctuations in sales from year to year will affect the magnitude of the profits generated by the firm. Nonetheless, the level of sales growth tends to be monitored by regulators, which can indirectly affect the tax policies applied to the firm.

**The Effect of Profitability on Tax Avoidance (H3)**

The third hypothesis, which examine the effect of profitability on tax avoidance, demonstrates a significant and negative result. The coefficient obtained is -0.612, the t-statistic is -2.794, and the significance level is 0.006 (< 0.05), indicating that ***H3 is supported***.

This finding supports agency theory, which explains that firms with high profitability levels tend to be more transparent in their tax practices. This is done to maintain their reputation and good relationships with stakeholders. This is in line with the research by Arianandini & Ramantha (2018), Budianti & Curry (2018), Damayanti & Susanto (2015), and Maharani & Suardana (2014), which also found that profitability has negative effects on tax avoidance.

However, this result contradicts the studies by Dewinta & Setiawan (2016) and Putri & Lautania (2016), which found a positive correlation between profitability and tax avoidance. The differences suggest that there may be other moderating factors that affect the correlation between profitability and tax avoidance, such as corporate governance or institutional ownership.

Profitability, often measured by the return on assets (ROA) ratio, reflects a firm's ability to generate profit from their operational activities. A higher ROA ratio indicates that the firm is more efficient in generating profit from their assets. In this context, the higher the firm's profitability, the higher the likelihood of tax avoidance, due to the potential for higher profits that can be employed by managers to arrange their tax liabilities. However, the findings of this study suggest that, despite high profitability levels, companies with high profitability tend to prioritize tax compliance in order to maintain a good image with regulators and other stakeholders.

**Sensitivity Test Results**

To ensure the robustness of the research findings, a sensitivity test was conducted by replacing the tax avoidance proxy from GAAP ETR to Cash ETR. Table 3 demonstrates that firm size has no significant effect on tax avoidance, thus ***H1 is not supported***. Furthermore, sales growth has no significant effect on tax avoidance, thus ***H2 is not supported***, while profitability has a negative and significant effect on tax avoidance, thus ***H3 is supported***. Therefore, the results of the sensitivity test support the main test results of this study. The consistency of these results indicates that the research findings are robust and not dependent on the proxy used.

**Table 3. Sensitivity Test Results**

| Independent Variable | Dependent Variable: CASH ETR | | |
|---|---|---|---|
| | Coefficient | t-Statistic | Prob. |
| Firm Size | 0,007 | 0,922 | 0,357 |
| Sales Growth | -0,394 | -1,862 | 0,064 |
| Profitability (ROA) | -0,981 | -2,459 | 0,015 |
| Constant | 0,367 | 1,815 | 0,070 |
| **F-Statistic** | | **4,717** | |
| **Prob (F-Statistic)** | | **0,003** | |
| **$R^2$** | | **0,045** | |
| ***Adjusted $R^2$*** | | **0,035** | |
| **Durbin-Watson** | | **1,978** | |

*Note: This study is free from heteroscedasticity based on the Glejser test, and free from autocorrelation based on the Durbin-Watson value, which refers to* Santoso *(2010) with a range of -2 to 2.*

*Source: Secondary data processed by the researcher.*

## Discussions

The findings of this study provide significant contributions to both the academic and practical domains, particularly in understanding how corporate characteristics affect tax avoidance strategies. The primary contributions of this research can be categorized into three key areas: theoretical implications, practical implications, and policy implications.

### Theoretical Implications

This study reinforces agency theory within the context of taxation, particularly in explaining how firm characteristics affect managerial decisions related to tax obligations. Conflicts of interest between shareholders and management can lead managers to act opportunistically, one manifestation of which may involve tax avoidance practices (Meckling & Jensen, 1976; Watts & Zimmerman, 1990).

The finding of the study is that profitability has negative effect on tax avoidance, suggesting the firms with higher profitability are more likely to comply with tax obligations. This result is consistent with studies by Arianandini & Ramantha (2018), Budianti & Curry (2018), Damayanti & Susanto (2015), and Maharani & Suardana (2014), which found that more profitable firms tend to exhibit better tax compliance. This theoretical implication enhances the understanding of how firm profits moderate managerial decisions with regard to tax strategy.

In contrast, the finding that firm size and sales growth have no significant effect on tax avoidance. This result contradicts studies by Joachim (2024), Susanto (2022), and Darmawan & Sukartha (2014), which reported that larger firms are more likely to engage in tax avoidance.

This inconsistency suggests the existence of additional factors, such as tax regulations or the quality of corporate governance, that may moderate the effect between firm characteristics and tax avoidance. Therefore, this study contributes to the extension of agency theory by illustrating that internal firm factors may play a role in mitigating conflicts of interest related to tax policies.

### Practical Implications

From a practical standpoint, the findings of this study have several important implications for firm stakeholders, including company managers, investors, and auditors. The results suggest that firms with higher profitability are more likely to comply with tax obligations. As a result, companies aiming to enhance their financial reputation and attract investors should prioritize transparency in their tax practices. Management must recognize that while tax avoidance may reduce financial burdens in the short term, the long-term consequences could be detrimental, especially if the firm faces penalties from tax authorities or loses investor confidence.

Investors can employ these findings to examine the tax-related risks of companies with low profitability. Firms with narrow profit margins are more vulnerable to seeking tax avoidance strategies to preserve profits, which could introduce financial uncertainty in the future. Shareholders may consider strengthening oversight mechanisms regarding the firm’s tax policies to ensure that the implemented tax strategies align with principles of compliance and sustainability.

Auditors and tax consultants should pay particular attention to firms with low profitability, as the findings of this study suggest that firms in this category are more likely to engage in tax avoidance. Tax professionals may recommend more transparent tax policies to their clients in order to mitigate potential legal and reputational risks arising from excessive tax aggressiveness.

**Policy Implications**

The findings of this study also hold significant implications for government and tax regulators, particularly in the development of more effective and equitable tax policies.

Tax regulators should place higher emphasis on firms with low profitability, as these firms are more likely to engage in tax avoidance. Stricter tax policies, along with more integrated monitoring systems, could reduce the tax avoidance practices in this sector. The government may consider implementing policies that promote tax transparency, such as mandating more detailed tax reporting and conducting more rigorous tax audits for companies that exhibit inconsistent tax payment patterns.

To promote tax compliance, the government could provide tax incentives to firms that demonstrate transparency in their financial reporting and consistently meet their tax obligations. Regulators may also collaborate with business associations and academic institutions to enhance tax education for corporate executives, enabling them to better understand the long-term affecting of aggressive tax strategies and the associated risks.

## CONCLUSION

This study analyses the effect of firm characteristics on tax avoidance, focusing on three primary variables: firm size, sales growth, and profitability. The findings indicate that neither firm size nor sales growth has a significant effect on tax avoidance, suggesting that operational scale and revenue growth are not key factors in corporate tax strategies. In contrast, profitability has a negative and significant effect on tax avoidance, meaning that the higher the profitability of a firm, the less likely it is to engage in tax avoidance. These results support agency theory in the context of taxation, where more profitable companies tend to avoid aggressive tax minimization strategies to maintain their reputation and foster good relations with stakeholders.

The findings also have important implications for tax regulators and corporate stakeholders. For regulators, the results suggest that firms with higher profitability are more likely to comply with tax regulations, thus supervision efforts could be better directed on firms with lower profitability, which have higher incentives to reduce their tax burden. For companies, transparency in tax policies is a crucial factor in maintaining credibility and avoiding risks that could adversely affect the long-term operations. Additionally, the findings provide valuable insights for investors and shareholders in assessing the financial strategies of firms concerning their tax policies.

The sensitivity analysis, which replaced the tax avoidance proxy from GAAP ETR to Cash ETR, demonstrates consistent results, indicating that the findings of this study are sufficiently robust. Therefore, this study contributes empirically to the understanding of the factors affecting tax avoidance, particularly in the context of manufacturing firms in Indonesia.

**Limitations of the Study**

This study has several limitations that could be addressed in future research. First, only three main variables were used to examine the firm characteristics, while other factors such as ownership structure, corporate governance, and business risk may also affect tax strategies. Second, this study focuses exclusively on manufacturing companies, so the results may not be generalizable to other industries with different tax structures.

**Suggestions for Future Research**

To deepen the understanding of tax avoidance, future research could incorporate additional variables such as ownership structure and corporate governance to identify broader factors that affect tax strategies. Furthermore, the scope of the study could be expanded to include other industrial sectors to determine whether the findings of this study are applicable more generally. In terms of methodology, the use of panel data regression or the Generalized Method of Moments (GMM) approach could help capture temporal dynamics and address potential biases in the regression model.

To enhance the understanding of tax avoidance, future studies could incorporate additional variables such as ownership structure and corporate governance to identify a broader range of factors affecting tax strategies. Additionally, the scope of the research could be expanded to include other industry sectors to examine whether the findings of this study are applicable more broadly. From a methodological standpoint, the use of panel data regression or the Generalized Method of Moments (GMM) approach could provide a better understanding of temporal dynamics and mitigate potential biases in regression models.

Future studies are also recommended to extend the observation period to examine long-term tax avoidance trends and to utilize alternative proxies, such as the Book-Tax Difference, to enhance the accuracy of measuring corporate tax aggressiveness. Additionally, incorporating moderating variables such as corporate governance could offer further insights into how firms manage tax compliance within the context of better governance practices. By expanding on these areas, future research could provide broader contributions to academics, regulators, and business practitioners in understanding the factors that affect corporate tax policies.

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