E-ISSN: 2775-2267
Email: ristansi@asia.ac.id
https://jurnal.stie.asia.ac.id/index.php/ristansi

THE DETERMINANTS OF TAX AVOIDANCE: THE ROLE OF RETURN ON ASSETS AND COMPANY SIZE IN THE FINANCIAL SECTOR IN INDONESIA

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DOI: 10.32815/ristansi.v7i1.2780

Article Information

Date Received	11 August, 2025
Date Revised	01 April, 2026
Date Accepted	10 April, 2026

Keywords:
Tax Avoidance, Return on Assets, Firm Size, Financial Sector Companies

Abstract:
This study explores tax avoidance as a complex issue among large corporations, with an emphasis on the influence of ROA and Firm Size on such practices. Using a quantitative approach, the analysis was conducted on 248 financial statement from financial sector companies listed on the Indonesia Stock Exchange year 2020 to 2023 observations selected purposive sampling. The data were processed using panel data regression analysis with EViews 13. The findings indicate that ROA has a significant effect on tax avoidance, where companies with higher ROA tend to engage more actively in tax planning to maintain profitability. Additionally, firm size also plays a role in tax avoidance, as larger companies have better access to resources and information, enabling them to design more effective tax strategies. These results affirm that both ROA and firm size are important factors to consider in managing tax obligations, with significant implications for management in enhancing company value and maintaining a positive financial image in the eyes of investors.

INTRODUCTION

Tax avoidance is a serious and complex issue, particularly among large entities with cross-border financial structures and operations. Generally, tax avoidance can be defined as efforts undertaken by taxpayers to legally minimize their tax liability, often through aggressive tax planning. This practice aims to minimize the total tax burden through means that are lawful under the law, allowing companies to adjust their taxable income

in line with their business targets or interests (Khasanah & Afiqoh, 2022). In this context, tax avoidance reflects corporate strategies to exploit legal loopholes, differences in regulations between countries, or weaknesses in tax policies to achieve higher tax efficiency, without directly violating existing legal provisions (Sulaiman & Yusuf, 2024).

Tax avoidance is a strategy that allows entities to reduce their tax liability by exploiting loopholes in tax regulations without directly violating the rules. This practice does not result in legal consequences for taxpayers, as they still fulfill their obligation to pay taxes to the government, albeit in a smaller amount (Wirianata & Hauw-Sen, 2024). Tax avoidance is defined as a method to minimize the tax burden by exploiting loopholes or gray areas in tax regulations. In practice, the government, through the Directorate General of Taxes, often has limited access to economic information and corporate transactions, including financial statements that form the basis for calculating corporate income tax. Meanwhile, the government strives to maximize state revenue from taxation, including income tax derived from companies operating and generating income within a specific jurisdiction (Kusuma & Rahayu, 2022). However, the government's efforts to increase revenue often conflict with the interests of corporate management, which seeks to avoid or reduce their tax liabilities by exploiting loopholes in tax regulations (Putri & Yuliafitri, 2024).

ROA is the most important factor that prospective investors consider when making stock investment decisions. Therefore, companies need to maintain and improve their financial performance to ensure their stocks remain attractive and competitive. Companies that publish financial statements provide an overview of their financial performance (Nugroho et al., 2024). The financial information in these reports serves as a source of information, a means for management to be accountable to owners, a measure of operational success, and a key reference for strategic decision-making. According to academics, financial performance measured by ROA must be analyzed using appropriate and sophisticated concepts to assess a company's success (Herlambang et al., 2024).

Company size also reflects the extent of financial constraints faced by an organization. This information can be obtained from the company's financial records, particularly the income statement, which provides important insights into the company's financial condition. The analytical tools applied are profitability ratios, which enable an evaluation of the company's financial health and its ability to generate profits (Ivanda et al., 2024). In addition to other factors influencing tax strategy, company size also plays a

significant role in tax avoidance. In this context, the culmination of the audit process is the auditor's report, which enhances confidence in financial statements by demonstrating the auditor's independent stance regarding those statements. According to Salehi et al., (2020), financial reporting transparency tends to decline when businesses engage in tax avoidance activities.

Although numerous studies have been conducted on tax avoidance, previous research on the effects of profitability and firm size on tax avoidance has yielded mixed results. Some studies have found that ROA and firm size have a significant impact on tax avoidance, while others have shown different results. This inconsistency in results indicates a research gap that requires further investigation. Additionally, the financial sector was selected because it possesses relatively complex operational characteristics and financial structures, potentially leading to distinct tax strategies compared to other sectors. Therefore, this study is crucial to provide the latest empirical evidence regarding the influence of ROA and firm size on tax avoidance among financial sector firms in Indonesia.

The objective of this study is to determine the return on assets and the extent of tax avoidance among financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. Based on the above discussion and the stated objective, the research questions are as follows:

1) Asset return rates have a positive effect on tax avoidance
2) Company size has a positive effect on tax avoidance

LITERATURE REVIEW

Agency Theory

Agency Theory describes an agency relationship that leads to agency conflict because the two parties have conflicting interests (Jensen & Meckling, 1976). Agency Theory explains the relationship between company owners (principals) and management (agents) in the conduct of corporate activities. In this relationship, management is granted the authority to manage the company's resources and make strategic decisions, including in the area of taxation. In the context of tax avoidance, management may be motivated to engage in tax planning to reduce the company's tax burden and increase after-tax profits. Therefore, this theory is relevant for explaining

how company characteristics, such as profitability and firm size, can influence a company's propensity to engage in tax avoidance.

Tax Avoidance

The goal is to reduce the amount of tax they would otherwise have to pay, but without violating tax laws. Although there is no tax violation, the tax authorities may not be pleased because this can reduce the government's tax revenue. There are two types of tax avoidance: active and passive. Active tax avoidance evades government tax obligations but violates tax regulations. Passive tax avoidance is carried out by avoiding taxes without violating tax regulations (Yuliawati & Sutrisno, 2021). Tax avoidance is also an effort by an individual or a company to minimize the total taxes they pay through valid and ethical means without violating applicable tax regulations. This typically involves utilizing loopholes or incentives in tax laws to reduce tax liabilities. Although tax avoidance is considered legal, it can be controversial because it may reduce state revenue, causing the government to lose out.

Return on Assets

Return on Assets is a measure of a company's performance, which can be calculated by examining data in financial statements. There are numerous analytical tools used to measure this performance, which indicate how well a company performs financially. Financial performance analysis is conducted to evaluate how well a company has complied with financial reporting standards, which include the preparation of financial statements that meet the requirements or standards set forth in GAAP or SAK (Giovana Putri & Munfaqiroh, 2020). Return on Assets provides an overview of how well a company or organization manages its finances, including generating profits, controlling costs, managing assets and liabilities, and achieving its financial goals. This is typically measured through various indicators, such as revenue, profit, cash flow, and other financial ratios.

H1: The rate of return on assets influences tax avoidance.

Company Size

Financing decisions made to optimize corporate value are significantly influenced by the company's size, which tends to increase as the company grows. If a controlling shareholder exits a large company, the loss of control tends to be smaller. Several key

indicators, including total assets, revenue, total employees, and market value, are used to measure company size (Hidayat & Khotimah, 2022). This size is important because it can influence business strategy, competitiveness, and the company's ability to access resources, such as markets and capital. Large companies may have advantages in terms of economies of scale, which allow them to reduce costs and improve efficiency, while small companies may be more flexible and innovative. By understanding company size, one can better analyze a company's position and growth potential within the broader industry context.

H2: Ukuran Perusahaan berpengaruh terhadap Penghindaran Pajak.

RESEARCH METHODS

This study employs a quantitative approach, which is a method focused on the use of numerical data and statistical analysis techniques to test hypotheses, measure variables, and identify relationships between variables. This approach is typically carried out through systematic data collection, such as surveys, experiments, or structured observations, and the results are presented in the form of tables, graphs, or descriptive statistics. The primary objective of this method is to obtain results that can be generalized to a broader population. The quantitative approach is grounded in the positivist paradigm and is designed to examine the characteristics of a specific population or sample in an objective and measurable manner.

The research subjects focused on in this study are financial sector entities listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023, with the aim of analyzing the influence of financial performance, firm size, and audit opinions on tax avoidance practices. The selection of this sector is motivated by its crucial role in supporting the national economy and its significant contribution to capital market activities. Furthermore, companies in the financial sector are often viewed as a reflection of economic stability and the direction of investment trends, thereby providing relevant information for research.

The operational definitions of the variables in this study consist of dependent and independent variables. The dependent variable used is tax avoidance, which is measured using the Effective Tax Rate (ETR). This measure is used to indicate the extent of the tax burden borne by a company on its profits. It is calculated using the following formula:

$$\text{ETR} = \frac{\text{Income Tax}}{\text{Earning Before Income Tax}}$$

The first independent variable in this study is ROA. ROA is a profitability ratio used to measure a company's ability to generate profit from its total assets. The higher the ROA value, the better the company's performance in utilizing its assets to generate profit. Using the following formula:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \text{ X } 100\%$$

The second independent variable is Firm Size, measured using the natural logarithm of total assets. This measure was chosen because total assets reflect the scale of a firm, while the natural logarithm transformation was applied to normalize large asset values and reduce the likelihood of data outliers. The following formula was used:

$$\text{Firm Size (SIZE)} = \ln \text{(Total Assets)}.$$

In this study, the population under analysis consists of all financial institutions listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. This study uses EViews 13 to process and analyze the data. A total of 410 financial reports were successfully collected and analyzed in this study. Sampling employed a purposive sampling technique, in which the researcher intentionally selected samples based on specific characteristics aligned with the study's objectives. All data were accessed through each company's official website. The following are some of the criteria used in the study:

1) Financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023
2) Financial companies that have consistently reported financial statements from 2020 to 2023
3) Financial companies using the rupiah as their currency during the 2020–2023 period
4) Financial companies that have consistently reported profits during the 2020–2023 period

RESEARCH FINDINGS

As a first step toward understanding the characteristics of the data, a descriptive statistical analysis was conducted for each variable. This analysis included calculations of the mean, maximum, minimum, and standard deviation. The purpose was to identify the general pattern of the data before proceeding to further testing. The results of the statistical analysis are presented in Table 1.

Table 1
Descriptive Statistical Analysis

	Y	X1	X2
Mean	0.232399	2.128589	21.41165
Median	0.216041	1.590000	19.54000
Maximum	2.545821	12.20000	30.44000
Minimum	0.001432	0.000000	15.09000
Std. Dev.	0.210926	2.241800	4.626080
Skewness	6.465692	1.862154	0.612628
Kurtosis	64.28166	7.252440	1.963340

Source: Processed Data, 2025

1. Tax Avoidance (Y)

   The average tax avoidance is 0.232399. The skewness and kurtosis values indicate that the data are not normally distributed.

2. Return on Assets (X1)

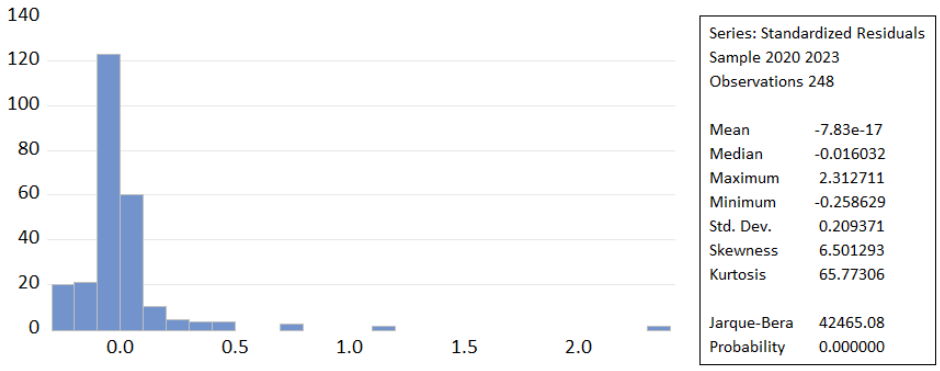
   The average asset return is 2.128589. The skewness and kurtosis values indicate that the data are not normally distributed.

3. Company Size (X2)

   The average of 21.41165 indicates a distribution close to normal, suggesting that the data variability remains within reasonable limits.

A normality test is used to assess and confirm that the residuals in a regression are normally distributed. In this study, the test was conducted using the Jarque-Bera test, which examines the fit of the residuals' skewness and kurtosis values to the characteristics of a normal distribution. The results of the normality test are shown in the figure below.

Figure 1
Normality Test



Source: Processed Data, 2025

Based on the results of the normality test using the Jarque-Bera technique, a statistical score of 42,465.08 was obtained with a probability of 0.000000. Since the probability score is below the significance level of 0.05, it can be concluded that the residuals are not normally distributed. However, this condition is not considered a significant problem, given that in regression analysis with a large number of observations, violations of the normality assumption of the residuals generally do not have a significant effect on the accuracy of model parameter estimates. In addition, estimation methods such as Ordinary Least Squares (OLS) can still produce consistent and efficient estimates, as long as other classical assumptions are met. The F-test is used to determine whether the independent variables collectively have a significant impact on the dependent variable in the regression model. The results of this test are presented in Table 2.

Table 2
F-Test

Description	Score	Description	Score
R-squared	0.015307	Mean dependent var	0.127678
Adjusted R-squared	0.007269	S.D. dependent var	0.168797
S.E. of regression	0.168182	Sum squared resid	6.929873
F-statistic	1.904247	Durbin-Watson stat	1.448898
Prob (F-statistic)	0.151133	Mean dependent var	0.127678

Source: Processed Data, 2025

In the table above, the Prob. score of 0.151133 exceeds the 5% threshold. This is evidenced by the Sig. score of 0.151133, which is greater than 0.05. In conclusion, the independent variables do not have a significant effect on the dependent variable.

The t-test is used to assess the magnitude of the partial effect of each independent variable on the dependent variable in the regression model. This test aims to determine whether each independent variable has a significant partial effect on the dependent variable. Table 3 presents the test results:

Table 3
T-Test

Variable	Coefficient	Std. Error	T-Statistic	Prob.
C	0.283292	0.093773	3.021050	0.0028
X1	-0.013823	0.007146	-1.934316	0.0542
X2	-0.001003	0.004212	-0.238040	0.8120

Source: Processed Data, 2025

The table above shows the results of the t-test that was conducted. Conclusions can be drawn by referring to the previously established criteria as follows:

1) The Return on Assets variable (X1) shows a significant t-value of -1.934316, which is less than 0.05. Therefore, if Return on Assets has an impact on Tax Avoidance, then hypothesis H1 is accepted.
2) The Firm Size variable (X2) yields a t-score of -0.238040, which is less than 0.05. This indicates that if Firm Size influences Tax Avoidance, then hypothesis H2 is accepted.

DISCUSSION

The Effect of Asset Return Rates on Tax Avoidance

Asset return rates have an impact on tax avoidance; therefore, Hypothesis H1 is accepted. It can be said that changes in a company's asset return rates have the potential to influence the company's decisions regarding tax avoidance.

This finding can also be explained by Agency Theory, which posits that management, as the entity running the company, will seek to optimize financial performance, including through tax efficiency. Under conditions of high profitability, companies tend to have a stronger incentive to maintain optimal after-tax profits, so tax avoidance strategies may be one option considered.

These findings suggest that fluctuations in a company's Return on Assets (ROA) can influence management's policy direction in formulating tax planning strategies. Conceptually, a high ROA is seen as indicative of solid financial performance, as it

demonstrates the entity's ability to optimize its assets to generate profits. In this context, management tends to be more proactive in seeking ways to maintain profitability, including by optimizing applicable tax provisions to reduce the tax burden. Tax avoidance strategies also become one of the options considered to improve the efficiency of net profit management without violating applicable regulations. Thus, the relationship between ROA and tax avoidance can be seen as part of a company's efforts to manage fiscal risk and maximize corporate value.

In addition, companies with high returns on assets are typically under the scrutiny of investors and other stakeholders, putting them under greater pressure to maintain their financial performance. In such situations, efficiency in managing tax burdens becomes a critical strategy for maintaining competitive profit margins. Therefore, tax avoidance strategies are not merely viewed as efforts toward fiscal efficiency but also as part of profit management aimed at creating a healthy and attractive financial image in the eyes of investors and strengthening the company's position in the market.

The Effect of Firm Size on Tax Avoidance

Firm size has an impact on tax avoidance; therefore, hypothesis H2 is accepted. It can be said that changes in a firm's return on assets influence the firm's decisions regarding tax avoidance.

From the perspective of Agency Theory, larger companies have greater managerial capacity and resources for designing financial strategies, including tax strategies. This suggests that the larger the company, the greater its ability to manage its tax burden more efficiently through tax planning.

The findings of this study indicate that company size plays a significant role in influencing how management handles tax obligations. Larger companies are often associated with greater access to resources, operational complexity, and the ability to access information and professional services related to tax planning. Large companies tend to have more options for implementing tax avoidance strategies, such as exploiting available legal loopholes, working with professional tax advisors, or establishing international business structures to maximize tax savings.

In addition, large companies typically have trained and experienced tax compliance teams that can analyze complex tax regulations more effectively. This gives them an advantage in designing better tax strategies that are in line with applicable laws. The

availability of modern tax management technologies and systems also enables large companies to develop more efficient tax plans. Thus, company size not only affects access to resources but also reflects the strategic ability to navigate regulatory changes and market demands, which contributes to the efficient management of tax obligations.

CONCLUSION

Based on the findings of this study, both Return on Assets (ROA) and firm size have a significant impact on tax avoidance. A high ROA encourages entities to be more active in tax planning, allowing them to legally exploit tax loopholes to maintain profitability and improve efficiency in profit management. On the other hand, firm size plays a role in tax avoidance strategies by providing more optimal access to resources, information, and professional services, as well as the ability to establish fiscally advantageous business structures. Consequently, management must consider both factors in their tax strategies to maximize firm value and maintain a positive financial image in the eyes of investors. The results of this study imply that companies need to consider tax policies as part of an integrated financial strategy. Additionally, for regulators and tax authorities, these findings can serve as a basis for enhancing oversight of companies with high profitability and large business scales.

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