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Tax Avoidance: The Perspective of Corporate Governance and Corporate Financial Performance in the Indonesian Financial Sector

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Abstract
Tax avoidance by companies is a risky strategy that aims to minimize corporate taxes on pre-tax profits. This study aims to provide empirical evidence regarding the effect of audit committees, independent commissioners, liquidity, leverage, company size, and profitability on tax avoidance in the post-pandemic era. The population in this study was financial sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. Using a purposive sampling technique, data were obtained from 46 companies, so 138 observations were gained. The results of this study demonstrated that independent commissioners and audit committees did not affect tax avoidance. Furthermore, liquidity and firm size did not affect tax avoidance, whereas leverage and profitability positively affected tax avoidance. These findings suggest that in the 2022-2024 period, corporate governance mechanisms in the financial sector have different dynamics in monitoring tax-related decisions compared to previous periods.

Keywords: *corporate governance, tax avoidance, corporate financial performance, Indonesian banking sector*

Introduction

Indonesia's state revenue, which has the largest proportion in supporting national development and financing, primarily originates from taxation. This is evidenced by the 2024 State Budget (APBN), where the Indonesian government has set an ambitious tax revenue target of IDR 2,309.9 trillion. This total consists of tax revenues amounting to IDR 1,988.9 trillion and customs and excise revenues of IDR 321.0 trillion. This figure represents a significant increase compared to previous years, reflecting the government's focus on accelerating economic transformation and maintaining fiscal stability (Chen, 2013; Wang et al., 2020). Therefore, taxation remains the primary focus of the state as it serves as the backbone of the national budget to fund public welfare and infrastructure (Arham et al., 2020).

In addition to functioning as a source of state revenue to finance expenditures in the administration of state life (Arham et al., 2020), taxes also function as a tool to regulate or implement government policies in the social and economic fields (Batrancea et al., 2019). The government can use taxes to regulate society to achieve certain goals. However, from the company's point of view, taxes are considered a burden that must be minimized (Amidu et al., 2019; Hanlon & Heitzman, 2010) Since there is a view that considers tax as a burden for companies, various ways are taken by management to avoid it. Tax avoidance by companies is a risky strategy that aims to minimize corporate taxes on pre-tax profits (Amidu et al., 2019; Hanlon & Heitzman, 2010; Rego & Wilson, 2012; Richardson et al., 2013).

The urgency of corporate tax compliance is highlighted by recent law enforcement actions. For instance, in February 2024, the Directorate General of Taxes (DGT) officially handed over a corporate tax evasion case involving PT BAPI to the Prosecutor's Office. The corporation was suspected of intentionally submitting incorrect or incomplete tax returns (SPT Masa PPh 4 Ayat (2)) and failing to report others, resulting in a state loss of at least IDR 2.9 billion. This case underscores that corporate accountability is being strictly enforced in the current fiscal era to ensure APBN targets are met. While this case occurred in the real estate sector, it reflects a broader regulatory trend that also places the financial sector under intense scrutiny(Jadi et al., 2021). The financial sector, as a vital pillar of economic development (Dyreng et al., 2008)[10], requires specialized supervision because tax avoidance in this sector can trigger agency costs that potentially fluctuate company value.

As of November 2024, actual tax revenues showed that the three main sectors making the largest contribution were the processing industry (manufacturing), trade, and financial services. The financial sector contributed 13.15%, driven by increased interest rates and lending. In fact, financial sector companies need special supervision(Jadi et al., 2021) because they collect and distribute funds to the broader community to improve people's lives. It indicates that the financial sector is one sector that plays an important role in economic development (Dyreng et al., 2008)[10], which in turn has environmental and social impacts (McGuire et al., 2012). Consequently, tax avoidance actions in the financial sector can not only reduce state revenues(Dyreng et al., 2008; I. Hasan et al., 2014; Oktaviani, 2023) but can also cause agency costs, which in turn can increase or even reduce company value.

Tax avoidance can be an alternative for companies to generate funds internally when there are problems in raising funds externally(Oktaviani et al., 2023). Tax avoidance is also one of the managers' tax planning in minimizing their tax obligations to the state by taking advantage of information asymmetry (J. H. Kovermann, 2018). Inequality of information between managers and shareholders results in managers being able to influence the financial statement information presented, including information on corporate tax burden (Firmansyah et al., 2022). Further, planning and implementing tax avoidance designed to reduce the tax burden can be the main agenda of company management, especially during the implementation of new tax regulations, such as the introduction of the Core Tax Administration System in 2024.

The transition to a digital-based tax system, which aims to improve transparency, is the background for the Indonesian Government in strengthening tax monitoring. Company managers can respond to these regulatory shifts to practice tax avoidance
in a more stable economic environment (Agyei et al., 2020). Hence, the existence of outsider supervision is expected to reduce fraud within the company, including tax avoidance. In influencing tax avoidance actions taken by companies, corporate governance and financial performance may have a vital role. Audit committees and independent commissioners represent aspects of corporate governance, while financial performance is seen from liquidity, leverage, profitability, and company size. Therefore, the review of tax avoidance needs to be investigated further. Additionally, this research differs from previous research since this research not only examines the effect of corporate governance and company financial performance on tax avoidance in financial sector companies but also identifies that independent commissioners no longer show a significant impact in the current period of 2022-2024. Hopefully, this research will provide additional perspectives and complement the literature on sustainability in financial accounting research.

Theoretical Review

1. Tax avoidance

The current self-assessment system makes taxpayers more flexible in managing the amount of tax they must pay through careful tax planning or tax avoidance practices (Jadi et al., 2021). Tax avoidance is fundamentally linked to a company's objective to maximize shareholder value by minimizing tax expenses without violating existing laws and regulations (Dyreng et al., 2008). It is often described as an act where taxpayers exploit "loopholes" or grey areas within the tax law to reduce their tax burden below what is originally intended by the authorities (McGuire et al., 2012; Meita et al., 2022).

In the perspective of Agency Theory, tax avoidance arises due to the divergence of interests between managers (agents) and shareholders (principals). Managers may engage in aggressive tax avoidance to meet performance targets or secure bonuses, while shareholders might view such practices as a risk that could lead to future legal penalties or reputational damage. Furthermore, tax avoidance represents a form of active resistance from taxpayers before the issuance of formal warnings or legal products from the Directorate General of Taxes (DGT). This resistance manifests through various methods, such as optimizing bank loans to generate deductible interest expenses (I. Hasan et al., 2014; J. Kovermann & Velte, 2019)[13], [14] providing non-taxable benefits (natura) to employees, or utilizing specific tax facilities granted by the government (Firmansyah et al., 2022).

In the modern fiscal landscape of 2022-2024, the dynamics of tax avoidance have evolved with the implementation of the Core Tax Administration System. This digital transformation by the government aims to reduce information asymmetry, making it more challenging for corporations to hide aggressive tax planning. Consequently, robust supervision through corporate governance mechanisms is increasingly vital to ensure that tax planning remains within ethical and legal boundaries (J. Kovermann & Velte, 2019). Moreover, maintaining sound financial performance is not only a business goal but also a means of building public and regulatory trust in the company’s long-term sustainability.

2. Audit committee on tax avoidance

The audit committee is formed by the board of commissioners to assist in supervising company performance, consisting of at least three members in accordance with Financial Services Authority Regulation (POJK) Number 55/POJK.04/2015. The audit committee plays a crucial role in providing oversight and advice regarding financial reporting policies and internal controls, making its existence mandatory for companies implementing good corporate governance (Agyei et al., 2020). From the perspective of Agency Theory, the audit committee serves as a monitoring mechanism designed to reduce information asymmetry between management and shareholders. By overseeing the integrity of financial statements, the committee limits the opportunistic behavior of managers who may engage in aggressive tax avoidance for short-term gains.

Corporate governance is built on the principle of accountability, which ensures that all components of financial statements are transparently audited and accounted for (Richardson et al., 2015). Audits that are conducted rigorously and in accordance with established governance standards facilitate better financial reporting quality, thereby reducing the likelihood of management fraud or undisclosed tax related irregularities (Dang & Nguyen, 2022). In an international context, the audit committee is expected to act as a bridge that aligns corporate tax strategies with ethical standards and regulatory compliance.

Previous empirical studies generally suggest that firms with larger or more effective audit committees are less likely to engage in tax avoidance. Theoretically, tax avoidance policies are expected to decrease as the number and expertise of audit committees increase, as they provide more intensive scrutiny over tax planning activities (Agyei et al., 2020; Tandean & Winnie, 2016; Taylor & Richardson, 2012). Several studies support the finding that audit committees have a negative effect on tax avoidance (Agyei et al., 2020; Dang & Nguyen, 2022; Prihatono et al., 2019). Thus,

H1: The audit committee has a negative effect on tax avoidance.

3. Independent commissioner on tax avoidance

Based on Financial Services Authority Regulation (POJK) Number 55/POJK.04/2015, Independent Commissioners are members of the Board of Commissioners who originate from outside the issuer or public company. They must meet strict criteria, including having no direct or indirect shareholding, no affiliation with the directors or major shareholders, and no business relationships that could compromise their objectivity. Within the framework of Agency Theory, independent commissioners act as the ultimate internal monitoring mechanism to protect the interests of minority shareholders from the opportunistic tax-planning actions of management (I. Hasan et al., 2014; Wang et al., 2020).

The presence of a higher proportion of independent commissioners is theoretically expected to lead to tighter internal supervision, thereby minimizing aggressive tax avoidance practices (J. Kovermann & Velte, 2019). Independent commissioners are seen as more objective in evaluating the risks associated with tax planning, such as potential legal sanctions and reputational damage. Empirical research has traditionally supported the view that independent commissioners have a negative effect on tax avoidance, as demonstrated by several studies (Agyei et al., 2020; Dang & Nguyen, 2022; Tandean & Winnie, 2016).

However, some contemporary literature suggests that the effectiveness of independent commissioners may be hindered by several factors. In certain contexts, independent commissioners might serve as mere "tokenism" to fulfill regulatory requirements without possessing the necessary expertise in complex taxation matters. Furthermore, in the post-pandemic landscape of 2022 2024, where companies focus heavily on business sustainability and operational recovery, the monitoring focus of independent boards may shift toward strategic survival rather than specific tax compliance oversight. This potential lack of focus or expertise can lead to a situation where the existence of independent commissioners does not significantly alter the company's tax avoidance strategy. Despite these varying perspectives, based on the prevailing corporate governance theories, the following hypothesis is proposed:

H2: Independent Commissioner has a negative effect on tax avoidance.

4. Liquidity on tax avoidance

Liquidity is a financial ratio that describes a company's ability to meet its short-term obligations or maturing debts. Within the framework of Signalling Theory, a high level of liquidity serves as a positive signal to investors and creditors, indicating that the company is in a healthy financial position and possesses sufficient cash flow to sustain its operations. Conversely, low liquidity occurs when a company does not have adequate liquid assets to cover its due debts (Hajiannejad & Danesh Sararoodi, 2019).

When companies face liquidity constraints or problems with short-term debt, they may be more inclined to engage in tax avoidance. This is because management tends to prioritize maintaining immediate cash flow for operational survival over fulfilling tax obligations (Agyei et al., 2020). In other words, a company with high liquidity denotes a strong capacity to meet short-term debt, indicating that the company's finances are stable and free from cash flow distress, thereby allowing it to bear costs such as taxes without resorting to aggressive tax planning (Hajiannejad & Danesh Sararoodi, 2019; Prihatono et al., 2019).

In the financial sector, liquidity management is even more critical due to stringent regulatory requirements (such as statutory reserves). Companies with robust liquidity ratios are often perceived as more compliant, as they have the "slack" resources to fulfill their fiscal duties. This perspective is reinforced by the research results of (Agyei et al., 2020; Hajiannejad & Danesh Sararoodi, 2019; Handayani, 2020; Olaniyi & Okerekeoti, 2022), which state that liquidity significantly affects tax avoidance practices. Based on these arguments, the following hypothesis is proposed:

H3: Liquidity has a negative effect on tax avoidance.

5. Leverage on tax avoidance

Companies use leverage to measure the extent of debt incurred to finance their assets (Jingga & Lina, 2017). Theoretically, leverage illustrates the company's capital structure and its reliance on external funding. While a higher leverage ratio indicates that the company uses more debt, a lower ratio signifies that the company uses more capital to finance its assets and debt obligations (Yahaya & Yusuf, 2020). From a tax perspective, the use of debt creates a "tax shield" because the interest expenses arising from debt are deductible from taxable income.

In other words, the greater the company's debt, the less it will pay taxes. This action is deemed increasingly aggressive toward taxes because it creates interest that must be paid by companies that use debt (Beladi et al., 2018). According to Agency Theory, management might intentionally increase leverage to reduce the company's tax burden, thereby shifting the wealth from the government to the company and its shareholders. The company's taxable profit will be reduced due to deductible interest expense, which effectively lowers the Effective Tax Rate (ETR). It is supported by the results of research (Agyei et al., 2020; Yahaya & Yusuf, 2020), which states that leverage positively affects tax avoidance. Thus,

H4: Leverage has a positive effect on tax avoidance.

6. Company size on tax avoidance

Well-established and large companies are usually characterized by their substantial total assets (Agyei et al., 2020). According to the Political Cost Hypothesis, large companies are often more visible to the public and government authorities, which may subject them to greater political and regulatory pressure. However, large companies also generally possess extensive resources, including sophisticated tax departments and reliable financial experts. Consequently, they tend to have a higher capacity for strategic tax planning compared to smaller entities (Wang et al., 2020).

Company ownership of adequate resources encourages managers to seek tax savings by identifying and taking advantage of regulatory loopholes. In addition, large companies possess better planning capabilities in generating stable profits and managing their financial structures (Waruwu & Kartikaningdyah, 2019). As a result, the economies of scale and resources owned by large firms can be utilized by managers to reduce the tax burden, aimed at maximizing company performance and shareholder wealth (Susanti, 2017). This leads to the argument that as a company grows in size, its opportunities and resources for tax avoidance also increase. Thus,

H5: Company size has a positive effect on tax avoidance.

7. Profitability on tax avoidance

Profitability is a financial ratio that expresses how effective the overall management is, indicated by how much profit is earned from investments and sales (Ball et al., 2015). Within the framework of Agency Theory, profit is particularly important in a company's operational activities to ensure business survival and meet the expectations of shareholders. However, high profitability also creates a conflict of interest regarding tax obligations. If a company has high profits, the tax that the company must pay will be greater because the taxes borne by the corporation are proportional to its earnings (Hanlon & Heitzman, 2010).

To protect these profits from being reduced by high tax expenses, management may engage in tax avoidance practices. Conversely, if a company has low profits, the tax payments will be lower or even postponed, as the obligations that the company must pay are not fulfilled (Dyreng et al., 2008). In the financial sector, profitability (often measured by ROA) is a key indicator of efficiency; therefore, managers of highly profitable firms are often under more pressure to perform tax planning to maintain a high net profit margin. This is reinforced by research stating that profitability positively affects tax avoidance, consistent with studies conducted by (Handayani, 2020; Waruwu & Kartikaningdyah, 2019). Thus,

H6: Profitability has a positive effect on tax avoidance.

Research Method

This study used a quantitative approach utilizing statistical test tools to prove the hypotheses. This research was conducted to determine the effect of corporate governance by proxies for audit committees and independent commissioners and company performance by proxies for liquidity, leverage, profitability, and firm size on tax avoidance. This research took the research object of financial sector companies listed on the Indonesia Stock Exchange (IDX) during 2022-2024.

The type of data used in this research was secondary data, a source of data obtained indirectly through intermediary media. The data source used in this research was also secondary data in the form of financial reports. Purposive sampling was used as a sampling technique in this study. The number of samples in this study was 46 companies in the financial sector that matched the criteria, with 138 observations for the 2022-2024 period. The criteria in this study included financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2022-2024 and companies that published their financial reports consecutively during the 2022 2024 observation period. Also, companies that published complete information about data related to research variables did not suffer losses.

The dependent variable in this study was tax avoidance as measured by the effective tax rate (ETR). mention 12 ways to calculate proxies for tax avoidance, and this study used two of them as proxies. The first proxy was the effective tax rate (ETR). This proxy compares the total tax expense for the current year with the total income before tax. A low ETR value can indicate the existence of tax avoidance practices (Hanlon & Heitzman, 2010) because a low ETR value can be interpreted as a low amount of the tax burden borne in that period (Fasita et al., 2022). ETR was used as a proxy to measure tax avoidance.

The first independent variable came from the corporate governance aspect. The audit committee consists of at least three people. Its duties and functions are overseeing corporate governance and external audits of the company's financial statements. The audit committee is also formed by the Board of Commissioners, so the audit committee is responsible to them. The independent commissioner variable was measured by comparing the number of independent commissioners divided by the number of commissioners.

The next independent variable was liquidity, a company's ability to meet its short-term obligations promptly. The liquidity ratio in this study employed the Current Ratio, commonly used for short-term liquid, i.e., the company's ability to meet debt needs when it matures.

In this study, the leverage variable used the Debt to Assets Ratio (DAR) to measure how much a company's assets were financed by debt. It means how much the debt burden borne by the company is compared to the assets owned by the company. Then, the company size variable was measured by the natural logarithm of total assets. Meanwhile, the profitability variable employed return on assets (ROA) as its measurement by dividing net profit after tax by its total assets, as shown in Table 1.

Table 1. Measures of Each Variable

Variable	Measures	Scale
Tax Avoidance (Y)	ETR: $\frac{\text{Current Tax Expense}}{\text{Profit Before Tax}}$	Ratio
Audit Committee (KA)	KA: Number of audit committees	Nominal
Independent Commissioner (KI)	KI: $\frac{\text{Number of independent commissioners}}{\text{Number of commissioners}}$	Ratio
Liquidity (CR)	CR: $\frac{\text{Current assets}}{\text{Current debt}}$	Ratio
Company Size (TA)	ln total assets	Nominal
Profitability (ROA)	ROA: $\frac{\text{Profit after tax}}{\text{Total assets}}$	Ratio
Leverage (DAR)	DAR: $\frac{\text{Total liabilities}}{\text{Total assets}}$	Ratio

Results and Discussion

The results of data analysis are presented in the following table.

Table 2. Descriptive Statistical Analysis

	ETR	KA	KI	CR	DAR	TA	ROA
Mean	0.2318	3.5248	0.5237	3.9497	0.6783	3.0905	0.0232
Median	0.2209	3.0000	0.5000	0.9497	0.7454	3.0719	0.0159
Maximum	3.6181	7.0000	1.0000	7.2238	0.9222	3.6648	0.1922
Minimum	0.0009	1.0000	0.2500	0.0723	0.0811	2.6216	0.0000
Std. Dev.	0.2196	0.9040	0.1365	9.4815	0.2059	2.0547	0.0237

Based on the descriptive statistical test analysis results in Table 2, the dependent variable, namely tax avoidance with the effective tax rate (ETR) proxy, showed a standard deviation of 0.2196, indicating a relatively low dispersion of tax compliance behavior among the sampled firms. While the minimum value on ETR was 0.0009, reflecting aggressive tax planning in some entities, the maximum was 3.6181. The average ETR value was 0.2318, which is slightly below the statutory corporate tax rate in Indonesia, whereas the median value was 0.2209.

Besides, the audit committee variable (KA) revealed a standard deviation of 0.9040. The minimum value for KA was 1.0000, while the maximum was 7.0000, showing that some companies exceed the minimum regulatory requirement of three members. The average value of KA was 3.5248, and the median value was 3.00000. In addition, the independent commissioner variable (KI) demonstrated a standard deviation value of 0.1365. The minimum value for KI was 0.2500, and the maximum was 1.0000 (full independence in the board). Whereas the average value for KI was 0.5237, the median value was 0.50000, suggesting that, on average, half of the board members in financial companies are independent.

Additionally, the liquidity variable with the current ratio (CR) measurement uncovered a standard deviation value of 9.4815, a minimum value of 0.0723, and a maximum value of 7.2238, reflecting the diverse liquidity scales across the financial sub-sectors. The median CR value was 0.9497, while the average value was 3.9497. Furthermore, the leverage variable with the debt-to-asset ratio (DAR) proxy had a standard deviation of 0.2059. While the minimum value on DAR was 0.0811, the maximum was 0.9222, indicating that some financial firms are highly leveraged. The average value of DAR was 0.6783, while the median value was 0.7454. Moreover, the company size variable measuring total assets (TA) exposed a standard deviation of 2.0547. The minimum value for TA was 2.6216, and the maximum was 3.6648. While the average value of TA was 3.0905, the median value was 3.0719. At last, the profitability variable with the return on assets (ROA) measurement showed a standard deviation of 0.0237. The minimum value for ROA was 0.0000, and the maximum was 0.1922. The average value of ROA was 0.0232, while the median value was 0.0159.

Table 3. Hypothesis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,5968	0,2125	2,8088	0,0053
KA	0,0025	0,0143	0,1758	0,8605
KI	-0,0315	0,0918	-0,3428	0,7320
CR	0,0002	0,0014	0,1591	0,8737
DAR	-0,1627	0,0823	-1,9776	0,0488
LN_TA	-0,0142	0,0070	-2,0362	0,0426
ROA	-1,2802	0,6611	-1,9365	0,0337
R-Squared	0, 055210	Adjusted R-Squared		0.037214
F-Statistic	3,067882	Prob.(F-statistic)		0.006226

1. The influence of the audit committee on tax avoidance

   The results of testing the hypothesis with regression analysis in Table 3 have proven that the audit committee (KA) did not affect tax avoidance actions in financial sector companies, so the H1 hypothesis was rejected. This is indicated by the probability value of 0.8605, which is greater than the 0.05 significance level. The results suggest that the number of audit committee members in a company does not necessarily influence the tax avoidance strategies conducted by management. The audit committee was not confirmed as capable of carrying out sufficient supervision to suppress tax avoidance actions in this specific period.

Based on the financial reports of financial sector companies for 2022 to 2024 sampled in this study, almost all companies had a predetermined number of audit committees with an average of 3.57 members (approximately 3 to 4 people). The researchers suspect that a larger number of audit committee members might lead to potential coordination conflicts and communication barriers in decision-making. On the other hand, a committee that only meets the minimum regulatory requirement may result in ineffective supervision, especially for financial sector companies with complex high-risk transactions.

Based on the results of descriptive statistics, even though the sample companies complied with regulations with an average number of audit committees of more than three people, the findings of this study have not confirmed the Agency Theory in this context. From the perspective of Agency Theory, it is stated that a robust audit committee, as a supporter of the board of commissioners, should help oversee the actions of company managers, such as minimizing opportunistic tax avoidance (Koay & Sapiei, 2024; J. Kovermann & Velte, 2019). However, the decision to engage in tax avoidance is not solely determined by the size of the audit committee but is likely influenced by other factors, such as the quality, expertise, and true independence of the members (Hsu et al., 2018).

Quality and effectiveness are often derived from the specific competence of each audit committee member in detecting sophisticated financial maneuvers (Hsu et al., 2018; Muhammadi et al., 2016). This competency must be supported by a strong background in accounting or financial skills, as required in the Good Corporate Governance (GCG) guidelines (Dang & Nguyen, 2022). The results of this study are consistent with prior research (Warih, 2019; Yuniarwati et al., 2017), which also found that the audit committee did not significantly affect tax avoidance.

2. The influence of independent commissioners on tax avoidance

The results of testing the hypothesis with regression analysis in Table 3 showed that during the observation period, the independent commissioner (KI) did not affect the effective tax rate (ETR); therefore, H2 was rejected. This is evidenced by the probability value of 0.7320, which is well above the 0.05 significance threshold. These results indicate that during the 2022-2024 period, the presence of independent commissioners in the financial sector did not necessarily lead to a reduction in tax avoidance practices. While independent commissioners are expected to assist shareholders in supervising management behavior and ensuring transparency in company operations, their influence on specific taxation decisions was not empirically proven in this study.

Under Agency Theory, independent commissioners are intended to serve as a bridge to reduce information asymmetry between the agent (management) and the principal (shareholders) (I. Hasan et al., 2014; Wang et al., 2020). Ideally, management should be more cautious regarding taxation decisions due to the strict supervision provided by independent boards (J. Kovermann & Velte, 2019; Tackie et al., 2022). However, the findings of this research suggest that in the post-recovery era of 2022-2024, the oversight function of independent commissioners might be more focused on operational stability, risk management, and long-term business sustainability rather than technical tax compliance (A. Hasan et al., 2024).

Furthermore, the high proportion of independent commissioners which averaged 52.18% in this study does not guarantee effective tax monitoring if the commissioners lack specific expertise in tax regulations or if their roles are predominantly focused on fulfilling regulatory compliance (tokenism). This lack of significance implies that tax avoidance strategies in financial companies are likely determined by other executive-level financial planning rather than board-level independent oversight. The results of this study differ from previous research (Agyei et al., 2020; Dang & Nguyen, 2022; Tandean & Winnie, 2016), which reported that independent commissioners had a significant effect on tax avoidance, but are consistent with other studies that found no significant impact of board independence on tax planning in stable economic conditions.

3. The influence of liquidity on tax avoidance

The results of testing the hypothesis with regression analysis in Table 3 revealed that in the observation period, liquidity (CR) did not significantly affect tax avoidance; therefore, the proposed hypothesis H3 was rejected. This is evidenced by the probability value of 0.8737, which is well above the 0.05 significance level. This indicates that a company's ability to meet its short-term obligations does not serve as a determinant for its tax avoidance strategies in financial sector companies.

In the framework of Agency Theory, while liquidity is a crucial indicator of financial health, the results suggest that for the 2022 2024 period, management does not use "cash slack" as a primary consideration in tax planning. Financial sector companies may prioritize their liquid assets to maintain regulatory capital requirements and operational stability during the recovery era, rather than using them to facilitate aggressive tax avoidance. Consequently, whether a company has high or low liquidity, it does not directly influence the management's decision to minimize tax burdens.

The results of this study suggest that tax avoidance decisions are more likely driven by more dominant financial factors such as profitability and leverage. These findings are in accordance with research conducted by (Agyei et al., 2020; Olaniyi & Okerekeoti, 2022), which stated that liquidity has no significant effect on tax avoidance, although they differ from the results of research that found a significant relationship.

4. The influence of Leverage on tax avoidance

The results of testing the hypothesis with regression analysis in Table 3 demonstrated that in the observation period, the leverage variable (DAR) significantly affected tax avoidance; therefore, H4 was accepted. This is evidenced by the probability value of 0.0488, which is below the 0.05 significance threshold. However, it is important to note that the results of this study differ from previous research (Thayyib, 2025). In some contexts, leverage did not significantly reduce ETR, which contradicts traditional expectations that higher leverage leads to lower tax burdens through interest deductions(Thayyib, 2025).

In the context of Indonesian financial sector companies for the 2022-2024 period, the significant result in this study confirms that interest on debt remains a primary tool for tax planning. Interest on debt will reduce the company’s operating profit on the income statement, resulting in lower profit before tax. Using funding originating from debt can increase debt interest companies must pay creditors. Consequently, higher debt interest results in lower profit before tax and a reduced tax burden that the company must pay.

From the Agency Theory perspective, managers with more complete information than principals have an advantage, allowing them to act opportunistically to avoid taxes. Management in the financial sector appears to be more aggressive toward taxes because debt financing creates deductible interest expenses. This suggests that during the post-pandemic recovery, financial firms utilized leverage not only for operational funding but also as a strategic "tax shield" to optimize net income. These findings are supported perspective that differs from the findings of (Thayyib, 2025) regarding the inconsistent impact of interest deductions across different observation periods.

5. The influence of company size on tax avoidance

The results of testing the hypothesis with regression analysis in Table 3 confirm that company size (Size) significantly affected tax avoidance in financial sector companies; therefore, the assumed hypothesis H5 was accepted. This is evidenced by the probability value of 0.0426, which indicates that firm size is a predictor of how a company manages its tax obligations. Unlike smaller entities, larger companies in the financial sector possess more extensive resources and sophisticated tax departments, enabling them to engage in more complex tax planning strategies.

From the point of view of Agency Theory, large companies are subject to higher monitoring, yet they also face greater pressure from shareholders to maximize net profits. While tax avoidance is often deemed to affect the reputation of large companies, the results of this study for the 2022-2024 period suggests that the scale of a company’s assets provides more opportunities for managers to utilize regulatory loopholes for tax savings. Larger companies are thought to have better control over the performance of managers, but they also have the financial capacity to employ expert tax consultants to minimize their Effective Tax Rate (ETR) effectively.

The findings of this study imply that in the modern Indonesian financial landscape, company size plays a vital role in determining tax policy. Managers of large-scale financial institutions utilize their vast resources not only to improve business performance but also to optimize the company's tax burden. These results align with the Political Cost Hypothesis, where larger firms use their resources to navigate the complexities of tax regulations. The results of this study differ from research (Handayani, 2020; Olaniyi & Okerekeoti, 2022), that found no effect, but are consistent with studies suggesting that larger firms have greater incentives and means to perform tax avoidance.

6. The influence of profitability on tax avoidance

The results of hypothesis testing with regression analysis in Table 3 revealed that in the observation period, the variable profitability (ROA) significantly affected tax avoidance; therefore, H6 was accepted. This is evidenced by the probability value of 0.0337, which is below the 0.05 significance threshold. This confirms that profitability is a major determinant of tax planning in financial sector companies. Efforts to avoid taxes tend to be greater in companies with high profitability. When companies generate large profits, management is incentivized to optimize those earnings by lowering the tax burden, thereby maintaining a high return on assets and maximizing net income.

The test results confirm the Agency Theory, proposing that as a company's profit increases which serves as the basis for calculating the tax burden the tendency of managers to engage in tax avoidance also rises (Dyreng et al., 2008; Rego & Wilson, 2012). Managers are considered successful if they manage the company well to achieve both short-term and long-term goals, with higher profit levels being a primary indicator of this success (Salehi et al., 2024). In addition, business owners expect the company to remain sustainable. As long as managers deliver strong financial performance, company owners may delegate greater agency responsibilities.

Furthermore, managers may utilize the information asymmetry between themselves and shareholders to meet performance-based bonus targets. To manage the company's tax obligations to the government, managers implement sophisticated tax planning strategies (Richardson et al., 2013). Even though a company generates high profits, it does not necessarily result in higher tax payments, as managers can take advantage of loopholes in tax regulations to minimize liabilities (Wang et al., 2020). In the context of the 2022-2024 period, managers in the financial sector have utilized their company's resources and expertise to maintain a competitive reputation by balancing business investment and tax efficiency. The results of this study corroborate with research (Dyreng et al., 2008; Waruwu & Kartikaningdyah, 2019; Yuniarwati et al., 2017), stating that profitability significantly affects tax avoidance.

Conclusion and Recommendation

Conclusion

This research indicates that for financial sector companies listed on the IDX during the 2022-2024 period, corporate governance mechanisms specifically independent commissioners and audit committees did not affect tax avoidance. Similarly, liquidity was found to have no significant effect on tax avoidance practices. Conversely, leverage, company size, and profitability were shown to positively and significantly affect tax avoidance. These results suggest that in the post-recovery era, financial institutions are more driven by financial performance and scale in determining their tax planning strategies rather than internal board oversight.

This research still has several limitations. First, because the research sample was limited exclusively to the financial sector, the results may not fully describe the conditions of all corporate sectors in Indonesia. Second, the observation period was limited to three years (2022-2024). For further research, it is suggested that future researchers extend the observation period and add other independent variables, such as capital intensity or executive characteristics, to enhance the model's ability to explain tax avoidance. Additionally, future studies could expand the research object to other sectors to produce more comparative and comprehensive findings.

Recommendation

Based on these findings, it is recommended that tax authorities and regulators in Indonesia enhance their monitoring systems, particularly for financial sector companies with high leverage and profitability levels, as these factors are proven to be strong drivers for tax avoidance. Furthermore, companies should ensure that tax planning strategies remain within the boundaries of ethical and regulatory compliance to maintain long-term business sustainability.

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