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The moderating role of firm size in the relationship between financial performance and tax avoidance

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Abstract

This study examines the influence of leverage, profitability, and profit growth on tax avoidance, with firm size as a moderating variable. Using a quantitative approach, the research analyzes sixteen health sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings indicate that leverage and profit growth do not significantly affect tax avoidance, while profitability has a positive and significant effect. Furthermore, firm size does not moderate the relationship between leverage, profitability, and profit growth on tax avoidance. These results highlight that internal financial indicators may influence tax avoidance behavior more directly than organizational scale. Beyond regulatory implications, the findings underscore the importance for firms to align financial performance with ethical tax practices, and for stakeholders to consider non-size-related factors when evaluating corporate tax behavior.

Keywords: *tax avoidance, leverage, profitability, growth ratio, firm size, health companies*

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1. Introduction

Tax avoidance is a phenomenon that has a significant impact on state revenue, fiscal balance, and overall economic stability. The economic downturn during the COVID-19 pandemic has resulted in significant changes to the global tax system. The decline in economic activity resulted in revenue cuts for companies which triggered a government response to provide tax relief and change tax policies to respond to a difficult economy, this caused the level of compliance of the public and companies in paying taxes to decline. From this phenomenon, health sector is one of the sectors with a major impact on the Indonesian economy, significant contributing to public welfare and economic growth and resulting in companies optimizing tax obligations legally by avoiding taxes. This practice not only affects the amount of tax received by the government, but also reflects how companies manage their financial resources to maximize profits. With the increasing complexity of tax regulations and economic globalization, it is important to understand the factors that encourage or suppress tax avoidance (Hoppe et al., 2021; Nguyen & Nguyen, 2019; Saptono et al., 2024), especially large companies that have more complex financial structures. Therefore, this paper aims to provide insights for regulators and companies in designing more effective tax policies by re-examining the relationship between financial variables and tax avoidance.

Tax avoidance strategies can be influenced by the debt-to-equity ratio (DER), which measures how much debt and equity a company has. Companies with high DER can take advantage of high interest expenses and reduce taxable income by choosing a financial structure that is more debt-based. However, while it may provide advantages in tax deductions, high DER also carries risks related to changes in interest rates and financial market conditions. While ensuring compliance with tax regulations and avoiding legal and reputational risks, controlling net income, financial structure, and tax risks must be carefully considered. Empirical evidence shows contrasting effect of DER on tax avoidance; positive significant effect (Firmanzah & Marsoem, 2023; Effendi & Trisnawati, 2023; Cynthia et al., 2023) and partially negative and insignificant effect (Rani et al., 2023; Safitri & Oktris, 2023; Apriatna & Oktris, 2023).

Companies that are effective in tax avoidance can utilize Return on Assets (ROA), measure of company's ability to generate net income from its assets, to optimize net income with strategies such as transfer pricing and financial statement management. A high ROA may also reflect investment policies and financial structures that support tax reduction, such as the use of debt. Investment and asset allocation decisions may also be influenced by tax avoidance considerations that can help achieve optimal ROA and reduce the impact of taxes. Although ROA provides an indication of the efficiency of asset management, it is important to ensure that tax avoidance practices are always in accordance with tax regulations and support sustainable business growth. Research has contrasting results with ROA has a positive and significant effect on tax avoidance (Rani et al., 2023; Widadi et al., 2022; Effendi & Trisnawati, 2022) and partially cannot affect tax avoidance (Firmanzah & Marsoem, 2023; Apriatna & Oktris, 2022; Sriyono & Andesto, 2022).

Tax avoidance strategies can also be influenced by corporate profit growth. Companies that experience increased profits have the opportunity to optimize their financial structure by reducing taxable profits through debt and interest expenses. Earnings growth also allows companies to manage their net income more efficiently, including adjusting their financial statements to support tax avoidance, such as investment decisions, resource allocation, and international tax considerations. Companies can look for ways to maximize fiscal benefits and minimize legal risks with legally valid tax avoidance strategies, however, they must consider ethics, reputation, tax compliance and maintain stakeholder trust. According to Khomsiyah et al. (2021), Stephanie and Herijawati (2022), and Ichwan and Riana (2023), earnings growth has a positive effect on tax avoidance. However, findings of Sriyono and Andesto (2022), Cynthia et al. (2023) and Sawitri et al. (2022) showed that earnings growth cannot affect tax avoidance.

Firm size is frequently regarded as a key determinant in shaping corporate tax avoidance strategies. Larger firms generally possess greater access to financial resources, legal expertise, and advanced tax planning capabilities, enabling them to design and implement more sophisticated tax avoidance schemes. In addition, large firms often benefit from broader access to financing instruments, such as debt, which can be strategically structured to reduce taxable income. Their influence over regulatory environments—through lobbying efforts or active engagement in policy-making—can also result in more favorable tax treatment. Nevertheless, although tax avoidance remains within the bounds of legality, it must comply with applicable tax regulations and ethical standards to prevent potential legal consequences and reputational damage. The moderating effect of firm size can be theoretically supported by Agency Theory, which emphasizes the conflict of interest between shareholders (principals) and management (agents). In large firms, complex organizational structures can lead to increased information asymmetry, thereby granting greater managerial discretion in making financial decisions, including tax-related strategies. However, these firms are also more likely to be subjected to public scrutiny and rigorous regulatory oversight, which may discourage aggressive tax avoidance behavior. Thus, firm size may either strengthen or weaken the relationship between financial performance indicators and tax avoidance, depending on the specific organizational and regulatory context. For instance, empirical evidence shows two contrasting results, on one hand, company size cannot moderate the relationship between DER and ROA with tax avoidance (Rani et al., 2023; Cynthia et al., 2023) and the other hand, company size can moderate the relationship between ROA on tax avoidance (Putty & Badjuri, 2023).

This study explores whether firm size moderates the relationship between financial performance, measured by DER, ROA, and growth ratio (GR), and tax avoidance. These financial indicators are assumed to influence the likelihood of a company engaging in tax avoidance strategies. Firm size is hypothesized to strengthen or weaken these relationships, given its influence on a company’s access to financial resources, capacity for tax planning, and level of public accountability. This study specifically focuses on companies operating within the Indonesian healthcare industry, in response to the ongoing discourse and inconsistent empirical findings concerning the determinants of tax avoidance. The healthcare sector is characterized by strict regulatory oversight, heightened public scrutiny, and a critical role in ensuring public welfare, thereby placing a greater emphasis on ethical financial practices and transparency. Despite the sector's importance, limited research has been conducted on corporate tax avoidance behavior within this industry, particularly in the context of Indonesia. Accordingly, the objective of this study is to examine the moderating role of firm size in the relationship between financial performance and tax avoidance in healthcare sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023.

This research seeks to address existing gaps in the literature by providing empirical evidence on the interaction between firm size and financial performance in shaping corporate tax behavior. The findings are expected to offer practical insights for companies in formulating financial strategies that are not only operationally efficient but also aligned with ethical business conduct. Understanding these dynamics is critical, as excessive tax avoidance can diminish public trust and reduce national tax revenues.

2. Literature review

2.1. Agency Theory

Agency Theory is a concept in economics and management that highlights the relationship between owners (principals) and management (agents) who act on behalf of the owners. This theory emphasizes the differences in goals and interests between owners and management, where management tends to act in its own personal interests rather than in the interests of the owner which leads to conflicts where management may take the most profitable action for the owner. The principal is the shareholder while the agent is the management who holds the function of managing the company. The principal hires the agent to perform tasks for the benefit of the principal (Jensen & Meckling, 1976), including the delegation of decision-making authorization from the principal to the agent (Anthony & Govindarajan, 2011).

2.2. Tax Avoidance

Taxes are obligations imposed by the government on individuals, companies, or other legal entities, which are mandatory and used as a source of revenue to finance various public programs and services in the form of income tax, value added tax, and property tax. Meanwhile, tax avoidance is a strategy that companies use to legally reduce their tax liabilities. This is done by companies to legally reduce their tax liabilities by utilizing loopholes in tax regulations. In contrast with tax evasion, which is an illegal act, tax avoidance is done by utilizing existing tax policies, such as utilization of tax incentives, tax deductions from debt, or the use of transfer pricing.

Companies do tax avoidance to optimize net income by reducing the amount of tax that must be paid to the state. However, this practice is often debated because although it is legal, tax avoidance can harm the government in terms of tax revenues that are used for economic development and community welfare. used for economic development and public welfare. According to Rahayu (2020), tax avoidance is a legal action of taxpayers in order to reduce the cost of paying taxes that must be charged to the company in fulfilling its tax obligations. The model for calculating tax avoidance is by using the company's Cash Effective Tax Rate (CETR) equation.

$$\mathrm{CETR} = \frac{\text{Cash Taxed Paid}}{\text{Pre Tax Income}}$$

2.3. Leverage

According to Sartono (2015), leverage in financial management is the use of assets and sources of funds by companies that have fixed costs with the intention of increasing the potential profits of shareholders. Conversely, leverage also increases variability (risk) profits, because if the company turns out to get profits that are lower than its fixed costs, then the use of leverage also increases the variability (risk) of profits. If lower than its fixed costs, then the use of leverage will reduce shareholder returns.

According to Sujarweni (2022), the solvency or leverage ratio is used to measure the company's ability to meet all its obligations, both short and long term, and how effectively the company uses its resources such as receivables, capital and assets. DER is a comparison between debt and equity in corporate funding and shows the ability of the company's own capital to meet all its obligations. This ratio can be calculated with the formula:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

2.4. Profitability

The return on assets is a ratio that shows how much the contribution of assets in creating net income (Hery, 2020). In other words, this ratio is used to measure how much net profit will be generated from each rupiah of funds embedded in total assets. This ratio is calculated by dividing net income by total assets.

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

2.5. Growth Ratio

According to Sukamulja (2019), the development or growth of the company (growth) is an important thing for the company to achieve, especially for long-term planning. A growing company is able to improve its performance continuously, either by obtaining positive cash flow or increasing profits. Revenue (sales) growth rate shows the development of company performance in a particular year compared to the previous year. Company performance is assumed to be reflected in the company's net sales (revenue) value.

$$\text{Growth Rate} = \frac{\text{Sales (year n)} - \text{Sales (year n} - 1)}{\text{Sales (year n} - 1)}$$

2.6. Firm Size

According to Vidyasari (2021), firm size refers to the scale or extent of an organization's operations, commonly indicated by metrics such as total assets, total sales, and the number of employees. A larger firm size is often associated with stronger market power, enhanced organizational capacity, and greater access to financial resources. Consequently, firm size is considered to significantly influence corporate decision-making processes, including risk management, investment strategies, and financial reporting. Firm size can be measured by the formula:

$$\text{Size} = \text{Ln (Total Assets)}$$

2.7. Hypothesis Development

The effect of leverage on tax avoidance. Leverage is used to measure the company's ability to meet all its obligations, both short and long term and how effectively the company uses its resources, resources such as receivables and capital and assets (Hery, 2020). This study used DER to measure leverage. The higher the debt used by the company in financing its operations, the higher the opportunity for companies to practice tax avoidance. Empirical evidence showed that DER has a positive and significant effect on tax avoidance (Firmanzah & Marsoem, 2023; Effendi & Trisnawati, 2023; Monica, 2023). Thus, it is assumed that:

H1: Leverage has a positive effect on tax avoidance.

The effect of profitability on tax avoidance. This research uses ROA to measure profitability. ROA shows how much assets contribute to creating net income. In other words, this ratio is used to measure how much net profit will be generated from each rupiah of funds embedded in total assets. If the ROA ratio is high, it can cause indications of tax avoidance, because the company will try its best to earn profits using the assets. It has to maintain its reputation and long-term aspects and take advantage of loopholes in the law to reduce the tax burden that must be paid by the company. The higher the profitability of a company, the greater the tax avoidance practices carried out because companies with large income will generate greater profits as well, because profit is one of the determinants of the basic amount of taxation, the company will try to avoid increasing the amount of tax burden. Studies showed that showed that ROA has a positive and significant effect on tax avoidance (Rani, 2023; Widadi, 2022; Effendi & Trisnawati, 2022). Thus, it is assumed that:

H2: Profitability has a positive effect on tax avoidance

The effect of growth ratio on tax avoidance. This research uses the growth rate to measure sales growth, which defines the company's ability to maintain its position and develop in the economy, in general (Fahmi, 2020). The higher sales growth value of a company indicates that the company is successful in carrying out marketing strategies and can increase company profits. With an increased profit, the company will be obliged to pay more taxes, leading to potential practice of tax avoidance. Research shows that profit growth has a positive effect on tax avoidance (Khomsiyah, 2021; Stephanie & Herijawati, 2022; Ichwan & Riana, 2023). Thus, it is assumed that:

H3: Growth Ratio has a positive effect on tax avoidance

Firm size moderates the effect of leverage on tax avoidance. Firm size reflects the overall scale and capacity of a company, particularly in terms of its financial structure, public visibility, and access to capital. Larger firms typically require higher capital turnover and thus tend to rely more on external financing, including debt. In accordance with Agency Theory, the use of debt increases interest expenses, which in turn can reduce taxable income due to the tax-deductibility of interest payments. However, excessive reliance on debt for tax planning purposes may create agency conflicts if such strategies are not aligned with shareholders' interests. In this context, firm size is presumed to moderate the effect of leverage on tax avoidance. Thus, it is assumed that:

H4: Firm size moderates the effect of leverage on tax avoidance

Firm size moderates the effect of profitability on tax avoidance. Large-scale companies generally achieve higher levels of profitability. Under Agency Theory, high profitability may give rise to agency problems, particularly when performance-based compensation schemes or managerial incentives are present. Managers (agents) may be incentivized to reduce tax liabilities through aggressive tax planning, which may not always be in the best interests of shareholders (principals). Although large firms are more capable of utilizing available tax incentives and legal loopholes, they are also subject to greater scrutiny from regulators and the public. Therefore, firm size is expected to influence the extent to which profitability affects tax avoidance practices. Thus, it is assumed that:

H5: Firm size moderates the effect of profitability on tax avoidance

Firm size moderates the effect of growth ratio on tax avoidance. Larger firms often demonstrate more stable and consistent profit growth over time. Nevertheless, such firms are also prone to greater agency problems due to complex organizational structures and limited transparency. Managers may be motivated to engage in tax avoidance as a means to present enhanced financial performance and increase perceived firm value. Despite these tendencies, large companies also face stricter oversight, which may either constrain or amplify tax avoidance behavior. Thus, it is assumed that:

H6: Firm size moderates the effect of growth ratio on tax avoidance

3. Methodology

This research uses quantitative methods. The population was 33 health sector companies listed on the Indonesia Stock Exchange in 2019-2023. The sample in this study were 16 companies. The sampling technique used purposive sampling with the following criteria:

Table 1

Sampling criteria

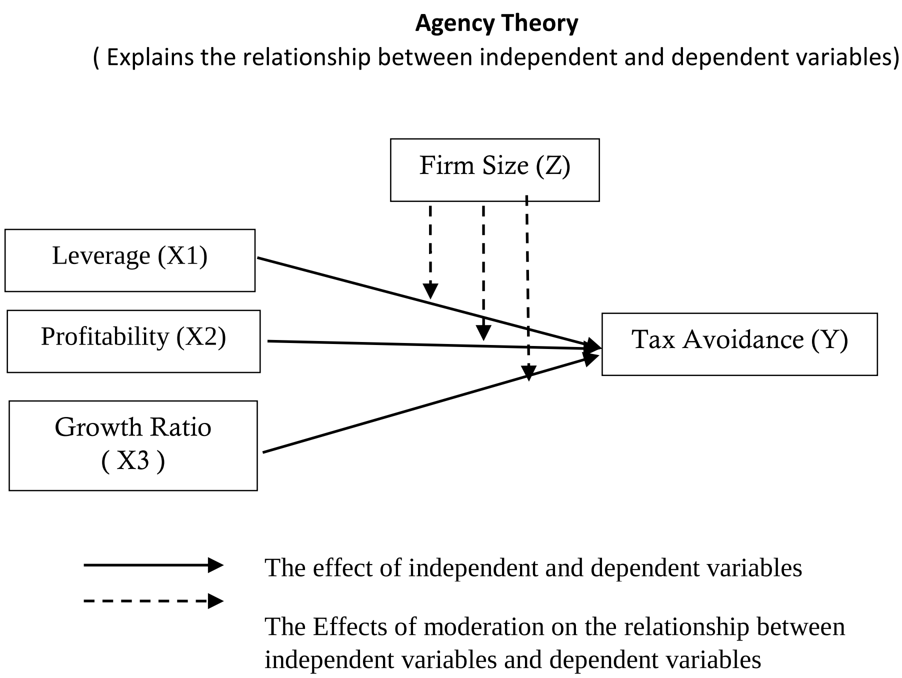
Sampling Criteria	Number
Companies engaged in the health sector that have gone public and are listed on the Indonesia Stock Exchange for the period 2019-2023.	33
Companies that do not have complete financial data for the period 2019-2023	17
Number of samples that meet the criteria	16
Year of observation	5

***Source**:* Data processed by researcher

This study used Partial Least Square- Structural Equation Modeling (PLS-SEM) statistical software. Using PLS method, data does not have to be multivariate normally distributed, and the sample size does not have to be large. PLS not only used to confirm the theory, it can also be used to explain whether or not there is a relationship between latent variables. According to Ghozali and Latan (2020), PLS is a soft modeling analysis to explain whether there is a relationship between latent variables and confirm the theory. PLS is a component or variant-based SEM equation model, which usually combines two measurement models, namely, outer model and inner or structural model. The former is a measurement model that makes it possible to analyze the model by showing how the manifest or observed variables represent the latent variables being measured. The latter is a measurement model that shows the strength of the estimation between latent variables or constructs.

Figure 1

Research conceptual framework



4. Findings and Discussion

4.1. Results

Descriptive statistical analysis aims to provide an overview of the variables used in this study, namely debt to equity ratio, return on assets, sales growth, tax avoidance and firm size. The result shown in table 2.

Based on the results, it can be seen that the standard deviation value of DER, GR, and Tax Avoidance (CETR) is greater than the average value, which means that the data distribution is uneven. Meanwhile, the standard deviation value of ROA and Firm Size (SIZE) is smaller than the average value, which means that the data has an even distribution.

Table 2

Descriptive statistics results

Description	Mean	Median	Minimum	Maximum	Std. Deviation
Debt to Equity Ratio	0.652	0.426	0.051	3.825	0.694
Return On Assets	0.098	0.092	0.002	0.31	0.072
Growth Ratio	0.132	0.074	-0.563	1.34	0.324
Tax Avoidance	0.533	0.265	0	10.897	1.259
Firm Size	23.097	25.974	14.008	30.936	6.132

***Source**:* Data processed by researcher

Table 3

Direct effect

	Original Sample (O)	T Statistics	P-Value
Debt to Equity Ratio → Tax Avoidance	-0.021	0.151	0.880
Return On Assets → Tax Avoidance	-0.296	3.185	0.002
Growth Ratio → Tax Avoidance	0.003	0.032	0.974

***Source**:* Data processed by researcher.

The data in table 2 shows that the DER variable has a minimum value of 0.051 and a maximum value of 3.825 with an average value of 0.652 and a standard deviation of 0.694. The results indicate that the standard deviation value is greater than the average value, which means that the data distribution is uneven, because the difference in data from one another is greater than the average value. This can show that the DER has no effect on tax avoidance (table 3). On the other hand, ROA variable has a minimum value of 0.002 and a maximum value of 0.310 with an average value of 0.098 and a standard deviation of 0.072. The results indicate that the standard deviation value is smaller than the average value, which means that the data has an even distribution. Therefore, ROA has a positive effect on tax avoidance. Meanwhile, GR has a minimum value of -0.563 and a maximum value of 1.340 with an average value of 0.132 and a standard deviation of 0.324. The results indicate that the standard deviation value is greater than the average value, which means that the data distribution is uneven. This shows that GR has no effect on tax avoidance. The findings proved that ROA has a positive effect on tax avoidance while DER and GR have no effect on tax avoidance in health sector companies listed on the Indonesia Stock Exchange.

The total indirect effect on the variables is shown in table 4.

Table 4

Total indirect effect

	Original Sample (O)	T Statistics	P-Value
Debt to Equity Ratio → Firm Size → Tax Avoidance	0.052	0.266	0.790
Return On Assets → Firm Size → Tax Avoidance	-0.184	1.785	0.075
Growth Ratio → Firm Size → Tax Avoidance	0.022	0.225	0.822

Source: Data processed by researcher.

The regression coefficient value of DER moderated by firm size is 0.052, with a positive sign, which means that if there is an increase in debt to equity ratio moderated by firm size by 1, then tax avoidance will increase by 0.052. The significance value of the DER moderated by firm size of 0.790 is greater than 0.05. Therefore, firm size cannot moderate the effect of DER on tax avoidance.

The regression coefficient value of ROA moderated by firm size is -0.184, with a negative sign, which means that if there is an increase in ROA moderated by firm size by 1, then tax avoidance will decrease by 0.184. The significance value of ROA moderated by firm size is 0.822 which is above 0.05. Therefore, firm size cannot moderate the effect of ROA on tax avoidance.

The GR regression coefficient value moderated by firm size is 0.022, with a positive sign, which means that if there is an increase in the GR moderated by firm size by 1, then tax avoidance will increase by 0.022. The significance value of the growth ratio moderated by firm size of 0.075 is greater than 0.05, so it can be concluded that firm size cannot moderate the effect of growth ratio on tax avoidance.

These findings suggest that firm size does not have significant moderating role in the relationship between the financial performance indicators (DER, ROA, GR) to tax avoidance in health sector companies listed on the Indonesia Stock Exchange.

4.1. Discussion

This finding suggests that the level of leverage, or the extent to which a company uses debt in its capital structure, does not significantly influence its propensity to engage in tax avoidance strategies. Leverage, in theory, is often associated with tax planning behavior. According to Sartono (2015), leverage refers to the use of fixed-cost financing sources, such as debt, with the aim of increasing potential returns for shareholders. Based on the trade-off theory, companies may prefer debt financing due to the tax deductibility of interest expenses, which can reduce taxable income and, consequently, tax obligations. Therefore, a higher debt level could be expected to correspond with more aggressive tax avoidance strategies. However, the absence of a significant relationship in this study suggests that other considerations may outweigh the tax benefits of debt. For instance, companies with high debt levels may be more focused on maintaining financial stability and investor confidence, especially in a highly regulated and publicly scrutinized sector such as healthcare. Excessive leverage may be perceived as a financial risk, potentially deterring investors and limiting access to future capital. Additionally, companies may avoid overreliance on debt to prevent negative market perceptions, such as declining stock prices due to rights issues or the issuance of new shares—signals often interpreted as financial distress. Furthermore, firms in the healthcare sector might be subject to stricter compliance requirements and more transparent financial reporting practices, which can limit their flexibility in using debt as a tax shield. This industry-specific context may explain why leverage does not significantly influence tax avoidance behavior in the sampled companies. These findings are consistent with previous studies by Rani et al. (2023), Safitri and Oktris (2023), and Apriatna and Oktris (2023), which also found that DER has a negative but statistically insignificant effect on tax avoidance. Overall, this indicates that while leverage theoretically offers tax advantages, practical considerations—such as risk management, regulatory environment, and investor sentiment—play a more dominant role in shaping corporate tax behavior in the healthcare industry.

The results also showed that ROA has a positive effect on tax avoidance in health sector companies listed on the Indonesia Stock Exchange. Thus, it can be concluded that the higher the value of ROA means the higher the value of net income and profitability generated by the company. The company will try its best to take advantage of the loopholes in the law in order to reduce the tax burden that must be paid by the company. The lower the ROA value, the lower the CETR value, implying the company's tendency to avoid taxes increases. Companies with little profit will not want to pay taxes because the company will maximize its profits by avoiding taxes. Likewise, companies with high profitability and companies with increased profits or profits tend to have conflicts of interest differences between company owners (principals) and management (agents), because the company is considered to have run in accordance with what is expected by the company owner. This result aligns with the findings of Rani et al. (2023), Widadi et al. (2022) and Effendi and Trisnawati (2022) that ROA has a positive and significant effect on tax avoidance.

The results also showed that GR has no effect on tax avoidance in health sector companies listed on the Indonesia Stock Exchange. This study suggests that an increase in profit growth does not necessarily lead firms to engage in tax avoidance. One possible explanation is that profit growth may not directly translate into higher taxable income due to offsetting factors such as increased operating expenses or reinvestment activities. In high-growth companies, rising sales are often accompanied by higher production, distribution, and administrative costs, which can diminish the impact of increased profits on taxable earnings. Moreover, rapidly growing companies frequently reinvest their profits in research and development, market expansion, or the acquisition of long-term assets. These reinvestments typically result in higher depreciation and amortization expenses, which further reduce the company's taxable base. Consequently, even with rising profits, there may be fewer incentives or opportunities for aggressive tax planning. This implies that during phases of business expansion, managerial attention may be more directed toward maintaining operational scalability and competitiveness rather than minimizing tax obligations. Furthermore, in a highly regulated industry such as the health sector, companies may prioritize regulatory compliance and reputation management over short-term tax savings. These findings are in line with previous studies by Cynthia et al. (2023), Sawitri et al. (2022), and Sriyono and Andesto (2022), which also identified a negative but statistically insignificant relationship between profit growth and tax avoidance.

The results showed that company size could not moderate the relationship between DER and tax avoidance in health sector companies listed on the Indonesia Stock Exchange. Thus, it can be concluded that large companies with high debt do not always do tax avoidance. Due to the tax benefits of interest expense (interest tax shield) where debt interest can be deducted from taxable income, the company has obtained a reduction in tax liability without the need to implement additional tax avoidance strategies. In addition, large companies are generally under close scrutiny from the government and tax authorities, which makes them more cautious in their tax practices to avoid the risk of sanctions or costly audits. Reputation is also an important consideration, as revelations of aggressive tax avoidance practices can damage a company's image in the eyes of the public, investors and business partners. In addition to external factors, strict internal policies and corporate governance also play a role in driving a more transparent and responsible tax strategy. Many large companies have boards of directors and shareholders that demand regulatory compliance in order to maintain business sustainability. In addition, large companies are often oriented towards long-term investments, such as research and innovation development, business expansion, and involvement in social projects, which are often accompanied by official tax incentives from the government. Therefore, despite having high debt, large companies are not always encouraged to engage in tax avoidance, because they already get tax deductions from legitimate mechanisms, consider regulatory and reputational risks, and focus more on long-term business growth and sustainability. This result aligns with the findings of Rani et al. (2023), Sriyono and Andesto (2022), Cynthia et al. (2023) and Putty and Badjuri (2023) that company size is not proven to moderate the relationship between DER and tax avoidance.

The results also showed that company size could not moderate the relationship between ROA and tax avoidance in health sector companies listed on the Indonesia Stock Exchange. Thus, it can be concluded that large companies with high profitability tend not to do tax avoidance because they will focus more on compliance with regulations to maintain reputation and credibility in the eyes of the public, government and investors. With large profits, these companies may be more intensively monitored by tax authorities, so the risk of aggressive tax avoidance is greater. In addition, large companies with large profits often have tax strategies designed to legally maximize tax efficiency without breaking the rules. The need to maintain good relations with stakeholders and avoid legal sanctions or reputational damage are the main reasons for companies with high profitability not to engage in tax avoidance. This result aligns with the findings of Rani et al. (2023) and Cynthia et al. (2023) that company size is not proven to moderate the relationship between ROA and tax avoidance.

Finally, the results showed that company size could not moderate the relationship between GR and tax avoidance in health sector companies listed on the Indonesia Stock Exchange. Thus, it can be concluded that large companies with high sales growth do not engage in tax avoidance for several main reasons. Although sales increase, profit before tax may not necessarily increase significantly, because companies also experience an increase in production, distribution, and other operational costs. Thus, high sales growth does not necessarily mean a strong incentive for companies to avoid taxes. In addition, large companies with rapid sales growth are usually under close scrutiny from tax authorities and regulators. The risk of tax audits and potential legal sanctions make them more cautious in their tax strategies. Large companies are also very concerned about their reputation, especially in the eyes of investors, customers and business partners. The revelation of aggressive tax avoidance practices can damage the company's image and reduce stakeholder trust. On the other hand, companies with high sales growth often focus more on business expansion and long-term investments, such as product development, increasing production capacity, and business diversification. These investments are often accompanied by official tax incentives from the government, so companies do not need to avoid taxes aggressively. In addition, good corporate governance is also a factor that makes large companies tend to be more transparent and compliant with tax regulations. Therefore, despite having high sales growth, large companies are not always encouraged to do tax avoidance because they are more focused on business sustainability, maintaining reputation, and utilizing legal tax incentives. This result aligns with the findings of Sriyono and Andesto (2022), Cynthia et al. (2023) and Putty and Badjuri (2023) that company size is not proven to moderate the relationship between GR and tax avoidance.

5. Conclusion

This study aimed to examine the moderating role of firm size in the relationship between leverage, profitability, and profit growth on tax avoidance, focusing on health sector companies listed on the Indonesia Stock Exchange during the period 2019–2023. The analysis produced several key findings: profitability has an effect on tax avoidance; leverage and earnings growth has no effect on tax avoidance; and firm size is unable to moderate the effect of profitability, leverage and earnings growth on tax avoidance. These findings suggest that tax avoidance is more directly influenced by internal financial performance than by company size or capital structure. Although tax avoidance is legally permissible, it may raise ethical and reputational concerns due to its reliance on exploiting regulatory loopholes.

Theoretical implications include the reinforcement of agency theory and political cost theory, where financial performance drives managerial behavior in tax planning. Practically, the study encourages companies to prioritize ethical financial decisions and long-term sustainability over short-term tax benefits. Additionally, policymakers are urged to strengthen tax regulations and oversight mechanisms to limit opportunities for tax avoidance.

Limitations of this study include its focus on one sector and a specific time frame using purposive sampling, which restricts the generalizability of the results. For future research, it is recommended to explore similar models across different industries and time periods, and to incorporate additional moderating variables such as corporate governance or audit quality for deeper insights. For companies, managerial practices should emphasize ethical financial decision-making and prioritize long-term sustainability over short-term tax advantages. For governments, these results highlight the importance of enhancing regulatory oversight and strengthening tax policies to close existing loopholes and reduce the likelihood of tax avoidance practices.

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AI Declaration

The author declares the use of Artificial Intelligence (AI) in writing this paper. In particular, the author used ChatGPT and Quillbot in paraphrasing and grammatical proficiency. The author takes full responsibility in ensuring proper review and editing of contents generated using AI.

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