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Determinants of Tax Avoidance in Indonesian Food and Beverage Companies: A Political Cost Perspective

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ABSTRACT
Indonesia collects one of the lowest shares of tax revenue relative to output in the Asia-Pacific region, and corporate tax avoidance is widely regarded as part of the explanation. Earlier studies of profitability, leverage, sales growth, and firm size as drivers of tax avoidance have produced conflicting results, partly because they pool sectors that face very different levels of public scrutiny. This study examined these four determinants in the food and beverage sub-sector, a highly visible consumer industry, and used the competing political cost and political power views of firm size to interpret the evidence. The study was quantitative and used secondary data from the annual reports of thirteen food and beverage companies listed on the Indonesia Stock Exchange from 2019 to 2023, a period that spanned the reduction of the statutory corporate income tax rate. Purposive sampling yielded an unbalanced panel of sixty-two firm-year observations. Tax avoidance was measured by the cash effective tax rate, and the hypotheses were tested with pooled multiple linear regression after classical assumption tests. Sales growth had a significant negative effect on the cash effective tax rate, which means that faster-growing firms avoided more tax. Firm size had a significant positive effect on the cash effective tax rate, which indicates that larger firms avoided less tax, in line with the political cost hypothesis. Profitability and leverage had no significant effect. Together, the four variables explained about twenty-six percent of the variation in tax avoidance. The study contributes sector-specific evidence that visibility restrains tax avoidance by large firms, while growth pressure encourages it, and it suggests that tax authorities should direct compliance monitoring towards fast-growing, mid-sized firms rather than relying on size alone.
Keywords: *cash effective tax rate; firm size; political cost; sales growth; tax avoidance*

INTRODUCTION

Taxation is the main channel through which the Indonesian state finances public goods, infrastructure, and social protection, and the capacity to collect it shapes both development outcomes and the accountability of government to citizens (Mukherjee & Badola, 2021; Tolossa & Melese, 2024). Indonesia nevertheless remains a weak revenue collector by regional standards. The Organisation for Economic Co-operation and

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Development reports a tax-to-GDP ratio of 12.0% for Indonesia in 2023, unchanged from 2022 and well below the Asia-Pacific average of 19.6%; only six of the 37 economies covered collected less (OECD, 2025). Weak collection has several causes, including informality and the structure of the economy, but corporate tax avoidance is one that firms themselves control. Tax Justice Network (2020) estimated that Indonesia loses about US$4.86 billion in tax revenue every year to international tax abuse, of which roughly US$4.78 billion is attributable to multinational corporations shifting profit out of the country, while only a small remainder is linked to wealthy individuals.

The food and beverage industry illustrates why the problem matters at sector level. It is a mature, cash-generative consumer industry with dense distribution networks, heavy promotional spending, and frequent transactions with foreign affiliates through royalties, concentrate purchases, and brand licences, all of which give management room to shape taxable income. The industry has also produced one of the best-known tax disputes in the country. The Directorate General of Taxes alleged that PT Coca-Cola Indonesia had deducted advertising expenses of about Rp566.84 billion over the 2002–2006 tax years that were unrelated to its concentrate business, which reduced taxable income and led the authority to assess an income tax shortfall of Rp49.24 billion; the company contested the assessment before the Tax Court ("Coca-Cola diduga akali setoran pajak," 2014). Cases of this kind show that tax planning in the sector is real and material, yet they say little about which firm characteristics make such planning more or less likely across the industry as a whole.

The empirical literature has not settled that question. For profitability, Hossain et al. (2024) found a positive association with tax avoidance among Bangladeshi listed firms, Karlinah et al. (2024) reported a similar effect for Indonesian consumer companies, and Jaya et al. (2025) showed that higher profit encourages aggressive avoidance in Indonesia, whereas Shubita (2024b) observed a negative relationship in Jordan and the review by Nuraindra and Laksmi (2024) concluded that profit has no significant influence. Leverage is equally contested. Some studies report that debt increases avoidance (Hendayana et al., 2024; Hossain et al., 2024; Karlinah et al., 2024), others find that it acts as a substitute for, or a constraint on, avoidance (Ha et al., 2021; Kwon,

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2025), and Indonesian evidence from mining and manufacturing firms shows no effect at all (Handoyo et al., 2022; Oktaviani, 2023). Sales growth has received less attention and usually appears as a control variable, with insignificant results reported for Jordanian industrial firms, Indonesian mining firms, and Indonesian and Malaysian energy firms (Arum et al., 2025; Handoyo et al., 2022; Shubita, 2024b). Firm size produces the sharpest disagreement: larger firms avoid more tax in Bangladesh and China (Chen et al., 2025; Hossain et al., 2024), but a meta-analysis of 56 studies supports the opposite, political cost, prediction that size raises effective tax rates (Belz et al., 2019).

A critical reading of these studies suggests three reasons for the inconsistency. First, most of them pool firms from many industries or draw on broad indices such as LQ45, so differences in public visibility and regulatory attention are absorbed into the error term (Belz et al., 2019; Hendayana et al., 2024). Second, they rarely state which theory of firm size they are testing, which makes a significant coefficient of either sign easy to rationalise after the fact. Third, the Indonesian studies seldom consider the change in the statutory rate, from 25% in 2019 to 22% from 2020 onwards under Law No. 2 of 2020 and Law No. 7 of 2021 on the Harmonisation of Tax Regulations, even though a rate cut alters the incentive to avoid tax and the benchmark against which effective tax rates should be judged.

This study addresses these gaps in three ways, and its contribution goes beyond the choice of an Indonesian sample. It focuses on a single, highly visible consumer sector, which holds the level of public exposure roughly constant across firms and allows a cleaner test of whether size acts as a source of political cost or political power. It sets out the competing theoretical predictions for firm size before testing them, so that the result can discriminate between the two views rather than merely describe an association. It also covers 2019–2023, a window that spans both the pandemic and the reduction of the statutory rate, and it interprets sales growth through the lens of tax avoidance as a source of internal financing for expanding firms (Gabrielli, 2023b). Accordingly, the purpose of this study is to examine the effects of profitability, leverage, sales growth, and firm size on tax avoidance among food and beverage companies listed on the Indonesia Stock Exchange during 2019–2023.

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THEORETICAL BACKGROUND

Agency Theory and Tax Avoidance

Agency theory views the firm as a nexus of contracts in which managers act as agents for shareholders and may pursue their own interests when monitoring is imperfect (Jensen & Meckling, 1976). Tax avoidance fits this framework in two ways. It can serve shareholders by keeping cash that would otherwise flow to the state, and it can serve managers by inflating after-tax earnings on which bonuses and reputations depend (Kovermann & Velte, 2019; Wang et al., 2020). Marwat et al. (2023) showed that managers in an emerging market use tax avoidance to manipulate the profitability signal and smooth earnings, and Li (2024) found that managers respond to avoidance incentives by investing in tax departments. At the same time, avoidance is costly: it can raise the cost of debt (Al-Refiay et al., 2025), reduce the value that investors place on cash holdings (Benkraiem et al., 2022), and lower firm value when it is perceived as risky (Elamer et al., 2024; Shubita, 2024a). Firms therefore seek an optimal, firm-specific level of avoidance, which corporate governance and external monitoring help to determine (Kovermann & Velte, 2019; Velte, 2025).

In this study, tax avoidance is understood as the lawful reduction of explicit tax relative to pre-tax income, at the conservative end of a continuum that runs from ordinary tax planning to evasion (Wang et al., 2020). It is measured with the cash effective tax rate, the ratio of cash taxes paid to pre-tax income. A lower ratio indicates more avoidance, so a negative coefficient on the cash effective tax rate signals a positive effect on tax avoidance.

The cash-based measure has two advantages in the Indonesian setting. Because it relies on taxes actually paid rather than on the accrued tax expense, it is less affected by deferred tax adjustments and changes in accounting estimates, and it captures strategies that defer payment as well as those that reduce the liability permanently (Wang et al., 2020). It can also be compared directly with the statutory rate. That rate fell from 25% in 2019 to 22% from the 2020 tax year, and listed companies with at least 40% of their shares in public hands may claim a further reduction of three percentage points. A cash

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effective tax rate persistently below these benchmarks therefore indicates that a firm is reducing its tax burden through means other than the general rate. The measure is not without weaknesses, because tax payments in a given year may relate to earlier periods and the ratio becomes unstable when pre-tax income is small, which is why firm-years with pre-tax losses are excluded from the sample (Hossain et al., 2024; Wang et al., 2020).

Political Cost and Political Power Views of Firm Size

Two accounting theories make opposite predictions about firm size. The political cost view holds that large firms attract more attention from regulators, the media, and the public, so they face higher expected costs if they are seen to avoid tax and therefore report higher effective tax rates. The political power view holds that large firms have the resources to hire specialists, organise complex transactions, and lobby for favourable treatment, which allows them to lower their effective tax rates (Belz et al., 2019). Empirical support exists for both. Scrutiny-based evidence favours the political cost view: firms subject to shareholder tax litigation and their industry peers reduce avoidance afterwards (Donelson et al., 2024), and in China lower avoidance acts as a signal of political costs to investors (Bai et al., 2025). Evidence from Bangladesh and China, on the other hand, shows that larger firms avoid more (Chen et al., 2025; Hossain et al., 2024). The balance between the two forces is likely to depend on how visible a firm is, which makes a consumer-facing sector a useful setting for the test.

Hypothesis Development

Profitability and tax avoidance. Profitable firms have a larger tax base, and under agency theory managers have stronger incentives to protect after-tax earnings when more profit is at stake. They also have the resources to pay for tax planning. Evidence from Bangladesh and Indonesia supports a positive link between profitability and avoidance (Hossain et al., 2024; Jaya et al., 2025; Karlinah et al., 2024). The first hypothesis is therefore stated as follows.

H1: Profitability has a positive effect on tax avoidance.

Leverage and tax avoidance. Interest on debt is deductible, so leverage lowers taxable income, and highly leveraged firms may also avoid tax to preserve cash for debt

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service and covenant compliance (Gabrielli, 2023a). Several studies report that leverage increases avoidance (Hendayana et al., 2024; Hossain et al., 2024; Karlinah et al., 2024), although trade-off arguments suggest that debt and avoidance can be substitutes (Ha et al., 2021; Kwon, 2025). Following the dominant evidence for emerging markets, the second hypothesis is stated as follows.

H2: Leverage has a positive effect on tax avoidance.

Sales growth and tax avoidance. Firms whose sales are growing need cash for working capital, capacity, and distribution. Because tax savings are an internal source of funds that does not require external approval, growing firms have a particular reason to avoid tax (Gabrielli, 2023b). Growth also increases the volume of transactions, promotional spending, and intra-group dealings through which deductible costs can be timed or shifted, and it raises the pressure on managers to report rising after-tax earnings (Marwat et al., 2023). Although previous results in other sectors have been insignificant (Arum et al., 2025; Handoyo et al., 2022; Shubita, 2024b), the financing argument is strongest in a cash-intensive consumer industry. The third hypothesis is stated as follows.

H3: Sales growth has a positive effect on tax avoidance.

Firm size and tax avoidance. The political power view predicts that larger firms avoid more tax, while the political cost view predicts that they avoid less (Belz et al., 2019). Because both mechanisms are plausible in the Indonesian food and beverage sector, where large firms own nationally known brands but also possess substantial tax-planning capacity, this study does not impose a direction a priori. The sign of the coefficient is used to determine which view prevails. The fourth hypothesis is stated as follows.

H4: Firm size has a significant effect on tax avoidance.

The research model is summarised in Figure 1. Profitability, leverage, sales growth, and firm size are the independent variables, and tax avoidance, measured by the cash effective tax rate, is the dependent variable.

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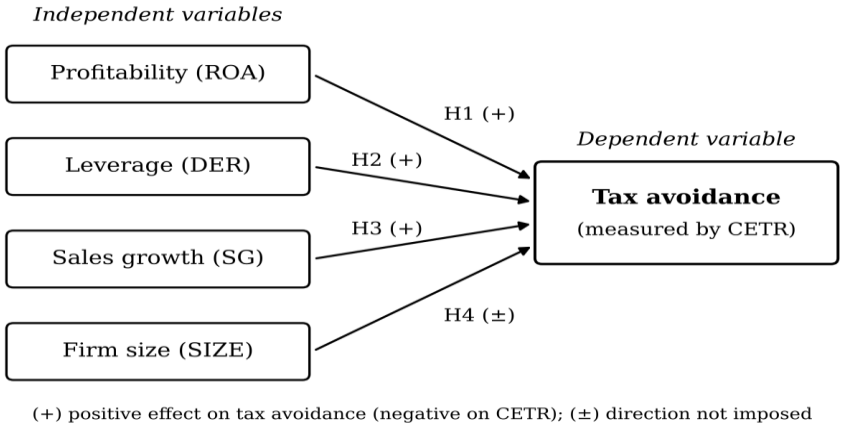

Figure 1. Research model
Source: author's analysis (2026)

METHOD, DATA AND ANALYSIS

This study followed a positivist paradigm and a quantitative, explanatory approach. The unit of analysis was the firm-year. The population comprised food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX), and the data were secondary, taken from audited annual reports published on the IDX website (www.idx.co.id) and on company websites for the years 2019–2023.

The sample was selected by purposive sampling using four criteria: (1) the company was classified in the food and beverage sub-sector of the IDX; (2) it was listed continuously throughout 2019–2023; (3) it reported positive pre-tax income in every year, because the cash effective tax rate is not meaningful when the denominator is zero or negative; and (4) its financial statements were presented in Indonesian rupiah. Table 1 reports the outcome of each step. Thirteen companies met all criteria, which would give 65 firm-year observations in a balanced panel. Three annual reports could not be obtained from either the IDX or the company websites, so these firm-years were excluded rather than estimated. The final dataset is therefore an unbalanced panel of 62 firm-year observations.

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Table 1: Sample selection

No.	Criterion	Number
1	Food and beverage sub-sector companies listed on the IDX (population)	101
2	Not listed continuously during 2019–2023	(80)
3	Reported a pre-tax loss in at least one year of 2019–2023	(5)
4	Companies with a CETR value greater than one	(3)
	Companies meeting all criteria	**13**
	Potential observations (13 companies × 5 years)	65
	Outlier data	(3)
	Final firm-year observations	**62**

Source: author's analysis (2026)

Table 2 presents the operational definitions of the variables. All variables were computed from annual-report figures for each firm-year.

Table 2: Operational definitions of variables

Variable	Definition	Measurement
Tax avoidance (CETR)	Lawful reduction of explicit tax relative to pre-tax income; a lower value indicates more avoidance	CETR = Cash taxes paid ÷ Pre-tax income
Profitability (ROA)	The firm's ability to generate profit from its assets	ROA = Net income after tax ÷ Total assets
Leverage (DER)	The extent to which the firm finances its activities with debt rather than equity	DER = Total liabilities ÷ Total equity
Sales growth (SG)	The change in sales between periods, reflecting the firm's growth prospects	$SG = (Sales_t - Sales_{t-1}) \div Sales_{t-1}$
Firm size (SIZE)	The scale of the firm based on its total assets	SIZE = Ln(Total assets)

Source: author's analysis (2026)

The hypotheses were tested by pooled ordinary least squares (common effect) regression, estimated in SPSS 22, according to the following model:

$$CETR_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \varepsilon_{it}$$

where *CETR* is the cash effective tax rate, *ROA* is return on assets, *DER* is the debt-to-equity ratio, *SG* is sales growth, *SIZE* is the natural logarithm of total assets, α is the constant, β_1–β_4 are the regression coefficients, ε is the error term, *i* denotes the firm, and

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t denotes the year. Because a lower *CETR* indicates more avoidance, H1–H3 are supported when β_1, β_2, and β_3 are negative and significant, and H4 is supported when β_4 is significant, with a positive sign favouring the political cost view and a negative sign favouring the political power view.

The pooled specification treats each firm-year as a separate observation. This choice was made because the panel is short (at most five years) and narrow (thirteen firms), so a fixed-effects model would absorb most of the cross-sectional variation in firm size, which changes little within a firm over five years and is central to H4. Before estimation, the model was checked for normality (one-sample Kolmogorov–Smirnov test on the residuals), multicollinearity (tolerance and variance inflation factor), heteroscedasticity (Glejser test), and autocorrelation (Durbin–Watson statistic, supplemented by the runs test when the result fell in the inconclusive region). Overall model fit was evaluated with the F-test and the adjusted coefficient of determination, and the individual hypotheses were tested with two-tailed t-tests at the 5% level.

RESULTS

Descriptive Statistics

Table 3 summarises the variables. The mean cash effective tax rate was 0.2059, which means that the sample firms paid on average about 20.6% of pre-tax income in cash taxes. This is below the statutory rate of 22% that applied from 2020 and well below the 25% rate of 2019, which suggests that some degree of tax avoidance was common in the sector. The minimum of 0.06 and the maximum of 0.62 show wide variation between firm-years. Mean return on assets was 0.0993, indicating moderate profitability. The mean debt-to-equity ratio of 0.6913 shows that the firms relied more on equity than on debt, although one firm-year reached 4.48. Average sales growth was 9.98%, but it ranged from a decline of 47% to an increase of 52%, reflecting the uneven effect of the pandemic and recovery years. Firm size, measured by the natural logarithm of total assets, averaged 29.19, with a standard deviation of 1.58.

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Table 3: Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. deviation
CETR	62	0.06	0.62	0.2059	0.07949
ROA	62	0.02	0.31	0.0993	0.05709
DER	62	0.08	4.48	0.6913	0.63048
SG	62	−0.47	0.52	0.0998	0.15513
SIZE (Ln total assets)	62	27.37	32.86	29.1897	1.58363

Source: SPSS output, processed by the authors (2026)

Classical Assumption Tests

Table 4 summarises the classical assumption tests. The Kolmogorov–Smirnov statistic was not significant (p = 0.200), so the residuals can be treated as normally distributed. All tolerance values were above 0.10 and all variance inflation factors were below 10 (the highest was 1.127 for return on assets), so there was no multicollinearity. The Glejser test showed significance values above 0.05 for every independent variable (p = 0.065 to 0.082), so the residual variance did not depend on the regressors. The Durbin–Watson statistic was 1.607. With $n = 62$ and $k = 4$, the lower bound d_L is 1.455 and the upper bound d_U is 1.729, so the statistic fell in the inconclusive region ($d_L < DW < d_U$). The runs test was therefore applied, and its significance value of 0.09 (above 0.05) indicated that the residuals were random and free from autocorrelation.

Table 4: Summary of classical assumption tests

Test	Statistic	Criterion	Conclusion
Normality (Kolmogorov–Smirnov)	Test statistic = 0.078; Asymp. Sig. = 0.200	Sig. > 0.05	Normal
Multicollinearity	Tolerance 0.887–0.969; VIF 1.032–1.127	Tolerance > 0.10; VIF < 10	No multicollinearity
Heteroscedasticity (Glejser)	Sig. ROA = 0.071; DER = 0.065; SG = 0.076; SIZE = 0.082	Sig. > 0.05	No heteroscedasticity
Autocorrelation (Durbin–Watson)	DW = 1.607; d_L = 1.455; d_U = 1.729	$d_U < DW < 4 - d_U$	Inconclusive
Autocorrelation (runs test)	Asymp. Sig. = 0.09	Sig. > 0.05	No autocorrelation

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Source: SPSS output, processed by the authors (2026)

Model Fit

Table 5 reports the overall fit of the model. The *F* statistic of 6.322 was significant at $p < 0.001$, so profitability, leverage, sales growth, and firm size jointly explained tax avoidance. The adjusted R^2 was 0.259, meaning that the four variables explained 25.9% of the variation in the cash effective tax rate. The remaining 74.1% reflects factors outside the model, such as ownership structure, governance mechanisms, and capital intensity.

Table 5: Model fit and simultaneous test

R	R^2	Adjusted R^2	Std. error of estimate	F	Sig.
0.554	0.307	0.259	0.03901	6.322	0.000

Source: SPSS output, processed by the authors (2026)

Hypothesis Testing

Table 6 presents the regression coefficients. The estimated equation is as follows:

$$CETR = 0.028 + 0.037\ ROA - 0.007\ DER - 0.149\ SG + 0.007\ SIZE$$

Return on assets had a positive but insignificant coefficient (B = 0.037; t = 0.394; p = 0.695), so profitability did not affect tax avoidance and H1 was rejected. The debt-to-equity ratio had a negative but insignificant coefficient (B = −0.007; t = −0.845; p = 0.402), so leverage did not affect tax avoidance and H2 was rejected. Sales growth had a negative and highly significant coefficient (B = −0.149; t = −4.554; $p < 0.001$). A higher growth rate was therefore associated with a lower cash effective tax rate, that is, with more tax avoidance, and H3 was supported. In economic terms, an increase of ten percentage points in sales growth was associated with a fall of about 1.5 percentage points in the cash effective tax rate. Sales growth also had the largest standardised coefficient (β = −0.511) of the four variables. Firm size had a positive and significant coefficient (B = 0.007; t = 2.025; p = 0.048), so H4 was supported. The positive sign means that larger firms paid a higher share of pre-tax income in cash taxes and so avoided less tax, which is the pattern predicted by the political cost view.

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Table 6: Regression results and hypothesis tests (dependent variable: CETR)

Variable	B	Std. error	Beta	t	Sig.	VIF	Decision
(Constant)	0.028	0.098		0.282	0.779		
ROA (H1)	0.037	0.093	0.046	0.394	0.695	1.127	H1 rejected
DER (H2)	−0.007	0.008	−0.095	−0.845	0.402	1.032	H2 rejected
SG (H3)	−0.149	0.033	−0.511	−4.554	0.000	1.035	H3 supported
SIZE (H4)	0.007	0.003	0.232	2.025	0.048	1.085	H4 supported

Note: a negative coefficient on CETR indicates a positive effect on tax avoidance.
Source: SPSS output, processed by the authors (2026)

DISCUSSION

Profitability and Tax Avoidance

The rejection of H1 indicates that, within this sector, more profitable firms did not systematically pay a lower share of their profit in cash taxes. This differs from the positive association reported for Bangladesh and for broader samples of Indonesian firms (Hossain et al., 2024; Jaya et al., 2025; Karlinah et al., 2024) and is closer to the conclusion of Nuraindra and Laksmi (2024). Two features of the setting help to explain the difference. First, the cash effective tax rate scales tax by pre-tax income, so a firm that earns more pays more tax in absolute terms without necessarily changing the rate; profitability raises the stakes of avoidance but does not by itself alter the ratio unless managers act on that incentive. Second, the most profitable food and beverage firms in Indonesia own household brands, and the reputational cost of being seen to avoid tax is likely to offset the agency incentive described by Marwat et al. (2023). The result therefore suggests that, in visible consumer industries, profitability is a weaker predictor of avoidance than agency theory alone would imply.

Leverage and Tax Avoidance

The rejection of H2 is consistent with earlier Indonesian evidence from the mining and manufacturing sectors (Handoyo et al., 2022; Oktaviani, 2023) and contrasts with studies that report a positive effect (Hossain et al., 2024; Karlinah et al., 2024). The descriptive statistics provide one explanation: the average debt-to-equity ratio of 0.69 shows that most firms carried modest debt, so interest deductions were too small to move

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the cash effective tax rate in a systematic way. Indonesia's thin-capitalisation rule, which caps the debt-to-equity ratio for interest deductibility at four to one, further limits the scope for using debt as a tax shield. The negative but insignificant coefficient is also in line with the trade-off argument that debt and tax avoidance can act as substitutes, because firms that already obtain tax shields from interest have less need for other forms of avoidance (Ha et al., 2021; Kwon, 2025).

Sales Growth and Tax Avoidance

The support for H3 is the study's most important finding. It differs from the insignificant results reported for Jordanian industrial firms and for Indonesian mining and energy firms (Arum et al., 2025; Handoyo et al., 2022; Shubita, 2024b), and the difference appears to be sectoral. Expansion in the food and beverage industry requires cash for working capital, distribution, and marketing, and tax savings offer a source of internal funding that does not require external approval (Gabrielli, 2023b). Growth also increases deductible promotional and distribution spending and the volume of transactions with related parties, which are the very channels at issue in the advertising-expense dispute involving PT Coca-Cola Indonesia ("Coca-Cola diduga akali setoran pajak," 2014). Finally, rising sales create expectations of rising after-tax earnings, which reinforces the agency incentive to manage the tax line (Marwat et al., 2023). The finding therefore extends agency theory by showing that the incentive to avoid tax depends not only on the level of profit but also on the pace of growth and the financing needs that come with it.

Firm Size and Tax Avoidance

The support for H4, combined with the positive coefficient, favours the political cost view over the political power view. Larger food and beverage firms paid a higher share of pre-tax income in tax, which is consistent with the meta-analytic evidence that size raises effective tax rates (Belz et al., 2019) and with studies showing that scrutiny reduces avoidance (Bai et al., 2025; Donelson et al., 2024). It contrasts with the political power pattern found in Bangladesh and China (Chen et al., 2025; Hossain et al., 2024). The sector context explains why. Large Indonesian food and beverage firms sell staple products under well-known brands, are watched by consumers, the media, and price

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regulators, and are administered by the tax authority's specialised large-taxpayer offices, so the expected cost of an aggressive tax position is high. Their greater planning capacity therefore appears to be outweighed by visibility. Read together with the sales growth result, the evidence suggests that the strongest avoidance incentives lie with firms that are growing fast but have not yet become large enough to attract intense scrutiny.

Overall Pattern of the Findings

Taken as a whole, the results show that the determinants of tax avoidance in this sector are better understood in terms of incentives created by growth and costs created by visibility than in terms of the balance-sheet ratios that dominate earlier Indonesian studies. The two significant variables pull in opposite directions, and the adjusted R^2 of 25.9% is comparable to values reported in studies that rely on firm-level financial ratios alone (Hendayana et al., 2024; Karlinah et al., 2024). The observation period matters for this interpretation. The years 2020 and 2021 combined a sharp shock to demand with the reduction of the statutory rate, and the wide range of sales growth in Table 3 shows that firms were affected very differently. Firms that recovered quickly had both the need for cash and the transactions through which to obtain it from tax planning, whereas firms whose sales fell had less taxable growth to shield. This uneven recovery is consistent with the strong standardised effect of sales growth and suggests that tax avoidance in the sector is partly cyclical rather than a fixed characteristic of particular firms.

Theoretical and Practical Implications

Theoretically, the study shows that the relationship between firm size and tax avoidance depends on the setting, and that a single visible sector can resolve the disagreement between the political cost and political power views when the competing predictions are stated in advance. It also adds growth-related financing needs to the agency explanation of why managers avoid tax. Practically, the results suggest that the Directorate General of Taxes should not rely on firm size alone when allocating audit resources; fast-growing, mid-sized firms in consumer industries deserve closer risk-based monitoring, particularly of promotional, distribution, and related-party expenses. For investors and boards, a falling cash effective tax rate during rapid expansion is a signal

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worth examining, because tax-financed growth can carry future assessment and reputational risk (Al-Refiay et al., 2025; Elamer et al., 2024).

Limitations

Several limitations should be noted. The sample was small (13 firms and 62 observations), which limits statistical power and may explain why profitability and leverage were not significant. The pooled estimator does not control for unobserved firm-specific characteristics, and the inconclusive Durbin–Watson result indicates that the time-series structure of the data deserves further attention. Tax avoidance was measured by a single proxy, the cash effective tax rate, which captures conforming and non-conforming avoidance together and cannot separate legitimate planning from aggressive positions. Finally, governance and ownership variables, which prior research identifies as important (Kovermann & Velte, 2019; Nguyen & Le, 2025), were not included.

CONCLUSION

This study examined whether profitability, leverage, sales growth, and firm size affect tax avoidance among thirteen food and beverage companies listed on the Indonesia Stock Exchange during 2019–2023 and found that sales growth increases tax avoidance, firm size reduces it in line with the political cost view, and profitability and leverage have no significant effect, while the four variables together explain about one quarter of the variation in the cash effective tax rate. These findings imply that, in a highly visible consumer sector, scrutiny restrains tax avoidance by large firms whereas growth pressure and the need for internal financing encourage it, so tax authorities should give greater attention to fast-growing, mid-sized firms and to the promotional and related-party expenses that accompany expansion, and boards and investors should treat a falling effective tax rate during rapid growth as a risk signal. Future research should use larger samples across several consumer sectors, apply panel estimators with firm and year effects, add governance and ownership controls, and compare alternative measures such as book–tax differences and the GAAP effective tax rate to test whether the political cost pattern holds more widely.

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