

The Effect of Tax Avoidance and Profitability on Earnings Management with Corporate Governance as a Moderating Variable (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange 2016-2020)

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Abstract

The purpose of this study is to examine the impact of tax avoidance and moderated profitability on corporate governance and earnings management empirically. From 2016 to 2020, the population for this study was Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX). The sample for this study was constructed using a purposive sampling method, resulting in a sample of 46 manufacturing firms. Secondary data is what is being used. Techniques for documenting data collection from www.idx.co.id. MRA (Moderated Regression Analysis) was used to conduct the analysis, which was carried out using the Eviews version 10 application. The findings of this study indicate that tax avoidance has no discernible effect on earnings management, profitability has a significant negative effect on earnings management, corporate governance can mitigate the effect of tax avoidance on earnings management, and corporate governance can amplify the effect of profitability on earnings management.

Keywords

Tax avoidance; profitability; earnings management; corporate governance



I. Introduction

Over a year ago, the Covid-19 outbreak struck Indonesia, triggering not only a health disaster, but also an economic crisis that resulted in a recession (Asmara, C. G, 2020). The government has made numerous measures to keep the country's economy from deteriorating (Rahma Nidya, 2020). One of them is to stimulate economic activity by offering incentives to business actors through a tax incentive program (Ministry of Finance of the Republic of Indonesia, 2020).

The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

Company executives may take advantage of this incentive provision to engage in tax avoidance techniques during the pandemic period. Significant income taxation will erode a chunk of the company's profits (Pipatnarapong et al., 2020). Additionally, minimizing tax debt is included in maximizing the value of the company as long as the benefits outweigh the costs (Desai & Dharmapala, 2009). Additionally, the owner of the business will

encourage management to minimize the tax burden that results from tax aggressiveness (Chen et al., 2010).

As a result, tax avoidance and earnings management operations should be examined further, especially in the context of the COVID-19 pandemic. Taxes are a burden on companies since they lower the profits earned by the company. The interests of the government and the private sector are diametrically opposed (Darmawan & Sukartha, 2014; Kurniasih & Sari, 2013).

This fact elicits a variety of responses from companies; companies seeking to maximize profits will naturally choose to pay lower nominal taxes in order to maximize profits (Prakosa, 2014; Singly & Sukartha, 2015). Tax avoidance can be a strategy used by management to increase company profits and ensure that the financial statements reflect a high company value and good performance.

Menurut Scott (2015) manajemen laba sering This is accomplished by exploiting loopholes in accounting standards, resulting in financial statements that do not accurately reflect actual situations, which can be detrimental to interested parties. Earnings management is a purposeful strategy used by management to deceive stakeholders interested in the company's performance and condition.

Earnings management can taint the information generated by financial statements and cause it to become misleading. Earnings management information also results in skewed financial statements and reduces their credibility, as reported earnings statistics do not reflect actual situations (Healy and Wahlen, 1999).

This corporate governance mechanism is useful for managing, monitoring, controlling, and rewarding employees. Additionally, corporate governance can be used to monitor the interaction between principals and agents in order to minimize earnings management measures (Hart, 1999). Corporate governance is critical for the welfare of not only company owners and shareholders, but also for workers and the public.

Corporate governance is now a requirement in the business sector as a barometer of a company's accountability. The size of the firm tends to reflect its value; as the size of the company increases, the likelihood of obtaining growth opportunities increases proportionally; also, the company will tend to attract more public attention. This shows that good corporate governance is the most critical aspect in a company's ability to attract investors.

According to Maharani and Suardana (2014), profitability refers to a company's ability to earn profits at a given level of revenue, assets, and share capital during a specified time period. According to Komang, Putu, and I Nyoman (2016), ROA had a positive effect on tax avoidance, however Deddy, Rita, and Kharis (2016) found that profitability had no effect on tax avoidance.

Numerous previous research have been conducted to explain the relationship between corporate governance, profitability, tax avoidance, and earnings management. Anne et al. (2016) discovered a positive influence between earnings management and tax avoidance. Anne et al. (2016) discovered that institutional ownership, as defined by company owners as boards of commissioners, independent commissioners, and institutional ownership, negatively impacted the connection between tax avoidance and earnings management.

The purpose of this study is to examine the influence of tax avoidance on earnings management, the effect of profitability on earnings management, and the effect of corporate governance on the relationship between tax avoidance, profitability, and earnings management. Previous research has concentrated on indicators of corporate governance such as the board of commissioners, independent commissioners, and institutional

ownership. However, this research will concentrate on the quality of corporate governance through the use of a corporate governance measurement score.

This research will be undertaken in Indonesia, with a focus on manufacturing firms, because manufacturing companies have large fixed assets, which the research considers as a loophole for tax avoidance and profitability, potentially motivating the emergence of earnings management practices.

Another difference from previous research is the time span covered; researchers will examine manufacturing listed firms on the Indonesia Stock Exchange from 2016 to 2020. Based on the description above, the researcher is interested in conducting research with the title "The Effect of Tax Avoidance and Profitability on Earnings Management with Corporate Governance as a Moderating Variable (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange 2016-2020)".

II. Review of Literature

2.1. Agency Theory

This work makes use of a basic theory, specifically agency theory. Agency theory is a contract that motivates agents to act on behalf of the owner when the agent's interests conflict with the owner's (Scott, 2003:305). The link between principals, especially shareholders, and agents, namely firm management, is explained by agency theory. While management, as the agent, is responsible for operating the company in accordance with the wishes of the owners, the manager does not always behave in the shareholders' best interests. The agency assumption means that no one will behave in his or her own self-interest (Deegan dan Unerman, 2006: 215).

2.2. Stakeholder Theory

Stakeholders are internal and external parties with whom the company has relationships, influencing or being influenced by it. Stakeholders have an interest in the company's operations, either directly or indirectly. Additionally, stakeholders can exert control over the company, as stakeholders have a say in how the company's economic resources are used (Wardani et al., 2016).

According to (Chariri & Ghazali, 2007), stakeholder theory indicates that businesses are not solely self-interested entities, but must also benefit all stakeholders (shareholders, government, creditors, suppliers, consumers, communities, analysts, and other parties).

2.3. Tax Avoidance

Tax avoidance is a term that refers to legal arrangements made by taxpayers in order to minimize their tax obligations. For instance, it is used to refer to tax avoidance committed by people or companies in order to take advantage of tax law loopholes, ambiguities, anomalies, or other shortcomings (Suandy, 2006: 7).

A company employs a variety of strategies to minimize the amount of taxes it must pay, one of which is through the employment of consulting services (Huseynov & Klamm, 2012). Companies might engage in tax management with the goal of minimizing their tax liabilities. Tax administration must be carried out as efficiently as possible to avoid violations of tax regulations (tax avoidance).

2.4. Profitability

According to Kabajeh et al. 21 (2012), financial ratios can be defined as the relationship between two individual quantitative financial information that are connected

logically, and this relationship is regarded as a financial indicator with meaning for various users of financial information.

One of the ratios that is frequently used to determine profitability is return on assets (ROA), which is used to determine a company's ability to profit from its assets. According to Kabajeh et al. (2012), the profitability ratio is a proxy for a company's total efficiency.

Thus, corporations with high profits tend to avoid taxes, as evidenced by Kraft (2014) and Delgado et al. (2014), who discovered that the higher a company's profitability, the lower its ETR, implying that more tax avoidance occurs.

2.5. Earnings Management

Earnings management can influence tax planning since it changes taxable income, which changes the tax burden (Kamila and Martani, 2013). Managers will plan relatively few payments in order to optimize the distribution of funds, and so managers will engage in tax planning. Tax planning is one of the tax incentives that encourage companies to manage their earnings (Wijaya and Martani, 2011).

Tax avoidance, or frequently referred to as tax avoidance, is one of the tax planning acts that can be taken. Tax avoidance is a strategy used by companies to lawfully reduce the amount of taxes they pay by exploiting legal loopholes (Suandy, 2014). According to many of these studies, the more corporations engage in earnings management activities, the lower the company's CETR value; the lower the CETR value, the larger the company's tax avoidance.

2.6. Corporate Governance

Corporate Governance (CG) is a system and framework that governs the interaction between the majority and minority shareholders, as well as the management team that runs the business. Corporate Governance protects investors against conflicts of interest between shareholders and management.

Certain conflicts in corporate governance arise as a result of the separation of ownership and control of the company (Damayanti and Susanto, 2015). According to Madashiru et al. (2014), the corporate governance structure establishes the distribution of rights and responsibilities among the company's stakeholders, including the board of directors, managers, shareholders, customers, and employees, as well as the implementation of rules and procedures for making business decisions.

2.7. Conceptual Framework

Financial statements are important for a company since they are a tool that illustrate the company's performance over a specified time period. The income statement is one of the financial statement components that is considered. The income statement comprises critical information that stakeholders consider, particularly profit.

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021). Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

Earnings information is highly valued by stakeholders, which means that the firm's management will always want to maximize profits, which will result in opportunistic

activities within the company known as earnings management. Earnings management is the manager's act of opportunistically manipulating earnings in order to attain a certain amount of profit. Profit is used to calculate taxes.

Profitability is inversely proportional to tax liability. Thus, the management of the company manages earnings in accordance with intended expectations. Tax minimization is one of the incentives for earnings management. Taxes are recognized as an expense in the firm. As a result, managers control earnings by lowering their tax burden. Companies engage in tax planning tend to participate in tax avoidance. Tax avoidance is an attempt to reduce one's tax burden by abiding by all applicable rules and regulations. To ensure that the company's tax avoidance is legal.

Corporate governance serves as a system that regulates and controls the company with the goal of increasing the company's value. Companies that practice good corporate governance are inherently capable of monitoring, controlling, and mitigating deviant acts or attempts. According to the description provided above, the conceptual framework for this research is as follows.

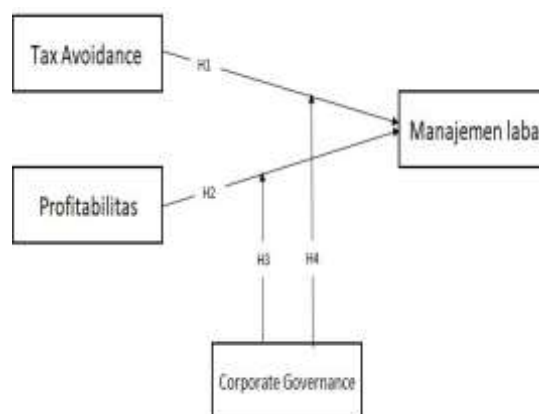


Figure 1. *Conceptual Framework*

2.7. Hypothesis Development

a. The Effect of Tax Avoidance on Earnings Managemen

According to Pohan (2016), tax avoidance uses a variety of methods and techniques that typically exploit the weaknesses (grey areas) inherent in tax rules and regulations in order to lower the amount of tax payable. In accordance with the motivation for earnings management, specifically tax motivation, management will exploit gaps in existing accounting rules to identify the accounting method that will be used to minimize tax liability (Dewi and Ulupui, 2014).

Tax avoidance aims to alleviate the burden. Wang and Chen (2012) discovered that tax avoidance had a positive effect on earnings management. Larastomo et al. (2016) then found a positive relationship between tax avoidance and earnings management. The following assumptions were formed based on the description above:

H1: Tax avoidance has a positive effect on earnings management.

b. The Effect of Profitability on Earnings management

Earnings management can take the form of early revenue recognition in order to increase company profits. Investors are expected to be more interested and willing to invest in a firm with a high profitability ratio. Profitability has a significant positive effect on earnings management, according to research done by Pramudhita (2017), Purnama (2017), Tala and Karamoy (2017). The second hypothesis developed from the description above is as follows:

H2: Profitability has a positive effect on earnings management.

c. The Effect of Corporate Governance in Moderating Tax Avoidance on Earnings management

According to Desai and Marpala (2007), corporate governance is a system that acts as a regulator and controller of a company with the objective of creating value for its shareholders. Corporate governance is a system within a business that is used to improve performance and binds all stakeholders, including management, to particular standards Finanda (2016).

Anne et al. (2016) discovered that institutional ownership had the ability to diminish the association between tax avoidance and earnings management. The third hypothesis can be stated as follows according to this explanation.

H3: Corporate governance is able to weaken the relationship between tax avoidance and earnings management

d. The Effect of Corporate Governance in Moderating Profitability on Profits Management

According to the APB statement, profit (loss) is an excess (deficit) of income over costs during an accounting period (Harahap, 2002:580. Profit information plays an important role in financial statements, because profit information is used by stakeholders as a basis for decision making, guidelines in determining investment policies, the basis for calculating taxes, corporate governance can influence company management to carry out earnings management. Based on this explanation, the fourth hypothesis can be formulated as follows.

H4: Corporate Governance is able to strengthen the relationship between Profitability and Earnings management

III. Research Method

3.1. Type of Research

This is a quantitative descriptive study in which hypotheses are tested by data analysis with statistical characteristics. Quantitative research is defined as study that can be quantified in terms of numbers and aims to determine the extent to which the dependent variable influences the independent variable. Ghozali (2006)

3.2. Population and Sample

The population of this study was comprised of 230 manufacturing companies that were listed on the Indonesia Stock Exchange (IDX) between 2016 and 2020. The sample technique used in this study was purposive sampling, that is, sampling based on specific criteria. The following are the sampling criteria:

1. The companies included in this study are manufacturing companies that were publicly traded on the Indonesia Stock Exchange between 2016 and 2020.

2. The number of companies that do not have comprehensive data for specific variables between 2016 and 2020.
3. The number of companies that did not publish financial statements in rupiah between 2016 and 2020.
4. The number of companies that did not earn a profit between 2016 and 2020. This study included 46 samples based on these criteria..

3.3. Types, Sources and Techniques of Data Collection

Documentary data were employed in this study. The data was secondary data. The data collection technique used in this study was documentation, with the annual financial statements of manufacturing companies from 2016 to 2020 being collected and seen via the IDX website, www.idx.co.id.

3.4. Research Variables and Variable Measurement

a. Independent Variable

1. Tax Avoidance

Tax avoidance is the independent variable in this study. Tax avoidance includes all efforts attempted to minimize tax responsibilities through the use of weaknesses in applicable tax regulations (Dyreng, 2008).

This variable is calculated as the Cash ETR (Effective Tax Rate) of the company, which is defined as the amount of cash paid for taxes divided by earnings before taxes. Hanlon and Heitzman (2010) presented the Cash ETR formula, and this metric was also employed in research undertaken by Oktofian (2015), Winnie (2016), Aryani and Astuti (2016), and Mulyani (2016). (2018).

Tax avoidance was quantified in this study using three proxies, including the following:

a. ETR

$$ETR = \frac{\text{Tax Expense}}{\text{Pretax Income}}$$

b. Cash ETR

$$CETR = \frac{\sum_{t=1}^n \text{Cash Paid Tax}}{\sum_{t=1}^n \text{Pretax Income}}$$

c. DTE

$$DTE = \frac{DTE_{it}}{\text{Avg. TA}_{it}}$$

Note :

Tax Expenses : tax expense

Pretax Income : profit before tax

Cash Paid Tax : tax payment cash

DTE : deferred tax expense

Avg.TA : average total assets

2. Profitability (X2)

According to Agus Sartono (2010), "profitability is the ability of a company to earn profits relative to its sales, total assets, and own capital." This research assessed profitability via the perspective of Return on Assets (ROA). According to Hanafi (2009),

Return on Assets (ROA) is a ratio that indicates a company's potential to create net income based on a specified amount of assets. ROA can be determined mathematically using the following formula:

$$ROA = \frac{\text{Pretax income}}{\text{Total Asetts}}$$

b. Dependent Variable

1. Earnings management (Y1)

Earnings management is the dependent variable in this study. Sulistiyanto (2008) states that "earnings management" is "a manager's activity that involves manipulating the discretionary accrual component in order to determine the size of the company's profits, because accounting standards do allow numerous different ways and procedures that can be used." Sulistiawan D et al. (2011) use the Modified Jones Model to estimate earnings management using discretionary accruals. The following are the steps involved in calculating earnings management.

1. Determine the total accruals using the formulation:

$$TAC = NI - CFO$$

2. Determine the value of the parameters α_1 α_2 and α_3 according to the Jones Model (1991), with the formulation:

$$\frac{TAC_{it}}{A_{it-1}} = \alpha_1 \left[\frac{1}{A_{it-1}} \right] + \alpha_2 \left[\frac{\Delta REV_{it}}{A_{it-1}} \right] + \alpha_3 \left[\frac{PPE_{it}}{A_{it-1}} \right]$$

3. Calculating NDA using the following formula:

$$TA_{it}/A_{it} - 1 = \alpha_1 \left[\frac{1}{A_{it-1}} \right] + \alpha_2 \left[\frac{\Delta REV_{it}}{A_{it-1}} - \frac{\Delta REC_{it}}{A_{it-1}} \right] + \alpha_3 \left[\frac{PPE_{it}}{A_{it-1}} \right] + \epsilon_{it}$$

Parameter values α_1 α_2 and α_3 are the results of the regression in step b.

All values contained in the formula are entered until the NDA_{it} value is obtained.

4. Ensure the value of discretionary accruals, namely accrual earnings management indicators calculated by reducing the amount of accruals with non-discretionary accruals, the formulation:

$$DAC_{it} = \frac{TAC_{it}}{A_{it-1}} - NDAC_{it}$$

Note:

NI	: Net Income
CFO	: Cash Flow Operating
TAC	: TotalAccruals
A _{it}	: TotalAssets
ΔREV	: The difference between the cu ΔREV ear's income and the previous year
ΔREC	: The difference between the current year's receivables and the previous year
PPE	: Property, plant, and equipment
NDAC	: Nondiscretionary Accruals
DAC	: Discretionary Accruals
e	: Error term

c. Moderating Variable

1. Corporate Governance (Z1)

Corporate governance serves as a moderating variable in this study. Corporate Governance is quantified using a factor score comprised of four dimensions and applied to the company's internal control mechanism. This measurement is based on Wahidahwati's (2012) research, which corroborates Shah's (2009) and Kristanti and Priyandi's (2012) findings (2016). Each dimension has the following indicators:

1. The Board of Commissioners (45%) consists of:
 - a) Share ownership of the board of commissioners; and
 - b) Information on KAP bigfour or non-bigfour.
2. The Audit Committee (20%), consists of:
 - a) Size of the audit committee;
 - b) Percentage of independent audit committees; and
 - c) Audit committee expertise.
3. Management (20%), consists of:
 - a) Size of the board of directors;
 - b) Managerial ownership; and
 - c) Family relationship.
4. Investors (15%), measured by the percentage of institutional ownership. The measurement of all these indicators can be formulated as follows.

$$CG = \frac{\text{Total Score obtained}}{\text{Expected score}} \times 100\%$$

d. Data Analysis Techniques

1. Descriptive Statistical Analysis

The descriptive statistical technique used in this study aims to interpret each research variable's mean, median, standard deviation, maximum value, and minimum value.

2. Inductive Analysis

In this study, data were analyzed using Moderated Regression Analysis. The data is handled using the eviews software version 10. Panel data regression must go through the stages of establishing the appropriate estimate model, which include establishing the estimation method, establishing the estimation method, and interpreting the results. The Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM) were all estimated using panel regression in this work.

Additionally, to find the optimal estimating method between CEM and FEM, the Chow or Likelihood Test is used, whereas FEM and REM employ the Hausman Test. To determine the model's viability, the Coefficient of Determination Test (R^2), the F test, and the t test were used.

The mathematical formulation of the analysis used to verify the equation is as follows:

$$EM = a + \beta_1 ETR_{it} + \beta_2 CG_{it} + \beta_3 ETR_{it} * CG_{it} + \beta_4 Size_{it} \epsilon \text{ Model 1}$$

$$EM = a + \beta_1 CETR_{it} + \beta_2 CG_{it} + \beta_3 CETR_{it} * CG_{it} + \beta_4 Size_{it} \epsilon \text{ Model 2}$$

$$EM = a + \beta_1 DTE_{it} + \beta_2 CG_{it} + \beta_3 DTE_{it} * CG_{it} + \beta_4 Size_{it} \epsilon \text{ Model 3}$$

IV. Result and Discussion

This section describes the results of testing tax avoidance, moderated profitability of corporate governance on earnings management.

4.1 Descriptive Statistics

After tabulating the sample with four sample selection criteria, 230 observations in 2016-2020 were obtained from 46 data samples. The results of descriptive analysis using Eviews 10 of the variables of this study can be seen in **Appendix 1** which presents descriptive statistics to see the average value (mean), standard deviation value, minimum value, and maximum value, of each research variable consisting of from earnings management (EM), tax avoidance with three proxies (CTR, Cash ETR, and DTE), Corporate governance (CG), and profitability (ROA).

Tax avoidance (ETR) has the lowest value of -34,910 with the highest value of 52,380 with an average value of 0.974 and a standard deviation of 5.486. The profitability variable (ROA) has the lowest value of -0.550 with the highest value of 0.720, an average value of 0.088 and a standard deviation of 0.120. The corporate governance (CG) variable has the lowest value of 52,700 with the highest value of 98,300, the average value of 86,248 and the standard deviation of 7,457. Earnings management variable (DAC) has the lowest value of -0.550 with the highest value of 0.110, the average value is -0.215 and the standard deviation is 0.119.

4.2 Estimation of Panel Regression

1. Chow Test or Likelihood Test

The Chow Test or Chow test is a statistical procedure used to find the best appropriate Common Effect or Fix Effect Model for panel data estimation. The Chow test's hypothesis is:

H0: Common Effect Model

Ha: Fixed Effect Model

The Chi-Square statistic is used to reject H0; if the probability of the Chow Test result is less than the critical value (0.05), Ha is accepted (the correct model is the Fixed Effect Model), and vice versa.

The Chow test was used to compare the CEM and FEM models, as detailed in **Appendix 2**. According to the table above, the probability value in the Chow test is 0.000, which is less than 0.05, indicating that the best model is FEM. Because the probability in model 1 is 0.000, which is less than the critical value (0.05), it can be stated that H0 is rejected for model 1 and Ha is accepted. Thus, the Fixed Effect Model is the better estimate among these three models, and it is necessary to proceed to the Hausman Test.

2. Hausman Test

Hausman Test is a statistical test to choose whether the Fixed Effect Model or Random Effect Model is the most appropriate to use in estimating panel data. The hypothesis in the Hausman Test is::

H0: Random Effect Model

Ha: Fixed Effect Model

If the Hausman statistic is less than the crucial value (0.05), H0 is rejected, while Ha is accepted (the right model is the Fixed Effect Model), and vice versa. If both the Common Effects and Fixed Effects models are used, the next step is to evaluate the underlying assumptions.

The Hausman test is employed in **Appendix 3** to compare the FEM and REM models. According to the table above, the probability value in the Hausma test is 0.7491, which is greater than 0.05, indicating that the best model is REM. Thus, the REM model was used to test hypotheses in this study.

4.3 Moderated Regression Analysis (MRA)

Based on **Appendix 4**, the following equation is obtained:

$$EM = -0,209 - 0,004 ETR - 1,572 ROA + 0,001CG + 8,56ETR*CG + 0,015 0,015ROA*CG$$

The description of the test results above is explained as follows:

- Constant (α) The constant value (α) obtained is -0.209, this means that if the independent variables of tax avoidance (ETR), profitability (ROA) and corporate governance (CG), do not exist or are zero, then earnings management is equal to -0.209.
- The value of the regression coefficient (β) of tax avoidance is -0.004, this means that if the tax avoidance variable increases by one unit, the earnings management variable decreases by -0.004 assuming other variables are constant.
- The regression coefficient value (β) of profitability is -1.572, this means that if the profitability variable increases by one unit, the earnings management variable decreases by -1.572 with the assumption that other variables are constant.
- The value of the regression coefficient (β) of corporate governance is 0.001, this means that if the corporate governance variable increases by one unit, the earnings management variable increases by 0.001 with the assumption that other variables are constant.
- The regression coefficient value (β) ETR*CG is 8.56, this means that every single increase in corporate governance will increase tax avoidance on earnings management by 8.56 with the assumption that other variables are constant.
- The regression coefficient value (β) ROA*CG is obtained at 0.015, this means that every single increase in corporate governance will increase the profitability of earnings management by 0.015 with the assumption that other variables are constant.

4.4 Model Feasibility Test

a. Coefficient of Determination Test (R2)

The adjusted R2 value is 0.154, indicating that tax avoidance, profitability, and corporate governance may account for 15.4% of the variation in earnings management variables. While 84.6% is represented by variables not examined. The **Appendix 4** has the adjusted R2 value.

b. F test

The F test is demonstrated in Table 5, where the probability value (F-statistic) is 0.000, which is less than 0.05, indicating that tax avoidance, profitability, and corporate governance all have a significant effect on earnings management simultaneously. **Appendix 4** has the probability value (F-statistic).

c. T test

Based on the results of the processed statistical data in Appendix 4, it can be seen the influence of the independent variable on the dependent variable partially as follows:

- 1) The regression coefficient of TA has a positive value of 1.068 and has a significance value smaller than alpha ($\text{sig} < \alpha$), namely $\text{sig} 0.022 < 0.05$, meaning that TA has a

significant positive effect on EM.

- 2) The TA*CG regression coefficient is negative at -0.025 and has a significance value smaller than alpha ($\text{sig} < \alpha$), namely $\text{sig } 0.010 < 0.05$, meaning that CG can weaken the relationship between tax avoidance and earnings management.

4.5 Hypothesis Test

Based on the test of the hypothesis i from the above table, it can be concluded that :

1. On earnings management, the tax avoidance (ETR) variable has a negative regression coefficient of -0.003854 and a significance value of 0.8602, which is greater than 0.05. This indicates that tax avoidance has no significant effect on earnings management. As a result, **Hypothesis 1 is rejected.**
2. The profitability variable (ROA) on earnings management has a negative regression coefficient value of -1.891105 and has a significance value of 0.0041 which is smaller than 0.05. This means that profitability has a significant negative effect on earnings management. The conclusion is that **Hypothesis 2 is accepted.**
3. The corporate governance (CG) variable in moderating tax avoidance on earnings management has an coefficient value of 7.73 and a probability value of 0.7511 which is greater than 0.05. This case shows that corporate governance is positively not moderating (weakening) the relationship between tax avoidance and earnings management. In conclusion, **Hypothesis 3 is rejected.**
4. The corporate governance (GC) variable in moderating the profitability of earnings management has an coefficient value of 0.018705 and a probability value of 0.0163 which is less than 0.05. This case shows that corporate governance is positively moderating (strengthening) the relationship between profitability to earnings management. In conclusion, **Hypothesis 4 is accepted.**

V. Conclusion

According to the findings of this study, tax avoidance has no significant effect on earnings management, profitability has a significant negative effect on earnings management, corporate governance can mitigate the effect of tax avoidance on earnings management, and corporate governance can amplify the influence of profitability on earnings management.

The findings of this study can be expected to ensure that the company publishes financial statements that accurately reflect current situations in order for stakeholders to make informed decisions. Companies must strengthen their corporate governance in order to avoid agency conflicts. One of the policy implications is that the financial accounting standards board must implement restrictions that discourage tax avoidance and earnings manipulation. This regulation is necessary to strengthen management and accountants' accountability for the financial statements' credibility.

5.1. Limitation

This study has limitations due to the low value of Adjusted R² (3.9%). This suggests that a variety of other variables play a significant role influencing earnings management. Due to the observation time period used in this sampling, the study results do not represent the totality of the data available on the IDX. Because this study analyzed samples from manufacturing companies, the findings cannot be applied to other business sectors. This study makes no distinction between current and deferred tax expenses when measuring tax avoidance, particularly in the ETR proxy.

5.2. Suggestions

Based on the findings of the research discussion and conclusions, the following suggestions can be made for future researchers: they should conduct research for at least five years to ensure the quality of the results obtained; they should expand the category of companies used as research samples, for example, all companies listed on the Indonesia Stock Exchange (IDX); and they should generalize the research results. For future researchers to use other tools for measuring earnings management, tax avoidance, profitability, and corporate governance, as well as to include additional variables identified as potentially affecting earnings management as a result of the study's low Adjusted R² value. Additional variables include CEO turnover, executive compensation, information asymmetry, and financial distress.

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