



Moderating Role of Earnings Management on Leverage and Related Party Transactions Influence on the Effective Corporate Tax Rate (ETR) in Indonesian Stock Exchange Listed Industrial Companies for Periods of 2018 - 2022

Evita Nora Manik¹, Fahmi Natigor Nasution², Yeni Absah³

^{1,2,3} Faculty of Economic and Business, University of North Sumatera

ABSTRACT: This research aims to determine how earnings management moderates the influence of leverage and related party transactions on the Effective Corporate Rate (ETR) in Indonesia Stock Exchange listed industrial sector companies for periods of 2018-2022. This research is conducted based on information obtained on the Indonesian Stock Exchange. The sampling technique for this research is purposive sampling method. The population in this study was 63 industrial sector companies listed on the IDX in 2018-2022 and the samples used are 45 companies. The type of data used is secondary data and the data analysis technique is panel data regression and the Moderate Regression Analysis (MRA) test with analysis tools using Eviews software. The results of this research show that leverage has a negative and significant effect on ETR and related party transactions have no effect on ETR in industrial sector companies listed on the IDX for the 2018-2022 period. Earnings management cannot moderate the influence of Leverage on ETR in Industrial sector companies listed on the BEI for the 2018-2022 period and earnings management cannot moderate the influence of related party transactions on ETR in industrial companies listed on the BEI for the 2018-2022 period.

KEYWORDS: Effective Corporate Rate, Earnings Management, Industrial Sector, Leverage, Related Party Transactions.

INTRODUCTION

Directorate General of Tax of the Republic of Indonesia Law Number 6 period 1983, has been amended several times, and the most recent is Law Number 11 of 2020 Article 1, regulated that tax is payable by individuals and entities as a mandatory and coercive contribution to the state, which is imposed on the basis of regulations stipulated in the form of a law where the compensation is not directly felt by the payer, its use is aimed at the interests and prosperity of the public, which includes the state and society. In collecting taxes as a mandate to collect state revenues, the Indonesian government has carried out several tax reforms, resulting in taxpayers independently carrying out tax-related activities including registration, calculation, calculating, paying and reporting taxes. According to Viard (2012), in reality, even though the government has set tax rates, the value of taxes paid by companies to the State may be different or not in accordance with these rates. Based on Eva et al (2022), various steps and policies are carried out by companies so that companies can pay lower taxes.

Viard (2012) stated that tax rates are divided into two rates, namely the Statutory Tax Rate (STR) and the Effective Tax Rate (ETR). STR is a rate set by the government and stated in the tax law. The effective tax rate (ETR) calculation according to Vika & Titik (2020) is obtained from the calculation of income tax expense divided by profit before tax. It was stated that the company would be better at carrying out tax management if effective tax rate is lower. Thus, ETR can be an illustration of a company's effective tax level. The following table 1.1 presents the value of average tax payments and profit before tax of Industrial Companies registered on the IDX for the period of 2018 - 2022.



Table 1. Average Tax Expense, Profit Before Tax and ETR of Industrial Companies 2018-2022

Year	Average Tax Expense (Rupiah)	Average Profit before Tax (Rupiah)	Average Effective Tax Rate (ETR) (%)
2018	615,254,333,276	3,018,287,773,949	23.04
2019	615,230,677,140	3,007,918,322,969	25.83
2020	328,014,307,065	2,094,298,880,172	19.86
2021	556,751,446,060	2,977,667,373,075	11.21
2022	869,951,579,208	4,284,037,896,310	16.82

The following is graph comparing Statutory Tax Rate and Effective Tax Rate of Industrial Companies listed on the IDX for the period 2018 to 2022.

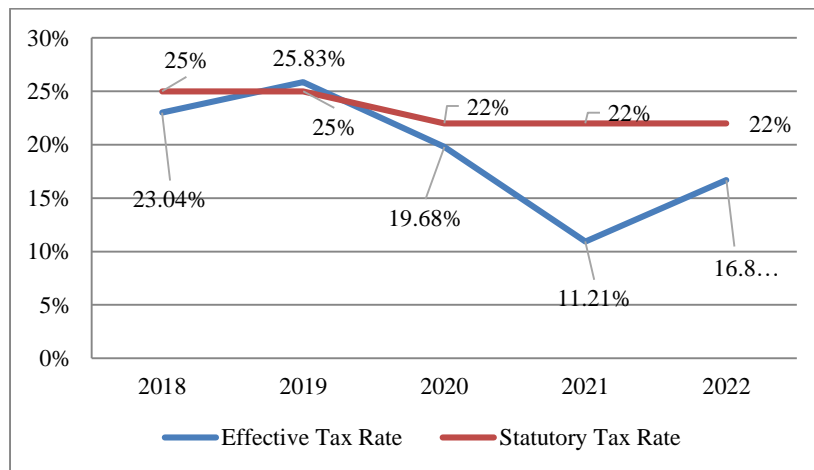


Figure 1. Comparison between Statutory Tax Rate and Effective Tax Rate of Industrial Companies

Graph 1 show the differences between the ETR and STR of Industrial Sector Companies listed on the IDX. According to the graph, it is shown that the government has periodically reduced tax rates, from 25% in 2018 and 2019 down to 22% in 2020 until 2022. However, there were tendency for companies to pay lower taxes comparing to STR. It is shown in the graph that the level of tax payments by Industrial Sector Companies in 2018, 2020, 2021 and 2022 is lower than the tax rate regulated by tax law. This phenomenon was in accordance with what was stated by the Directorate General of Taxes (2013) where in general there were tax avoidance in companies in the manufacturing and raw material management industries. One method to avoid taxes is by reporting financial loss five years consecutively and no tax payments to the state treasury.

There was a statement from Bappenas that in 2005, there were 750 Foreign Investment Companies reported financial loss for five years continuously and there were no tax payments to the state treasury. Reporting losses and no payment of taxes were suspected to be a method for companies to avoid taxes. In addition, in 2012 there were 4,000 companies reporting zero income tax due to reporting financial loss status for seven consecutive tax years.

Many factors influence the effective tax rate, one of them is using debt as company financing source. Based on Firmanzah & Marsoem (2023), leverage is the ratio of debt compared to company assets. The leverage ratio gives an idea of the level of composition of each source of funds, both debt and capital, in the context of financing company assets (Brigham & Houston, 2019). If the financing source comes from debt, interest will be paid to the creditor. A high level of leverage illustrates that there is more debt than capital or shares in the company's funding activities (Brigham & Houston, 2019).

Apart from utilizing debt, companies can also make effective the amount of tax paid to the state by having related party transactions (Firmanzah & Marsoem, 2023). Where, the existence of related party transactions can lead to unfair pricing, both in terms of expenses incurred and in terms of income. Unreasonable costs and income values can impact to income shifting. Transaction value modification with related companies can be used to reduce tax payments by parties who have related or special relationships (Wafiroh & Hapsari, 2015).



There were several research gaps on the relationship between leverage and ETR. Several previous studies found that leverage has a negative and significant impact on ETR, which is in the research of Fernández, Garcia & Martinez (2021), Vika & Titik (2020), Adams, S. O. (2020), Nawang, Solihin, Yohana & Devia (2020), Fernández, Elena & Martinez (2019), Stamatopoulos, Hadjidema & Eleftheriou (2019), Lahav & Salganik (2016), and Richardson & Lanis (2007). However, there were inconsistent results with other studies among them, which found that leverage has a positive and significant impact on ETR, in the research of Eva et al (2022), Joko, Ratih & Sari (2022), Rini & Endang (2021), Apriliya, Harimurti & Suharno (2020), Ernawati, Chandrarin & Respati (2019), and Rani & Fuadah (2018). Apart from that, other research stated that leverage did not have significant impact on ETR based on Panda & Nanda (2020).

This is in line with research by Medioli (2022) which stated that multinational companies can avoid tax by carrying out intra-subsidary group transactions. Several previous studies also stated something similar, namely Meila & Jaelani (2022), Ellyani & Hidayati (2019), Nashir et al (2023) and Gunawan & Surjandari (2022) stated that related party transactions had a negative effect on the Effective Tax Rate. On the other hand, there were different research results, where in the research of Sudaryono & Murwaningsari (2023), Margaretha & Handayani (2023), Firmanzah & Marsoem (2023), Nabilah, Kartiko & Rachmi (2022), Alfarizi et al (2021), Amidu (2019), Suprianto & Pratiwi (2017), and Refgia (2017) found that transfer pricing in related party transactions positively related to the Effective Tax Rate. Other research by Kenny & Yola (2022), Ayuningtyas, Nurlaela & Masitoh (2020), Tjandrakirana, Diani & Ubaidillah (2020) and Ann & Adler (2019) stated that the Effective Tax Rate did not affect related party transactions.

This research examines the moderation of earnings management on the influence of leverage and related party transactions on ETR. Where, in companies, managers as agents have discretion to choose the source of company funding, namely debt or capital (Brigham & Houston, 2019). An increase in the value of debt, measured by leverage, can increase interest costs, resulting in a lower ETR value. A decrease in ETR shows that the company is more effective in paying taxes, which is an indicator of increased management value. Thus, earnings management can moderate the relationship between leverage and ETR. Apart from having authority over selecting funding sources, managers also have authority over selecting who the company makes transactions with. Based on Wafiroh & Hapsari (2015), if a company carries out related party transactions, it can result in unfair pricing, costs incurred, or other rewards in business transactions. This can be the cause of the transfer of income, tax base and value paid to third parties, where there is possibility of engineering transaction values in order to reduce tax payments by parties related to the company. This transaction can be carried out by managers supported by the implementation of earnings management. Therefore, earnings management can moderate the relationship between related party transactions and ETR.

Based on the description of the phenomenon that occurs in industrial sector companies listed on the Indonesia Stock Exchange and the inconsistencies in the results of previous studies, this research reexamines how leverage and related party transactions influences ETR with earnings management as a moderating variable in industrial sector companies listed on the Indonesia Stock Exchange for the 2018-2022 period.

THEORETICAL BASE

Agency Theory

Agency theory was first coined by Jensen & Meckling (1976) who stated that agency theory is a theory of the inequality of interests between principals and agents. Commercial tax reporting is different from fiscal reporting, differences in the two reports can trigger a conflict of interest for managers in carrying out activity reporting and company performance reporting. Managers as agents tend to report higher profits in commercial financial reports to obtain compensation or bonuses or related to debt contract regulations.

Trade-off Theory

Trade-off theory provides an overview of the composition of a company's business financing which comes from debt or capital. In managing sources of financing, companies carry out financial calculation analysis to obtain the optimal composition of debt and capital (Kraus & Litzenberg's, 1973). Based on trade-off theory, the company analyzes the tax benefits obtained from using debt and compares them with the costs of bankruptcy. On the other hand, there are also bankruptcy costs due to administrative, legal and monitoring costs to prevent the company from going bankrupt. Trade-off theory also explains that debt that is too high will have a negative impact on the company because the cost of debt is too high.



Pecking Theory

Based on Octavianty (2023), Pecking Order Theory is a theory that explains company funding hierarchy decisions. Based on the Pecking Order Theory, most of the company's funding takes precedence over the company's business results, including net profit after tax which is not distributed to the company owners. Pecking Order Theory explains that companies prefer funding from business results as retained earnings. Internal funding can also be sourced from internal retained earnings of the Company group. For companies, the order of use of funding sources based on Pecking Order Theory is internal financing, debt and additional shares.

Effective Corporate Rate (ETR)

According to Viard (2012), ETR is the ratio of a company's tax expense compared to its profits. This means that how much tax is actually paid can be known from the effective tax rate. Policy makers and interested parties generally use ETR as a reference for understanding the existing tax system. This is because ETR provides an overview of the cumulative impact of changes in tax rates and incentives that is easy for policy makers to understand (Richardson & Lanis, 2007). Effective Corporate Tax Rate is a measure to show the actual value of corporate tax payments to the state treasury. The ETR value is obtained from a comparison of the value of tax payments and profit before tax.

$$\text{Effective Corporate Tax Rate} = \frac{\text{Current Tax Payment}}{\text{Profit Before Tax}}$$

Leverage

Based on Brigham & Daves (2007), leverage is the extent to which debt is used in the capital structure and business financing of a company. Modigliani and Miller in Brigham & Daves (2007) stated the trade-off theory regarding capital structure. This theory states that debt has benefits in the tax aspect because in tax calculations interest costs is deductible in fiscal calculations. A company with an optimal capital structure will get a balance of tax benefits obtained from debt and costs related to bankruptcy. In general, the financial ratio between debt and asset as a source of company business financing can be determined through leverage. The leverage ratio value is a reflection of the proportion of a company's business that is financed by debt. In this research, leverage is measured by the Debt to Asset Ratio (DAR).

$$\text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

Trade-off theory provides an overview of the composition of a company's business financing which comes from debt or capital. In managing sources of financing, companies carry out financial calculation analysis to obtain the optimal composition of debt and capital (Kraus & Litzenberg's, 1973). If the Company's debt increases, it will have an impact on increasing interest expenses. Fiscally, interest costs can be charged which will have an impact on decreasing the company's fiscal profit. The next impact of the decline in fiscal profit is that the payment of Corporate Income Tax is more effective, which is reflected in the lower ETR. Thus, increasing company leverage will have an impact on decrement of ETR, which reflects that the company is becoming more effective in paying taxes.

This is in accordance with several previous research results that found leverage has negative and significant impact on ETR. Some of them are Fernández, Garcia & Martinez (2021), Vika & Titik (2020), Adams, S. O. (2020), Nawang, Solihin, Yohana & Devia (2020), Fernández, Elena & Martinez (2019), Stamatopoulos, Hadjidema & Eleftheriou (2019), Lahav & Salganik (2016), and Richardson & Lanis (2007). Based on the explanation, the first hypothesis in this research is as follows.

H₁ : Leverage has a negative and significant effect on the Effective Corporate Tax Rate.

Related Party Transactions

Related party transactions arise because of affiliation between two parties. Law of the Republic of Indonesia Number 7 of 1983 concerning Income Tax which has been amended several times. Most recently, Law of the Republic of Indonesia Number 11 of 2020 Article 18 paragraph (4) regulates Related Parties. These regulations stated that when there are companies share ownership of at least 25%, whether directly or indirectly, the existence of control or control by the same shareholder will be deemed to be affiliated parties. Apart from that, it can occur if there is a family relationship, such as a family relationship one degree above or to the side, whether by blood or marriage. The existence of the relationship mentioned can lead to related party transactions if each related party did transaction one another.



Measuring related party transactions can be done by comparing the value of related party transactions with the total assets of a company. These transactions can include receivables and payables transactions. So, to calculate the related party transactions variable, add related parties' receivables and liabilities balances then divide them by the total assets (Gavana et al, 2022).

$$\text{Related party transactions} = \frac{\text{Rceivable} + \text{Liabilities to related parties}}{\text{Total Asset}}$$

Based on Pecking Theory, internal funding has the highest hierarchy and takes priority in finding sources of company funding (Octaviyanti, 2023). Related party transactions are related to the opportunity to carry out transactions using a transfer pricing scheme. Medioli (2022) stated that multinational companies divert more income for tax purposes by doing intra-subsidary group transactions. This is done to achieve the effectiveness of the amount of tax paid to the state which is reflected in the lower ETR value. Transactions carried out with parties related to the company can result in unfair pricing.

In line with previous research, in Medioli (2022), which stated that companies can reduce ETR by carrying out intra-group subsidiary transactions. Apart from that, several previous studies also found that related party transactions had a negative effect on the Effective Tax Rate Meila & Jaelani (2022), Ellyani & Hudayati (2019), Nashir et al (2023) and Gunawan & Surjandari (2022). Therefore, it can be concluded that the second hypothesis in this research is as follows.

H₂ : Related party transactions have a negative and significant effect on the Effective Corporate Tax Rate.

Earnings management

Earnings management is explained as the action of increasing or decreasing the reporting of company profits in financial reports by management as agents within the company (Sulistyanto, 2018). Firmanzah & Marsoem (2023) stated that earnings Management is divided into four actions, namely earnings maximization, earnings minimization, showering, and earnings smoothing. The action taken by companies to avoid tax is minimizing profits because the object of corporate income tax is net profit, so the smaller the company's net profit, the less tax it pays.

Earnings management is measured based on the model proposed by Kothari et al. (2016) so that the estimated value of discretionary accruals can be calculated. The model of Kothari et al. (2016) is a development of the modified Jones model and Kothari et al (2005) which in the total accrual regression includes Net Income in the calculation.

$$TA_{it} = TA_{it-1} + \beta_1(1/Assets_{it-1}) + \beta_2(\Delta Sales_{it} - \Delta AR_{it}) + \beta_3(PPE_{it}) + \beta_4(NI_{it}) + \nu_{it}$$

Agency theory suggests that management as agents in the company will act to prioritize their personal interests over the interests of shareholders. This will have an impact on the opportunistic behavior from managers to practice earnings management which aims to increase excess cash flow after deducting taxes. One practice of earnings management is through selecting sources of funding for company operations. The proportion of debt as a source of company funding is measured using Leverage. If funding comes from debt, there will be interest charges, which will result in a decrease in taxable income so that the ETR decreases. Therefore, an increase in the debt value, which is reflected in an increase in the leverage value, can cause a lower ETR value. This shows that the company is more effective in paying its taxes and it is an indicator of increased management value. Thus, earnings management can moderate the relationship between leverage and ETR.

This explanation is in accordance with what was found by Tanko (2023) and Rani, Susetyo & Fuadah (2018) who stated that earnings management can moderate the relationship between leverage and the Effective Tax Rate (ETR). So it can be concluded that the third hypothesis in this research is as follows.

H₃ : Earnings Management is able to moderate the influence of Leverage on ETR.

Agency theory can also explain that the role of government is as principal and the role of managers is as agent (Margaretha & Handayani, 2023). The government asks managers and companies to make tax payments according to the provisions, while companies as agents will try to minimize tax payments, both legally and not, to achieve the set profit targets (Sari, 2014). One of the methods that managers can use is through related party transactions. The selection of company's transactions is within the manager's authority, namely the selection of transactions with parties related to the company or with third parties. This transaction can be carried out by managers by implementing earnings management. This practice is carried out to save on tax payments, according to Pajriansyah & Firmansyah (2017) and Falbo & Firmansyah (2021).



This is in line with the results of research by Margaretha & Handayani (2023) which stated that earnings management can moderate relationship between related party receivables and ETR. Hence, it can be concluded that the fourth hypothesis in this research is as follows.

H₄ : Earnings Management is able to moderate the influence of related party transactions on ETR

RESEARCH METHODS

In this research, the population is industrial sector companies listed on the Indonesia Stock Exchange period 2018-2022. The sampling technique used in this research was purposive sampling. The sampling criteria used in this research are as follows: (1) Industrial Sector Companies listed on the Indonesia Stock Exchange consecutively during 2018-2022. (2) The company provided complete data. Therefore, there were 45 sample companies. The secondary data collected in this research will be analyzed using E-Views program.

To analyzed the influence of the independent variables studied on Effective Corporate Rate (ETR) and how moderating variable is able to moderate the independent variables influence on the ETR, researchers used panel data regression with Moderated Regression Analysis (MRA) with the following regression equation:

$$Y_{2it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 Z_{it} + \beta_6 X_{1it} * Z_{it} + \beta_7 X_{2it} * Z_{it} + \mu_{it}$$

Information:

- i = 1, 2, 3, n (cross section (companies))
- t = 1, 2, 3, n (times series (years))
- α = intercept coefficient which is a scalar
- β = 1, 2, 3, n (regression coefficient)
- Y = dependent variable (ETR)
- X1 = independent variable (leverage)
- X2 = independent variable (related party transactions)
- Z = moderating variable (earnings management)
- μ = error term

RESEARCH RESULT

The research sample obtained the results of the number of observations from 2018-2022 as many as 225 observations. The description of variables in this study includes mean, median, standard deviation, minimum, maximum.

Descriptive Statistical Analysis

Table 2. Descriptive Statistics Results

Variabel	Maksimum	Minimum	Rata-rata	Std. Dev.
Leverage	2.75867	0	0.59175	0.47945
Related Party Transactions	0.84298	0	0.08523	0.14106
Effective Corporate Tax Rate	0.42932	-0.11539	0.16253	0.12231
Earnings Management	509.57699	-4761.52866	-9.51880	362.39140

Model Specification Testing

Data processing uses the E-Views application. Estimation of the three types of CEM, FEM and REM models is carried out and then the best model is selected from the three models. Based on the results, Chow test and Hausman test to determine the best model to use in this research. Statistical results shown that the FEM model is better used in regression. Therefore, the model applied in this research is the Fixed Effect Model (FEM).

Normality Test Results

This test is carried out to get an idea of whether the residual or confounding variables are normally distributed. Initially, it was found that the residual data was not normally distributed, namely the probability value was above the significance value of 5%. To



overcome this, outlier data was trimmed, so that the final number of observations was 140 observations consist of 28 companies. The following are the results of the normality test after trimming.

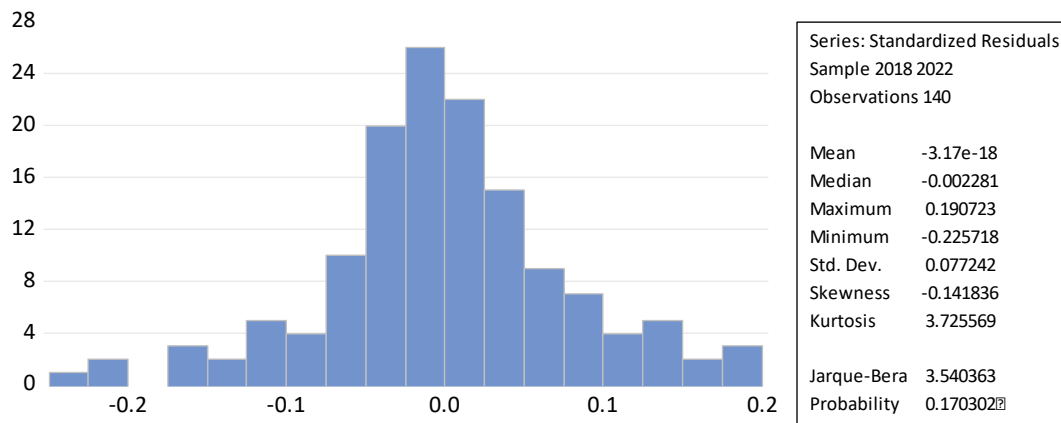


Figure 2. Normality Test Results

Multicollinearity Test Results

The following are the results of the multicollinearity test as shown in table 4:

Table 3. Multicollinearity Test Results

	Leverage (X1)	Related Party Transactions
Leverage (X1)	1.000000	-0.069765
Related Party Transactions (X2)	-0.069765	1.000000

Based on the test results on the correlation coefficient value in the Fixed Effect Model, each variable has a coefficient value of <0.8, so it can be concluded that the model does not experience multicollinearity problems.

Autocorrelation Test Results

Autocorrelation testing was carried out to see the presence of confounding error correlations in year t compared to year t-1. The following are the results of autocorrelation testing using the Breusch Godfrey Test.

Table 4. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	2.559901	Prob. F(2,220)	0.0796
Obs*R-squared	5.117077	Prob. Chi-Square(2)	0.0774

From Table 4 obtained Obs*R-Squared -Prob. Chi-Square is 0.0774 > 0.05. These results indicate that there is no autocorrelation in this study.

Heteroscedasticity Test Results

Heteroscedasticity testing is carried out in order to test whether or not there is inequality in residual variance between research observations. The test results obtained are as follows.



Table 5. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.407991	Prob. F(2,222)	0.6655
Obs*R-squared	0.823981	Prob. Chi-Square(2)	0.6623
Scaled explained SS	12.13748	Prob. Chi-Square(2)	0.0023

Table 5 provides an illustration of the probability that Obs*R-squared has a value of $0.6623 > 0.05$. From these results it can be concluded that heteroscedasticity did not occur in this study.

Hypothesis Test Results

Based on the model specification test, the regression model with the Fixed Effect Model approach has passed the classical assumption test. Therefore, the estimation results are consistent and unbiased. The estimation results of the panel data regression model are as follows:

Table 6. Hypothesis Test Results

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	0.194695	0.028438	6.846237	0.0000
X1	-0.095113	0.046077	-2.064227	0.0414
X2	0.406247	0.219072	1.854398	0.0664
Z	0.000238	0.000823	0.289102	0.7731
X1*Z	0.001597	0.001136	1.405519	0.1628
X2*Z	-7.91E-05	0.003041	-0.025994	0.9793
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.647458	Mean dependent var		0.189694
Adjusted R-squared	0.542024	S.D. dependent var		0.130091
S.E. of regression	0.088038	Akaike info criterion		-1.819487
Sum squared resid	0.829319	Schwarz criterion		-1.126100
Log likelihood	160.3641	Hannan-Quinn criter.		-1.537715
F-statistic	6.140928	Durbin-Watson stat		2.130088
Prob(F-statistic)	0.000000			

Based on Table 6, the results of the partial significance test were obtained and found that there was a significant positive influence of the Leverage variable (X1) on the Effective Corporate Tax Rate (Y), because the significance value is $0.0414 < 0.05$ and has a negative coefficient. These results indicate that Leverage has a negative and significant effect on ETR, and there is no significant influence of the variable related party transactions (X2) on the Effective Corporate Tax Rate (Y), because the significance value is $0.0664 > 0.05$ and has a negative coefficient. These results indicate that related party transactions have no effect on ETR.

The results of the research significance test state that the significance value of Earning Management moderation on the influence of Leverage on ETR is $0.1628 > 0.05$. These results indicate that Earnings Management is unable to moderate the relationship between Leverage and ETR. Furthermore, the significance value of Earnings Management moderation on the influence of related party



transactions on ETR is $0.9793 > 0.05$. These results indicate that Earnings Management is unable to moderate the influence of related party transactions on ETR.

DISCUSSION

The Effect of Leverage on ETR

Based on panel data regression, the Prob value for the influence of Leverage (X1) on the Effective Corporate Tax Rate (Y) is $0.0414 < 0.05$. This value indicates that Leverage has a significant influence on ETR. Apart from that, the coefficient value obtained is negative. Thus, it can be concluded that Leverage (X1) has a negative and significant effect on the Effective Corporate Tax Rate (Y) for Industrial sector companies listed on the Indonesia Stock Exchange for the 2018-2022 period. The more funding comes from debt, the more effective the tax payment will be. This is caused by the emergence of interest expenses if the company's financing comes from debt, and the interest expense will be paid by the company to the creditor.

The results of this research are supported by the trade-off theory regarding the composition of the company's business financing, whether it comes from debt or capital. Companies get tax benefits from debt because the interest expenses incurred are a deduction from tax profits. This illustrates that industrial sector companies registered on the IDX for the 2018-2022 period carry out financing in the form of debt in carrying out operational activities and this is in line with the emergence of efficiency in tax payments.

The results obtained are in line with previous research including Fernández, Garcia & Martinez (2021), Vika & Titik (2020), Adams, S. O. (2020), Nawang, Solihin, Yohana & Devia (2020), Fernández, Elena & Martinez (2019), Stamatopoulos, Hadjidema & Eleftheriou (2019), Lahav & Salganik (2016), Richardson & Lanis (2007) namely that leverage has a negative and significant effect on ETR. However, the results obtained are not in line with several previous studies, including Eva et al (2022), Joko, Ratih & Sari (2022), Rini & Endang (2021), Aprilia, Harimurti & Suharno (2020), Ernawati, Chandrarin & Respati (2019), Rani & Fuadah (2018) found that leverage had a positive and significant impact on ETR.

Effect of Related Party Transactions on ETR

Based on panel data regression, the Prob value for the influence of related party transactions (X2) on the Effective Corporate Tax Rate (Y) is $0.0664 > 0.05$. This value indicates that X2 does not have a significant influence on ETR. Thus, it can be concluded that related party transactions (X2) have no effect on the Effective Corporate Tax Rate (Y) for Industrial sector Companies listed on the Indonesia Stock Exchange for the 2018-2022 period.

Internationally, the OECD issued Transfer Pricing Guidelines to guide multinational companies and tax authorities in resolving transfer pricing issues. Indonesia has been implementing its own rules regarding related party transactions which are contained in Regulation of the Director General of Taxes Number PER-43/PJ/2010 as last amended by PER- 32/PJ/2011. This rule stipulates that in related party transactions the Company is obliged to use fair market value. The existence of policies issued by the government plays an important role as one of the reasons transfer pricing does not have a significant effect on ETR. Thus, transfer pricing transactions will not affect ETR when the company did it according to the rules.

The results obtained are in line with the results of previous research, namely in the research of Shella & Adler (2019) and Nabilah, Kartiko & Rachmi (2022) which stated that related party transactions have no effect on ETR. The level of company tax payments in the IDX Industrial sector for 2018-2022 is not influenced by the level of related party transactions. However, the results obtained are not in line with the results of previous research including Meila & Jaelani (2022), Ellyani & Hudayati (2019), Nashir et al (2023), and Gunawan & Surjandari (2022) which stated that related party transactions have a negative effect on ETR.

Earnings Management Capability as a Moderating Variable on the Effect of Leverage on ETR

Based on the regression, the Prob value for moderation of earnings management on the influence of Leverage (X1) on the Effective Corporate Tax Rate (Y) is $0.1628 > 0.05$. This value indicates that the moderation of Earnings Management as a moderating variable on the influence of Leverage on ETR is not significant. Thus, it can be concluded that Earnings Management cannot moderate the influence of Leverage on ETR for Industrial sector companies on the IDX for the 2018 - 2022 period.

These findings indicate that the existence of debt is less or does not require earnings management practices. The existence of the Company's debt will cause a reduction in taxable income due to the emergence of interest expenses which reduce fiscal profits. One of the government regulations that is directly related to company profits is corporate income tax. Government regulations on the Income Tax Law and its derivative regulations have provided specific guidance on the process of calculating fiscal profit.



In Indonesian tax regulations, little freedom is allowed in recognizing income and expenses. Income and costs are regulated rigidly in tax regulations so that income and expenses according to accounting are not necessarily the same as income and costs according to tax, thereby minimizing positive and negative fiscal corrections. These rules include positive and negative fiscal corrections, including adjustments to the value of income and costs that can and cannot be recognized fiscally. Therefore, to minimize the value of taxable income, earnings management is not or is less necessary for the company.

The results obtained are in accordance with the results of previous research including Firmanzah, Adetiya & Marsoem, Bambang (2023) which found that earnings management was unable to moderate the effect of leverage on ETR. However, the results obtained are not in line with several previous studies, namely Rani, Susetyo & Fuadah (2018) and Tanko (2023) who obtained research results that earnings management can moderate the relationship between leverage and ETR.

Earnings Management Capability as a Moderating Variable of the Effect of Related Party Transactions on ETR

Based on the regression, the Prob value for the moderation of earnings management on the influence of related party transactions (X2) on the Effective Corporate Tax Rate (Y) is $0.9793 > 0.05$. This value indicates that the moderation of Earnings Management as a moderating variable on the influence of related party transactions on ETR is not significant. Thus, it is concluded that Earnings Management cannot moderate the influence of related party transactions on ETR for Industrial Companies on the IDX for the 2018 - 2022 period

These findings indicate that the existence of related party transactions requires little or no earnings management practices. Indonesia has regulations requiring companies to apply the principle of transactions at fair prices for transactions carried out with related parties to avoid practices that can reduce tax payments. Therefore, to minimize the value of taxable income, earnings management is not implemented by the company. The government has regulated in detail that companies must implement fair transactions, even if the transactions are carried out with related parties. These rules are stipulated in the Director General of Taxes Regulation Number PER-43/PJ/2010 as last amended by PER-32/PJ/2011. This regulation stipulates that the Company is obliged to use fair market value for related party transactions

The results obtained are in accordance with the results of previous research including Nindita & Agus (2022) who found similar results, namely that earnings management cannot moderate the influence of related party transactions on ETR. However, the results obtained are not in line with several previous studies, namely Margaretha & Handayani (2023), which found research results that earnings management can moderate the relationship between related party transactions on ETR.

CONCLUSION

Based on the test results obtained in the research, it can be concluded that leverage has a negative and significant effect on ETR in Industrial companies listed on the BEI for the 2018-2022 period, related party transactions have no effect on ETR in Industrial companies listed on the BEI for the 2018-2022 period, earnings management cannot moderate the influence of Leverage on ETR in Industrial companies listed on the BEI for the 2018-2022 period, and earnings management cannot moderate the influence of related party transactions on ETR in Industrial companies listed on the BEI for the 2018-2022 period.

IMPLICATION

The results of this research imply several suggestions for practical and theoretical parties. First, as a practical contribution for the Directorate General of Taxes is that through research results the government can see the effectiveness of regulations issued regarding Leverage and related party transactions. The research results show that industrial sector companies have implemented the principle of fairness of transaction value in related party transactions. These results indicate that in the industrial sector, companies have complied with these regulations, so that related party transactions do not reduce the level of tax payments as reflected in the ETR value. However, the DGT still needs to explore regulations related to debt, because the research results found that companies are practicing financing through debt in order to reduce the level of tax payments as reflected in the ETR value. Second, as theoretical contribution, it is hoped that this research will be used as a reference, reference, guide, and increase knowledge in the future in developing knowledge on factors that can influence ETR, specifically Leverage and related party transactions. Future research can add other factors that can influence ETR such as income level, profit, company age and then compare them with the types of measurements in this research. This will provide a new perspective regarding the influence of independent variables on ETR more critically.



REFERENCES

1. Adams, S. O. (2020). Panel Data Analysis on Corporate Effective Tax Rates of Some Listed Large Firms in Nigeria. *Dutch Journal of Finance and Management*, 4(2), em0068. <https://doi.org/10.21601/djfm/9345>
2. Alfarizi, R. I., Sari, R. H. D. P., & Ajengtiyas, A. (2021). Pengaruh profitabilitas, transfer pricing, dan manajemen laba terhadap *tax avoidance* Konferensi Riset Nasional Ekonomi, Manajemen dan Akuntansi, 2(1), 898-917. <https://conference.upnvj.ac.id/index.php/korelasi/article/view/1185>
3. Amidu, M., Coffie, W., & Acquah, P. (2019). Transfer pricing, earnings management and *tax avoidance* of firms in Ghana. *Journal of Financial Crime*, 00–00. doi:10.1108/jfc-10-2017-0091
4. Ann, Shella & Adler, Haymans & Manurung, Adler Haymans. (2019). The Influence of Liquidity, Profitability, Intensity Inventory, Related Party Debt, And Company Size To Aggressive Tax Rate. *Archives of Business Research*. Vol. 7. 105-115. <https://doi.org/10.14738/abr.73.6319>
5. Apriliya, Pristanti., Fadjar, Harimurti., Suharno, Suharno. (2020). Pengaruh leverage, profitabilitas, dan capital intensity ratio terhadap effective tax rate (etr) (study kasus pada perusahaan konstruksi dan real estate yang terdaftar pada BEI tahun 2014-2018). *Jurnal Akuntansi dan Sistem Informasi* Vol 16(1):41-51. DOI: <https://doi.org/10.33061/jasti.v16i1.4408>
6. Ayuningtyas, M. P., Nurlaela, S., & Masitoh, E. (2020). Pajak, Ukuran Perusahaan Dan Tunneling Incentive Terhadap Keputusan Transfer Pricing Perusahaan Pertambangan. *Jurnal Penelitian Ekonomi dan Akuntansi (JPENSI)*, 5(3), 9. <https://doi.org/10.30736/jpensi.v5i3.362>
7. Brigham, E. F., & Daves, P. R. (2007). *Intermediate financial management*. Thomson Higher Education
8. Brigham, E. F., & Houston, J. F. (2019). *Fundamentals of financial management*. Cengage Learning
9. Ellyani, Masna & Hidayati, Ataina. (2019). The Role of Related Party Transaction and Earning Management in Reducing Tax Aggressiveness. *Riset Akuntansi dan Keuangan Indonesia*. 4. 134-145. doi: 10.23917/reaksi.v4i3.8979.
10. Ernawati, S., Chandrarin, G., & Respati, H. (2019). Analysis of the Effect of Profitability, Company Size and Leverage on Tax Avoidance (Study on Go Public Companies in Indonesia). *International Journal of Advances in Scientific Research and Engineering (IJASRE)*, ISSN:2454-8006. <https://doi.org/10.31695/IJASRE.2019.33547>
11. Eva, Rosdiana, Pohan., Antonius, Hermawan, Permana., Yuda, Yogi, Ananda. (2022). Pengaruh Tax Reform, Size, Profitability dan Leverage terhadap Effective Tax Rate (ETR). *Jurnal Syntax Idea*, 4(2):328-328. doi: 10.36418/syntax-idea.v4i2.1766
12. Falbo, T. D., & Firmansyah, A. (2021). Penghindaran pajak di Indonesia: multinationality dan manajemen laba. *Bisnis-Net Jurnal Ekonomi Dan Bisnis*, 4(1), 94-110. <https://doi.org/10.46576/bn.v4i1.1325>
13. Margaretha, F & Handayani, A. S., (2023). Peran Manajemen Laba Sebagai Pemoderasi dalam Transfer Pricing Terhadap Tax Avoidance pada Perusahaan Manufaktur di Bursa Efek Indonesia (Studi Kasus pada Perusahaan Manufaktur Sub Sektor Otomotif yang Terdaftar di BEI Tahun 2017-2019). *Soetomo Accounting Review*, 1(2), 228-251. <https://doi.org/10.25139/sacr.v1i2.6075>
14. Fernández-Rodríguez, Elena & García-Fernández, Roberto & Martínez-Arias, Antonio. (2019). Influence of Ownership Structure on the Determinants of Effective Tax Rates of Spanish Companies. *Sustainability*. 11. 1441. doi: 10.3390/su11051441.
15. Fernández-Rodríguez, E., García-Fernández, R., & Martínez-Arias, A. (2021). Business and institutional determinants of Effective Tax Rate in emerging economies. *Economic Modelling*, 94, 692–702. doi:10.1016/j.econmod.2020.02.011
16. Firmanzah, Adetiya & Marsoem, Bambang. (2023). The Effect of Profitability, Leverage, Firm Size, and Related Party Transactions on Tax Avoidance with Earnings Management as a Moderating Variable. *Journal of Economics, Finance and Management Studies*. doi: 06. 10.47191/jefms/v6-i1-29.
17. Gavana, G., Gottardo, P. and Moiselto, A.M. (2022), Related party transactions and earnings management in family firms: the moderating role of board characteristics. *Journal of Family Business Management*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/JFBM-07-2022-0090>
18. Gunawan, C. T., & Surjandari, D. A. (2022). The Effect of Transfer Pricing, Capital Intensity, and Earnings Management on Tax Avoidance. *Journal of Economics, Finance and Accounting Studies*, 4(2), 184–190. <https://doi.org/10.32996/jefas.2022.4.2.14>



19. Jensen, M., & Meckling. (1986). Theory of the Firm : Manajerial Behavior ; Agency Cost and Ownership Structure
20. Joko, Susilo., Syarifah, Ratih, Kartika, Sari. (2022). Analisis Faktor Yang Mempengaruhi Manajemen Pajak Dengan Indikator Effective Tax Rate (ETR). *Jurnal Ilmu – Ilmu Akuntansi Merdeka*, 3(1):21-27. doi: 10.33319/jamer.v3i1.76
21. Kenny, A & Yola, V. (2022). Corporate Governance Structure, Political Connections, and Transfer Pricing on Tax Aggressiveness. *Sriwijaya international journal of dynamic economics and business*, 6(1):51-51. doi: 10.29259/sijdeb.v6i1.51-72
22. Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, 39(1), 163–197. doi:10.1016/j.jacceco.2004.11.002 10.1016/j.jacceco. 2004. 11. 002
23. Kothari, S. P., Mizik, N., & Roychowdhury, S. (2016). Managing for the Moment: The Role of Earnings Management via Real Activities versus Accruals in SEO Valuation. *The Accounting Review*, 91(2), 559–586. doi:10.2308/accr-51153
24. Kraus, A., & Litztenberger, R. H. (1973). A State-Preference Model of Optimal Financial Leverage. *The Journal of Finance*, 28(4), 911–922. <https://doi.org/10.2307/2978343>
25. Lahav, Y., & Salganik-Shoshan, G. (2016). Measuring and Characterizing the Domestic Effective Tax Rate of US Corporations. *Advances in Taxation*, 33–57. doi:10.1108/s1058-749720160000023001
26. Medioli, A., Azzali, S. and Mazza, T. (2023), "High ownership concentration and income shifting in multinational groups", *Management Research Review*, Vol. 46 No. 1, pp. 82-99. <https://doi.org/10.1108/MRR-02-2021-0141>
27. Meila, K. D., & Jaelani, A. D. (2022). Pengaruh Transfer Pricing dan Capital Intesity terhadap Cash Effective Rate. *Economics Professional in Action (E-PROFIT)*, 4(2), 115–125. <https://doi.org/10.37278/eprofit.v4i2.527>
28. Nabilah, N., Kartiko, N. D., & Rachmi, I. F. (2022). Influence of Related Party Transaction, CEO Narcissism, and Political Connection to Tax Avoidance on Manufacturing Companies in The Consumer Goods Industry Sector Listed On The Indonesia Stock Exchange For The Period 2017-2019. *Journal of Management Science (JMAS)*, 5(1), 13-20. <https://doi.org/10.35335/jmas.v5i1.123>
29. Nashir, Muhammad & A, Nuraini & Priantana, Riha. (2023). The Influence of Political Connections, Related-Party Transactions, and Corporate Governance on Tax Avoidance in Manufacturing Companies Listed on the Indonesia Stock Exchange. *Journal Research of Social Science, Economics, and Management*. 3.390-402. doi: 10.59141/jrssem.v3i02.549.
30. Nawang, Kalbuana., Solihin, Solihin., Yohana, Yohana., Devia, Rahma, Yanti. (2020). The influence of capital intensity, firm size, and leverage on tax avoidance on companies registered in jakarta islamic index (jii) period 2015-2019. *International Journal of Economics, Business and Accounting Research (IJE BAR)* Vol. 4(03) doi: 10.29040/IJE BAR.V4I03.1330
31. Nindita & Agus Bagus Budi N. (2022). Pengaruh Transaksi Pihak Berelasi terhadap Penghindaran Pajak Dengan Manajemen Laba Sebagai Variabel Moderasi. *Jurnal Akuntansi dan Pajak*. DOI: <http://dx.doi.org/10.29040/jap.v22i2.3798>
32. Oktaviyanti, I., & Sumartik, S. (2023). The Pecking Order Theory Perspective in the Study of Company Capital Structure (Study on Manufacturing Companies On The Indonesia Stock Exchange). *JBMP (Jurnal Bisnis, Manajemen dan Perbankan)*, 9(1), 53-62.
33. Pajriansyah, R., & Firmansyah, A. (2017). Pengaruh *leverage*, kompensasi rugi fiskal dan manajemen laba terhadap penghindaran pajak. *Keberlanjutan: Jurnal Manajemen Dan Jurnal Akuntansi*, 2(1), 431-459. DOI: <http://dx.doi.org/10.32493/keberlanjutan.v2i1.y2017.p431-459>
34. Panda, A. K., & Nanda, S. (2020). Receptiveness of effective tax rate to firm characteristics: an empirical analysis on Indian listed firms. *Journal of Asia Business Studies*, ahead-of-print(ahead-of-print). doi:10.1108/jabs-11-2018-0304
35. Peraturan Menteri Keuangan Republik Indonesia. Nomor 22/PMK.03/2020 Tentang Tata Cara Pelaksanaan Kesepakatan Harga Transfer (Advance Pricing Agreement)
36. Rani, S., Susetyo, D., & Fuadah, L. L. (2018). The effects of the corporate’s characteristics on tax avoidance moderated by earnings management (Indonesian evidence). *Journal of Accounting, Finance and Auditing Studies*, 4(3), 149-169.
37. Refgia, T., Ratnawati, V., & Rusli, R. (2016). Pengaruh Pajak, Mekanisme Bonus, Ukuran Perusahaan, Kepemilikan Asing, Dan Tunneling Incentive Terhadap Transfer Pricing (Perusahaan Sektor Industri Dasar Dan Kimia Yang Listing Di BEI Tahun 2011-2014). *Jurnal Online Mahasiswa Fakultas Ekonomi Universitas Riau*, 4(1), 543–555.



38. Richardson, G., & Lanis, R. (2007). Determinants of the variability in corporate effective tax rates and tax reform: Evidence from Australia. *Journal of Accounting and Public Policy*, 26(6), 689–704. doi:10.1016/j.jaccpubpol.2007.10.003
39. Rini, Utami., Endang, Mahpudin. (2021). The effect of leverage, capital intensity, and inventory intensity on effective tax rate. *E-Jurnal Ekonomi dan Bisnis Universitas Udayana* Vol. 10 No. 01, January 2021, pages: 1-10. DOI: <https://doi.org/10.24843/EEB.2021.v10.i01.p01>
40. Shella & Adler (2019)
41. Stamatopoulos, I., Hadjidema, S., & Eleftheriou, K. (2019). Explaining corporate effective tax rates: Evidence from Greece. *Economic Analysis and Policy*. doi:10.1016/j.eap.2019.03.004
42. Sudaryono, Driya & Murwaningsari, ETTY. (2023). The Effect of Transfer Pricing, Intangible Assets and Capital Intensity on Tax Aggressiveness with Foreign Ownership as A Moderating Variable. *International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBA)*. 3. 222-238. DOI: 10.54443/ijebas.v3i1.665.
43. Sulistyanto, H. Sri. (2018). *Manajemen Laba: Teori dan Model Empiris*. Jakarta: Grasindo.
44. Suprianto, D., & Pratiwi, R. (2017). Pengaruh Beban Pajak, Kepemilikan Asing, Dan Ukuran Perusahaan Terhadap Transfer Pricing pada Perusahaan Manufaktur di Bursa Efek Indonesia (BEI) Periode 2013 – 2016. *Jurnal Akuntansi STIE Multi Data Palembang*, 1–15.
45. Tanko, U.M. (2023). *Financial attributes and corporate tax planning of listed manufacturing firms in Nigeria: moderating role of real earnings management*. *Journal of Financial Reporting and Accounting*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/JFRA-05-2022-0198>
46. Tjandrakirana, R., Diani, E., & Ubaidillah. (2020). Tax, Debt Covenant And Exchange Rate (Analisis Atas Fenomena Transfer Pricing). 149 *Jurnal Akuntansi Balance : Dan Bisnis*, 26. 5(1), <https://doi.org/10.32502/jab.v5i1.2456>
47. Undang-Undang RI. (2007). Undang-Undang Republik Indonesia Nomor 6 Tahun 1983 Tentang Ketentuan Umum Dan Tata Cara Perpajakan Sebagaimana Telah Beberapa Kali Diubah Terakhir Dengan Undang-Undang Republik Indonesia Nomor 11 Tahun 2020.
48. Viard, Alan D., *Statutory and Effective Tax Rates: Part 1 (August 20, 2012)*. *Tax Notes*, Vol. 136, No. 8, 2012, Available at SSRN: <https://ssrn.com/abstract=2217946>
49. Vika, Rahmawati., Titik, Mildawati. (2020). Pengaruh Size, Leverage, Profitability, Dan Capital Intensity Ratio Terhadap Effective Tax Rate (Etr). *Jurnal Riset Keuangan dan Akuntansi* Vol. 5(2) doi: 10.25134/JRKA.V5I2.2008
50. Wafiroh, N. L., & Hapsari, N., (2016). Pajak, Tunneling Incentive Dan Mekanisme Bonus Pada Keputusan Transfer Pricing. *El Muhasaba: Jurnal Akuntansi*, Vol.2, No. 6, pg 157.

Cite this Article: Evita Nora Manik, Fahmi Natigor Nasution, Yeni Absah (2024). Moderating Role of Earnings Management on Leverage and Related Party Transactions Influence on the Effective Corporate Tax Rate (ETR) in Indonesian Stock Exchange Listed Industrial Companies for Periods of 2018 – 2022. International Journal of Current Science Research and Review, 7(6), 4233-4245