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The Role of Dividend Policy in Preventing Tax-Induced Earnings Management: Empirical Evidence from Public Manufacturing Companies in Indonesia

Cliff Oliver Winoto, Yuniarwati Yuniarwati
Universitas Tarumanagara, Indonesia
Email: cliffwinoto@gmail.com, yuniarwati@fe.untar.ac.id

ABSTRACT

Tax rate reductions can encourage companies to engage in earnings management practices. However, corporate governance mechanisms, such as dividend distribution, have the potential to prevent earnings management practices. This study aims to test the ability of dividend policy to prevent tax-induced earnings management. Earnings management is measured using the Modified Jones Model by calculating the value of discretionary accruals, while tax rates are measured using the effective tax rate. This study uses data from 2016 to 2019 to estimate discretionary accruals and uses only 2019 data for hypothesis testing. The study finds tax-induced earnings management carried out by manufacturing companies in Indonesia during the transition year before the tax rate reduction. Companies implement downward earnings management as a form of intertemporal income shifting. These results align with Agency Theory by providing empirical evidence of tax-book trade-offs that sacrifice shareholder interests. Meanwhile, dividend policy does not have a significant impact and fails to mitigate earnings management practices during the transition period.

KEYWORDS *Tax-Induced Earnings Management, Downward Earnings Management, Intertemporal Income Shifting, Agency Theory, Dividend Policy*

INTRODUCTION

Through Law No. 11 of 2020 concerning Job Creation (*Ciptaker Law*), the Indonesian government issued a policy to reduce the corporate income tax (*PPh Badan*) rate from 25% to 22%. The Indonesian government has made several changes to the corporate income tax rate, as illustrated by (Source: Compilation), which outlines the history of corporate income tax rates in Indonesia based on applicable laws from 1983 to the present. Under Law No. 7 of 1983 to Law No. 7 of 1991, the corporate income tax rate varied depending on taxable income, with a rate of 15% for income ≤ IDR 10,000,000, 25% for income between IDR 10,000,000 and IDR 50,000,000, and 35% for income above IDR 50,000,000. Then, under Law No. 10/1994 to Law No. 17/2000, the corporate income tax rate was reduced to 10% for income ≤ IDR 25,000,000, 15% for income between IDR 25,000,000 and IDR 50,000,000, and 30% for income above IDR 50,000,000. Under Law No. 36/2008, effective from 2009 to 2019, a flat rate of 28% was applied for 2009 and 25% for 2010–2019. Since Law No. 11/2020, effective from 2020 to the present, the corporate income tax rate has been set at a flat rate of 22%.

According to the Kanbur-Keen Model (KK Model), reducing corporate income tax rates is part of a country's effort to win the tax competition with other countries (Keen & Konrad, 2013). Several other countries have also reduced their corporate income tax rates. The United

States, through the 2017 Jobs Act, reduced its corporate income tax rate from 35% to 21%. The KK Model explains that the intuition behind reducing the corporate income tax rate is based on the idea that the reduction in the local tax base will be smaller than the increase in the new tax base coming from abroad. Mohammad & Zus Rizal (2023) found that the state's losses from the reduction in corporate income tax rates can be offset by increased state revenue from personal income tax (*PPh OP*), value-added tax (*PPN*), and final income tax on deposit interest.

Plans to reduce corporate income tax rates had been discussed since 2019 (Kompas, 2019). This period provided companies with an opportunity to prepare and execute the most profitable strategies in response to the corporate income tax rate reduction. In response to the 2017 Jobs Act, multinational companies in the United States reported a 3% to 5% decline in profits (Garcia-Bernardo et al., 2023). Lynch et al. (2020) found that companies engaged in real activities manipulation in response to the reduction in corporate income tax rates and estimated that this could reduce tax payments by between US$14.1 billion and US$15.8 billion.

The reduction in corporate income tax rates provides incentives for companies to engage in downward earnings management by shifting profits from periods with high taxes to periods with lower taxes (Garfatta et al., 2022; Kuo & Lee, 2019; Lin et al., 2012). Earnings management leads to a decline in the quality of financial statements, including information asymmetry (Bzeouich et al., 2019; Wang et al., 2015), reduced profit persistence (Darjezi, 2016; Kliestik et al., 2022), and inefficient investment decisions (Gaio et al., 2023; Le et al., 2024; Lo, 2008; Sawarni et al., 2023). Agency Theory explains that the difference in interests between agents and shareholders can lead to agency problems. Several factors can prevent earnings management practices in companies, including corporate governance structure and mechanisms (Bawuah, 2024; Elnahass et al., 2023; Rezaee & Safarzadeh, 2023), corporate social responsibility (Choi et al., 2018; Ehsan et al., 2022; Nguyen et al., 2024; Palacios-Manzano et al., 2019), and dividend policies (Haq et al., 2024; He et al., 2017; Siladjaja et al., 2022).

The role of dividends in mitigating agency problems is a puzzle in itself. Dividend payments can increase earnings persistence, which may indicate improved earnings quality (Skinner & Soltes, 2009). Dividend payments can also reduce information asymmetry (Harakeh et al., 2020). The ability of dividends to improve earnings quality needs to be examined during periods of tax policy change. Cutting dividend tax rates affects dividend policy and corporate capital allocation (Chetty & Saez, 2005; Alstadsaeter et al., 2017; Becker et al., 2013). In the Indonesian context, the *Ciptaker Law* not only reduces corporate income tax rates but also updates dividend tax rates and policies in Indonesia. Dividend income received by corporate taxpayers from domestic companies is exempt from income tax (*PPh*), while dividend income received by individual taxpayers may be exempt from income tax provided it is reinvested.

Previous studies provide a foundation for understanding the dynamics of tax-induced earnings management and the potential moderating role of corporate governance mechanisms. Research consistently shows that anticipated corporate tax rate reductions create a strong incentive for intertemporal income shifting through downward earnings management (Bai et al., 2021; Dobbins et al., 2018; Lin et al., 2012; Madzharova, 2012). This behavior is explained as a rational, strategic response by management to maximize after-tax income, often prioritizing short-term tax benefits over financial reporting quality—a phenomenon described as book-tax trade-offs within Agency Theory (Hanlon & Heitzman, 2010; Eichfelder et al., 2025).

Concerning corporate governance, empirical evidence on its effectiveness in curbing such opportunistic earnings management is mixed. Studies highlight the importance of governance structures like board independence and audit committee effectiveness (Algrady et al., 2025; Bawuah, 2024). However, the specific role of dividend policy as a governance

mechanism in this context is less clear and appears to be context-dependent. While some research posits that dividend payouts can discipline managers by reducing free cash flow and signaling transparency (He et al., 2017; Skinner & Soltes, 2009), other findings, particularly from developing markets, suggest dividends may be a less reliable governance tool. In these contexts, dividends are often not strongly perceived as signals of firm performance or commitment to transparency (Brockman & Unlu, 2009; Winoto & Rudiawarni, 2024).

This study situates itself within this ongoing debate. It aims to address a gap in the literature by empirically testing the effectiveness of dividend policy as a moderating mechanism specifically during a period of corporate tax rate reduction in an emerging market—Indonesia. While prior research has established the occurrence of tax-induced earnings management and explored various governance controls, limited attention has been given to the interactive effect of dividend policy during such fiscal transition periods in the Indonesian manufacturing sector.

The manufacturing sector is the main focus of this study. Manufacturing companies are prone to earnings management practices (Kuan et al., 2010). Manufacturing companies represent around 29% of the total constituents of the Indonesia Stock Exchange (*IDX*). The manufacturing sector was the largest contributor to Indonesia's Gross Domestic Product (*GDP*) throughout 2024, accounting for 21% of Indonesia's total GDP (Central Statistics Agency, 2024). The manufacturing sector is often associated with large dividend payouts. As of December 2019, the manufacturing sector was the second-largest sector in the IDX High Dividend 20 Index, with a weight of 24.7%. Therefore, this study examines the ability of dividends to mitigate tax-induced earnings management in manufacturing companies listed on the *IDX*.

This study aims to explore the effect of dividend policy on tax-induced earnings management in manufacturing companies listed on the Indonesia Stock Exchange, using an explanatory and causal research approach. It examines the impact of dividend policy on tax-induced earnings management by testing the relationship between tax rate reduction (independent variable) and earnings management (dependent variable), moderated by dividend policy. The benefits of this study encompass several aspects. First, for company management, it can help evaluate dividend policy as a tool to address agency problems with shareholders and provide an overview of appropriate policies for manufacturing companies in dealing with tax rate reductions. Second, for investors, the study provides an understanding of the role of dividend policy in mitigating tax-related earnings management, thereby assisting in company valuation and investment decision-making. Third, for authorities and policymakers, it can help understand the response of manufacturing companies to changes in tax rates and provide an overview of the effectiveness of dividend policy in controlling earnings management. Fourth, this study contributes to the development of knowledge related to dividend policy, earnings management, and taxation, particularly in the manufacturing sector, given the limited research on this topic.

RESEARCH METHOD

This study adopted a quantitative approach with an explanatory research design aimed at testing hypotheses regarding causal relationships between variables. The research was causal in nature, seeking to examine the effect of corporate tax rate reductions on earnings management and the moderating role of dividend policy. A deductive reasoning method was applied, starting from established theories—primarily Agency Theory and the concept of book-tax trade-offs—to derive testable hypotheses.

The population in this study consisted of all manufacturing companies listed on the Indonesia Stock Exchange in 2019. Manufacturing companies on the Indonesia Stock

Exchange were classified into basic industry and chemicals, miscellaneous industry, and consumer goods industry. The sampling technique used in this study was non-probabilistic sampling, meaning that the probability of each individual in the population being included in the study varied. This study used purposive judgment sampling to select samples relevant to the research.

The criteria for the samples used are as follows:

1. The company's financial statements and annual reports must be published and accessible to the public for the year 2019;
2. The company's financial statements must be published and accessible to the public for the years 2016 to 2018;
3. Financial statements use the Rupiah as the reporting currency; and
4. The financial year ends on December 31 of each year.

Operational Variables

Dependent Variable

The dependent variable in this study is Earnings Management (EM), which is measured using discretionary accruals (DA) as a proxy. DA calculations refer to the Modified Jones Model (Jones, 1991; Dechow et al., 1995). DA calculations are carried out through the following stages:

1. Calculate total accruals (TA) using the following formula:

$$TA_{i,t} = \Delta CA_{i,t} - \Delta CL_{i,t} - \Delta Cash_{i,t} + \Delta STD_{i,t} - Dep_{i,t}$$

$\Delta CA_{i,t}$ = Changes in current assets of company i between year t and year t-1;

$\Delta CL_{i,t}$ = Changes in the company's short-term liabilities between year t and year t-1;

$\Delta Cash_{i,t}$ = Changes in cash and cash equivalents of company i between year t and year t-1;

$\Delta STD_{i,t}$ = Changes in the company's short-term loans between year t and year t-1;

$Dep_{i,t}$ = Depreciation and amortization expenses of company i in year t

2. Estimate non-discretionary accruals (NDA) using the following formula:

$$\frac{TA_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{A_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t}$$

$A_{i,t-1}$ = Total assets of company i at the beginning of year t;

$\Delta REV_{i,t}$ = Change in company sales between year t and year t-1;

$\Delta REC_{i,t}$ = Change in company receivables between year t and year t-1;

$PPE_{i,t}$ = Company i's fixed assets in year t;

$\varepsilon_{i,t}$ = *error term company i in the year* t.

3. Calculate non-discretionary accruals (NDA) using the following formula :

$$NDA_{i,t} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{A_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{A_{i,t-1}}$$

4. Calculate discretionary accruals (DA) using the following formula :

$$DA_{i,t} = \frac{TA_{i,t}}{A_{i,t-1}} - NDA_{i,t}$$

RESULTS AND DISCUSSION

Research Object

The population of this study is all companies in the manufacturing industry listed on the Indonesia Stock Exchange in 2019. From the entire population, there are three criteria that must be met, namely: (1) financial statements and annual reports must be published and accessible to the public; (2) financial statements must be denominated in Indonesian Rupiah; and (3) the fiscal year of the financial statements must end on December 31 of each year. The entire population of the study consisted of 168 data points, with 108 data points meeting the criteria.

For earnings management (EM) calculations using the Modified Jones Model, data from 2016 to 2019 that met the same criteria were taken into account. Of the total population of 672 data points, 403 data points met the criteria. Table 1 below explains the sampling process as follows:

Table 1. Sample Collection

Description	2016	2017	2018	2019	Total
Manufacturing Companies Listed on the IDX	168	168	168	168	672
Data that did not meet the criteria was excluded:					
Companies that did not publish financial statements and annual reports	-47	-32	-32	-23	-134
Companies that did not use the rupiah as the reporting currency in their financial statements	-27	-28	-29	-28	-112
Companies whose financial reporting period did not end on December 31	-2	-6	-6	-10	-24
Total Companies that Met the Sample Criteria	**92**	**102**	**101**	**107**	**402**

Source: Processed data, 2025

Descriptive Statistics

Descriptive statistics in Table 2 and Table 3 will show descriptive statistics and frequencies of dependent variables, independent variables, moderating variables, and control variables as follows:

Tabel 2. Statistik Deskriptif

Variable	N	Minimum	Maximum	Mean	Std. Dev.
EM	108	-0,56	1,35	-0,04	0,18
ETR	108	-4,39	1,84	-0,12	0,54
DIV	108	-	35,40	0,56	3,40
DIV_ETR	108	-0,77	10,12	0,07	0,98
BOARDIND	108	-	1,00	0,40	0,13
BOARDSIZE	108	2,00	10,00	4,08	1,72
TOBINSQ	108	0,14	5,15	1,20	0,92

Variable	N	Minimum	Maximum	Mean	Std. Dev.
PROFIT	108	-23,21	0,75	-0,17	2,24
SIZE	108	25,51	33,49	28,45	1,59
OCF	108	-1,23	166,62	1,61	16,03
LEV	108	-	0,46	0,06	0,10
CAP_INT	108	0,01	0,80	0,39	0,20
INV_INT	108	0,00	0,57	0,20	0,12
INTANGIBLE	108	-	0,38	0,01	0,04
ROA	108	-0,40	0,61	0,05	0,10
SG	108	-0,62	8,37	0,08	0,82
_SALES	108	$-2{,}19 \times 10^{12}$	$14{,}8 \times 10^{12}$	$4{,}23 \times 10^{11}$	$1{,}96 \times 10^{12}$
_REC	108	$-1{,}85 \times 10^{12}$	$7{,}98 \times 10^{11}$	$1{,}32 \times 10^{10}$	$3{,}08 \times 10^{11}$

Source: Data processed using SPSS 25, 2025

Table 3. Frequency Statistics (Dummy Variables)

Variable	N	Frequency		Proportion	
		0	1	0	1
AUDCOM	108	4	104	3,70%	96,30%
NEGROE	108	94	14	87,04%	12,96%

Source: Data processed using SPSS 25, 2025

Data Processing

Classical Assumption Test

Normality Test

A normality test was conducted to determine whether the data used in this study had a normal distribution. This normality test used the Kolmogorov-Smirnov test. If the data is normally distributed, then the significance value is greater than 0.05. The normality test results have a significance value of 0.010, so they do not meet the normality test. However, the study continues because if the data used is more than 100 data points, then the normality test results will not significantly affect the data processing results (Gujarati, 2003).

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		107
Normal Parameters[a,b]	Mean	0,000
	Std. Deviation	0,115
Most Extreme Differences	Absolute	0,100
	Positive	0,100
	Negative	-0,098
Test Statistic		0,100
Asymp. Sig. (2-tailed)		0,010[c]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: Data processed using SPSS 25, 2025

Autocorrelation Test

An autocorrelation test is conducted to detect whether there is a correlation between the disturbance error in period t and the previous period t-1 in the regression model. An autocorrelation test is not necessary in this study because it only uses data from one year, namely 2019.

Multicollinearity Test

Multicollinearity testing examines whether there is correlation between independent variables in the regression equation model. A good regression model does not have correlation between its independent variables. Correlation between variables does not occur if the VIF value is less than 10 and the tolerance is above 0.1. The results of the multicollinearity test are shown in Table 5, where all variables used meet the multicollinearity test because they have a VIF below 10 and a tolerance above 0.1.

Table 5. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
ETR	0,762	1,312
DIV	0,863	1,159
AUDCOM	0,748	1,337
BOARDIND	0,738	1,355
BOARDSIZE	0,450	2,223
NEGROE	0,639	1,566
TOBINSQ	0,705	1,419
PROFIT	0,156	6,426
SIZE	0,346	2,888
OCF	0,830	1,205
LEV	0,627	1,595
CAP_INT	0,681	1,468
INT_INV	0,608	1,645
INTANGIBLE	0,923	1,083
ROA	0,160	6,239
SG	0,631	1,584
SALES	0,548	1,825
REC	0,666	1,502

Source: Data processed using SPSS 25, 2025

Heteroscedasticity Test

A heteroscedasticity test is conducted to determine whether there are differences in the variance values of residuals from one observation to another. If the variance of residuals remains constant between observations, it is called homoscedasticity. Meanwhile, if the variance of residuals differs between observations, it is called heteroscedasticity. A good model

is one that does not exhibit heteroscedasticity, as proven by the Glejser test. A regression model does not exhibit heteroscedasticity if the significance value is greater than 0.05. The results of the heteroscedasticity test are shown in Table 6.

The test results show that there is no heteroscedasticity in all variables used except for the NEGROE control variable. However, all variables will still be used in the study because heteroscedasticity will not damage data consistency if the sample used is large, i.e., exceeding 100 data points (Gujarati, 2003).

Table 6. Heteroscedasticity Test Results

Model	t	Sig.
(Constant)	0,290	0,772
ETR	- 0,171	0,865
DIV	- 1,436	0,155
DIV_ETR	1,232	0,221
AUDCOM	- 0,787	0,433
BOARDIND	- 0,836	0,405
BOARDSIZE	0,468	0,641
NEGROE	2,760	0,007
TOBINSQ	- 0,494	0,622
PROFIT	- 0,106	0,915
SIZE	0,350	0,727
OCF	- 0,566	0,573
LEV	- 0,526	0,600
CAP_INT	- 0,508	0,613
INT_INV	- 1,327	0,188
INTANGIBLE	0,672	0,504
ROA	1,185	0,239
SG	- 0,409	0,684
SALES	0,309	0,758
REC	1,339	0,184

Source: Data processed using SPSS 25, 2025

Model Feasibility Test

The model feasibility test conducted includes simultaneous F test, coefficient of determination (R2), correlation coefficient (r), and partial t test, which can be seen in Table 7.

Table 7. Test Results

Variable	Coefficient	Std. Error	t-statistics	Sig.
(Constant)	0,213	0,347	0,614	0,541
ETR	- 0,061	0,030	-2,036	0,045 **
DIV	- 0,029	0,031	-0,943	0,348
DIV_ETR	0,092	0,107	0,861	0,392
AUDCOM	0,026	0,075	0,344	0,731
BOARDIND	0,298	0,111	2,697	0,008 ***

Variable	Coefficient	Std. Error	t-statistics	Sig.	
BOARDSIZE	0,007	0,011	0,634	0,528	
NEGROE	0,163	0,045	3,587	0,001	***
TOBINSQ	- 0,023	0,016	-1,384	0,170	
PROFIT	0,695	0,234	2,976	0,004	***
SIZE	- 0,017	0,013	-1,275	0,206	
OCF	- 0,273	0,073	-3,717	0,000	***
LEV	0,420	0,158	2,650	0,010	***
CAP_INT	- 0,065	0,075	-0,862	0,391	
INV_INT	0,094	0,130	0,723	0,471	
INTANGIBLE	0,390	0,326	1,196	0,235	
ROA	0,271	0,312	0,867	0,388	
SG	0,032	0,019	1,700	0,093	
SALES	0,000	0,000	3,161	0,002	***
REC	- 0,000	0,000	-1,334	0,186	
Adj. R^2				0,495	
F Stat				6,473	***

Source: Data processed using SPSS 25, 2025

Simultaneous Test (F Test)

A simultaneous test was conducted to test the significance of the entire regression model. If the simultaneous test has a significance value below 0.05, then the regression model is feasible for use. From the results of the simultaneous test, the model in the study has a significance value of 0.000. Thus, all four models passed the simultaneous test and can be used in regression.

Coefficient of Determination (R2)

The coefficient of determination or adjusted R2 measures the ability of independent variables to explain dependent variables. From the results of the coefficient of determination above, it can be concluded that 49.5% of the changes in the dependent variable in the research model can be explained by the independent variables, moderator variables, and control variables in the model. Meanwhile, 50.5% of the changes in the dependent variable in the research model are explained by other variables outside those used in the research.

Partial Test (t-test)

Based on the results of the multiple linear regression test as shown in Table 7, the following regression equation was obtained:

$$EM_{i,t} = 0{,}213 - 0{,}061\ ETR_{i,t} - 0{,}029\ DIV_{i,t} + 0{,}092\ ETR_{i,t} * DIV_{i,t} + 0{,}026\ AUD\_COM_{i,t} + 0{,}298\ BOARD\_IND_{i,t} + 0{,}007\ BOARD\_SIZE_{i,t} + 0{,}163\ NEG\_ROE_{i,t} - 0{,}023\ TOBINSQ_{i,t} + 0{,}695\ PROFIT_{i,t} - 0{,}017\ SIZE_{i,t} - 0{,}273\ OCF_{i,t} + 0{,}420\ LEV_{i,t} - 0{,}065\ CAP\_INT_{i,t} + 0{,}094\ INV\_INT_{i,t} + 0{,}390\ INTANGIBLE_{i,t} + 0{,}271\ ROA_{i,t} + 0{,}032\ SG_{i,t} + 0{,}000\ \Delta SALES_{i,t} - 0{,}000\ \Delta REC_{i,t} + \varepsilon_{i,t}$$

From the partial test results as shown in Table 4.7, the independent variable ETR and the control variables BOARD_IND, NEG_ROE, PROFIT, OCF, LEV, and SALES have a significance level below 0.05, thus having a significant impact on the dependent variable EM.

Based on the partial test results, the independent variable ETR has a significance value of 0.045 with a negative coefficient direction, so hypothesis H1 is accepted. Meanwhile, the moderating variable ETR_DIV has a significance value of 0.392, indicating that this variable does not have a significant effect on EM. Therefore, based on the partial test results, hypothesis H2 is rejected.

Discussion of Research Results

Discussion of the Impact of Tax Rates on Earnings Management

Based on the results of the tests conducted in the study, the first hypothesis was accepted. Tax-induced earnings management was found to occur significantly in 2019 in manufacturing companies listed on the Indonesia Stock Exchange. A higher tax rate for a company is a significant driving factor for downward earnings management in the year preceding a tax rate cut. Intertemporal income shifting was found to occur as a form of anticipation of the corporate tax rate cut in Indonesia in 2019, where companies sought to time the recognition of revenue to gain tax benefits in the period following the change. These results align with previous research (Bai et al., 2021; Dobbins et al., 2018; Lin et al., 2012; Madzharova, 2012). The change in tax behavior that arises when tax rates change is the result of companies prioritizing tax considerations over other factors (Eichfelder et al., 2025). Tax avoidance motives become particularly strong when tax rate cuts are announced, creating opportunities to maximize after-tax income. Thus, the application of downward earnings management to reduce tax burdens prior to the tax rate cut period is not only rational but also strategically optimal for companies.

This study provides empirical evidence supporting Agency Theory, whereby agents exploit their power over financial reporting to achieve tax savings that may not be in line with shareholders' interests in maximizing value. The findings indicate that agents prioritize short-term tax benefits through earnings management over the quality of financial statements in the period before a tax rate reduction, or what is commonly referred to as book-tax tradeoffs (Hanlon & Heitzman, 2010). Overall, the above findings emphasize that tax rates not only impact fiscal tax calculations but also serve as managerial incentives that influence the financial reporting behavior of agents within a company.

Discussion of the Effect of Dividend Policy on the Impact of Tax Rates on Earnings Management

Based on the results of the tests conducted in this study, the second hypothesis was rejected. Although dividends in other situations can serve as a mechanism to reduce agency costs and increase transparency, the results of this study show that dividends are not sufficient to prevent earnings management during periods of tax rate cuts. Dividends, as part of the shareholders' control mechanism, cannot match the benefits that companies or agents may gain from tax advantages through the utilization of this transition period. In developing countries, dividends are less reflective as a signal of transparency or company performance (Brockman & Unlu, 2009; Winoto & Rudiawarni, 2024). Therefore, the moderating power of dividends in the Indonesian market during the tax rate reduction transition period cannot be relied upon significantly.

Discussion of Research Results for the Audit Committee (AUD_COM)

The audit committee as a control variable in the study had no significant impact on earnings management. These results are in line with the findings of Geraldes Alves (2011), who found no significant relationship between the size of the audit committee and earnings

management. The mere presence of an audit committee is not sufficient to explain the existence of effective control within a company. The main aspect of the audit committee that can encourage the prevention of earnings management practices is the independence of the audit committee itself (Algrady et al., 2025; Bawuah, 2024).

Discussion of Research Results for Board Independence (BOARD_IND)

Board independence as a control variable in the study had a significant positive impact on earnings management. These results can be interpreted to mean that with board independence, a company is more likely to refrain from downward earnings management, which can result in a reduction in tax payments by the company.

Discussion of Research Results for Board Size (BOARD_SIZE)

Board size as a control variable in the study had no significant impact on earnings management. These findings indicate that increasing board size alone is not sufficient to prevent earnings management practices if it is not accompanied by good governance practices by the board.

Discussion of Research Results for Negative Return on Equity (NEG_ROE)

Negative return on equity as a control variable in the study had a significant positive impact on earnings management. These results can be interpreted to mean that companies with negative return on equity tend to engage in upward earnings management. Thus, these findings indicate that companies with negative return on equity place greater importance on accounting needs to embellish their financial statements than on tax payments.

Discussion of Research Results for Tobin's Q (TOBINSQ)

Tobin's Q as a control variable in the study had no significant impact on earnings management. This finding can be interpreted to mean that earnings management practices can be carried out by companies with either large or small market capitalization. Market capitalization was not proven to strengthen the control mechanisms of corporate governance within a company.

Discussion of Research Results for Profitability (PROFIT)

Profitability as a control variable in the study has a significant positive impact on earnings management. With high profitability, companies tend to engage in upward earnings management, which also means increasing corporate tax payments.

Discussion of Research Results for Company Size (SIZE)

Company size as a control variable in the study had no significant impact on earnings management. These results are in line with those of Nguyen et al. (2024), who found no significant relationship between company size and the level of earnings management practiced by companies.

Discussion of Research Results for Operating Cash Flow (OCF)

Operating cash flow as a control variable in the study has a significant negative impact on earnings management. The higher the level of cash held by a company, the more likely it is that management will engage in downward earnings management, reflecting management's opportunistic attitude toward increasing cash reserves that can be used for various management purposes. These results are consistent with Agency Theory.

Discussion of Research Results for Leverage (LEV)

Leverage as a control variable in the study has a significant positive impact on earnings management. These results are in line with (Nguyen et al., 2024), who found that the lower the leverage, the higher the level of earnings management carried out by the company. This is because with high leverage, there are more stakeholders monitoring the company's performance, which limits the company's management's ability to engage in profit management practices.

Discussion of Research Results for Capital Intensity (CAP_INT)

Capital intensity as a control variable in the study has no significant impact on earnings management. Companies with high capital intensity have the opportunity to engage in earnings management through the determination of accrual methods for depreciation. However, the results of this study do not show a significant relationship between capital intensity and earnings management. These results may also be influenced by Indonesian tax regulations, which set rigid depreciation standards for each type of tangible asset.

Discussion of Research Results for Inventory Intensity (INV_INT)

Inventory intensity as a control variable in the study had no significant impact on earnings management. Companies with high inventory levels have room to adjust accrual accounting for sales and purchases of goods recorded as inventory. However, the results of this study did not show a significant relationship between inventory intensity and earnings management.

Discussion of Research Results for Intangible Assets

Intangible assets as a control variable in the study had no significant impact on earnings management. This result may be driven by Indonesian tax regulations that set rigid depreciation standards for each type of intangible asset.

Discussion of Research Results for Return on Assets (ROA)

Return on Assets as a control variable in the study has no significant impact on earnings management. A certain level of return on assets cannot reflect the earnings management practices carried out by company management.

Discussion of Research Results for Sales Growth (SG)

Sales growth as a control variable in the study has no significant impact on earnings management. Sales growth cannot directly impact the earnings management practices carried out by companies.

Discussion of Research Results for Sales Increase (ΔSALES)

Sales increase as a control variable in the study has a significant positive impact on earnings management. This result is consistent with (Nguyen et al., 2024), who found that a high sales growth rate compared to the previous year provides room for company management to engage in earnings management practices.

Discussion of Research Results for Accounts Receivable Increase (ΔREC)

Accounts receivable increase as a control variable in the study had no significant impact on earnings management. Accounts receivable can actually be a tool that management can use to conduct earnings management. However, the results of this study found no empirical evidence that the difference in accounts receivable increase of a company had a significant effect on the level of earnings management practices conducted.

CONCLUSION

The study found that tax-induced earnings management occurred among manufacturing companies listed on the Indonesia Stock Exchange during the 2019 tax rate transition period, with firms engaging in downward earnings management by shifting income from high-tax to lower-tax periods to secure future tax benefits. These results support Agency Theory, highlighting book-tax trade-offs as management's strategic anticipation of tax reductions that may harm stakeholders, including shareholders. Despite concurrent changes to dividend tax rates by the Indonesian Directorate General of Taxes, dividends did not effectively moderate tax-induced earnings management during this period, likely because dividends are less indicative of company performance in developing countries and thus less effective as a corporate governance mechanism. Future research could explore alternative governance tools or contextual factors that might better moderate earnings management in emerging markets during fiscal policy changes.

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