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THE INTERVENING OF EARNING MANAGEMENT TO TAX AGGRESSIVENESS IN INDONESIAN CONSUMER NON-CYCLICAL COMPANIES

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Abstract

The purpose of this study is to deepen understanding of how sales growth and capital intensity affect corporate tax aggressiveness through profit management practices, especially in the non-cyclical consumer sector which is stable and crucial to the economy. The results of the research can be used as a reference to improve tax supervision and encourage transparency and corporate governance in the capital market, especially in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX). This study uses a sample of 238 data from 34 non-cyclical consumer companies during the 2017-2023 period. The data analysis process was carried out using the EViews application through a quantitative approach and the type of intervening research. The results of the study show that there is a positive influence of sales growth and capital intensity on tax aggressiveness. Meanwhile, tax aggressiveness is positively influenced by capital intensity and negatively influenced by sales growth. Another result is evidence that profit management does not affect tax aggressiveness, nor does it mediate the relationship between sales growth and capital intensity partially to tax aggressiveness.

***Keywords:** Sales growth; Capital Intensity; Earnings management; Tax aggressiveness.*

Abstrak

Maksud dari penelitian ini adalah untuk memperdalam pemahaman mengenai bagaimana pertumbuhan penjualan dan intensitas modal mempengaruhi agresivitas pajak perusahaan melalui praktik manajemen laba, khususnya pada sektor konsumen non-siklikal yang stabil dan krusial bagi perekonomian. Hasil penelitian bisa menjadi acuan untuk meningkatkan pengawasan pajak serta mendorong transparansi dan tata kelola perusahaan di pasar modal, khususnya pada perusahaan sektor konsumen non-siklikal yang terdaftar di Bursa Efek Indonesia (BEI). Penelitian ini menggunakan sampel sebanyak 238 data dari 34 perusahaan konsumen non-siklikal selama periode 2017-2023. Proses analisis data dilakukan dengan menggunakan aplikasi EViews melalui pendekatan kuantitatif dan jenis penelitian intervening. Hasil dari penelitian menunjukkan adanya pengaruh positif dari pertumbuhan penjualan dan intensitas modal terhadap agresivitas pajak. Sementara itu agresivitas pajak dipengaruhi secara positif oleh intensitas modal dan dipengaruhi secara negatif oleh pertumbuhan penjualan. Hasil lainnya adalah bukti bahwa manajemen laba tidak mempengaruhi agresivitas pajak dan juga tidak memediasi hubungan antara pertumbuhan penjualan dan intensitas modal secara parsial terhadap agresivitas pajak.

Kata Kunci: Pertumbuhan penjualan; Intensitas modal; Manajemen laba; Agresivitas pajak.

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INTRODUCTION

Tax aggressiveness has become a prominent issue in corporate finance and tax policy discussions, especially in emerging economies like Indonesia. Companies implement various tax strategies, ranging from legal tax avoidance to illegal tax evasion. It is essential for businesses in Indonesia to understand the consequences and driving factors behind tax aggressiveness, particularly as the country moves toward a stricter regulatory framework focused on corporate governance and tax responsibility. The tendency for companies to engage in tax aggressiveness often arises from a competitive economic environment, where businesses aim to maximize their financial results and returns for shareholders. In Indonesia, tax revenue plays a vital role in the nation's development, making aggressive tax practices potentially impactful on a company's profitability (Fuadah, Safitri, & Yuliani, 2019; Irmi, Oktavia, & Sembiring, 2022; Paramita & Fuad, 2023). Studies show that the corporate sector, especially the manufacturing industry, contributes significantly to tax revenue, emphasizing the importance of compliance and the impact of tax strategies on public finances.

Tax plays a crucial role in public finance systems worldwide. The framework for taxation in Indonesia, as outlined in the law on general provisions and tax procedures, highlights the important role of taxes as mandatory contributions that support the nation's socio-economic structure. This emphasizes the significance of taxation in driving national development in sectors such as education, health, and industry, while also examining the impact of tax compliance versus tax avoidance within the context of Indonesia.

As outlined in the aforementioned law, tax is an obligation owed by taxpayers, whether in the form of a corporation or an individual, without receiving direct compensation in return. This definition highlights the function of taxes as a means of state funding aimed at promoting the overall prosperity of the population (Irmi et al., 2022; Paramita & Fuad, 2023). Taxes allow governments to fund public goods and services, which are essential for advancing social equity and enhancing living standards.

Tax avoidance is a major issue in Indonesia, particularly in sectors prone to tax fraud, such as the tobacco and food industries, exemplified by PT Bentoel Internasional Investama, a subsidiary of British American Tobacco (BAT). In 2019, a report by the Tax Justice organization revealed that PT Bentoel was involved in substantial tax evasion activities, which were believed to divert income that should have been allocated to the country. The report indicated that the company employed two primary methods to move its income out of Indonesia. Between 2013 and 2015, PT Bentoel engaged in transferring compensation abroad through apparent intra-company loans, designed to resemble debt capitalization arrangements. By reducing the income tax liability, this practice benefited the company's management while harming national revenue . Apart from loans, the company also utilizes payment mechanisms for royalties, fees, and services to its parent company in England, where the tax rate is lower. This approach is seen as an aggressive strategy to reduce the taxes paid in Indonesia (Amalia, 2021).

Higher sales growth is typically accompanied by increased profit growth, suggesting that sales growth can influence tax evasion practices. A study by Hidayat highlights that sales growth significantly impacts the Cash Effective Tax Rate (CETR), which serves as an indicator of tax avoidance. Companies with larger sales levels tend to have greater profit potential, providing them with the ability to pay higher taxes and, in turn, creating opportunities for tax avoidance strategies. This aligns with Noviani (2021) perspective that a rise in sales, indicative of the company's operating revenue, will incentivize the corporation to minimize expenses, including via tax avoidance strategies. The previous literature (Abusharbeh & Zakarneh, 2024; Assad et al., 2023; Formiga Miranda & Machado, 2024; Huang et al., 2023; Lalwani & Jain, 2025) has been discussed about the relationship between sales growth to earning management, but the result is still inconsistent. The previous literature (Adela et al., 2023; Faisal et al., 2023; Gabrielli & Greco, 2023) has been discussed about the relationship between sales growth to tax aggressiveness, but the result it still debating.

Capital intensity is an important indicator that shows a company's dedication to long-term investments in fixed assets like property, machinery, and technology. A higher capital intensity suggests a larger initial investment, which typically leads to substantial depreciation costs on financial statements (Oktaviano, Wulandari, & Rasidi, 2024). The impact of capital intensity on tax aggressiveness highlights that companies with higher investments in fixed assets often utilize tax-saving strategies through depreciation benefits. Khasanah, Nugroho, and Nurcahyono (2022) found a strong relationship between fixed asset intensity and tax aggressiveness, indicating that firms with considerable fixed assets are more inclined to adopt tax-advantageous methods. The previous literature (Bui et al., 2022; Chhillar & Lellapalli, 2022; Opare et al., 2025; Zhao & Wang, 2025) has been discussed about the relationship between capital intensity to earnings management, but the result is still inconsistent. The previous research (Adela et al., 2023; DeFond et al., 2025; Hendayana et al., 2024; Hossain et al., 2024) has been discussed about capital intensity to tax aggressiveness, but the result is still debating.

Earnings management practices begin when management intervenes in the financial reporting process, often to present a more favourable financial position than what is warranted. This manipulation can lead to a reduction in reported income, which subsequently lowers taxable income. As a result, companies that frequently engage in earnings management may exhibit aggressive tax behaviour, as their tax liabilities decrease due to artificially lowered profits (Handayani & Ibrani, 2023; Kuntadi, 2023). The previous research (Atayah et al., 2024; Chen et al., 2025; Chyz et al., 2023; Duho et al., 2024; Itan et al., 2024) has been discussed about earning management to tax aggressiveness, but the result is still inconsistent.

Earnings management and corporate tax aggressiveness are two critical aspects of corporate financial strategies. Earnings management entails manipulating financial reports to create a preferred portrayal of a company’s financial status, while tax aggressiveness involves strategies used by firms to reduce their tax obligations. This paper investigates the link between these two practices, analysing how companies might use earnings management techniques to fulfil their tax goals.

Earnings management is defined as the deliberate alteration of financial statements by management to attain specific financial results. The reasons for engaging in earnings management are diverse and can range from boosting stock prices and meeting analyst expectations to managing income tax liabilities. Earnings management practices can influence tax avoidance, indicating a complex relationship between the two constructs (Oktaviano et al., 2024). A lower effective tax rate (ETR), which suggests tax avoidance, is frequently the result of earnings management practices. They contend that managers may make accounting decisions aimed at intentionally lowering reported income to secure advantageous tax results (Pratiwi, 2023).

LITERATURE REVIEW

Agency Theory

The granting of authority to an agent from the principal through a contract is the origin of agency theory (Jensen & Meckling, 1976). The correlation between the principal and the agent, differences in interests often arise which can trigger agency costs, namely costs used by owners to trigger agents to act according to their wishes (Rahmawati & Irawati, 2022). This occurs because both the principal and the agent seek to optimize their own interests. Principals, such as shareholders or owners, aim for a high and rapid return on their investment in the entity. On the other hand, agents pursue rewards like incentives, compensation, salary increases, promotions, and other benefits for their role in managing the entity.

Sales Growth and Earnings Management

Sales growth and earnings management are closely intertwined in the corporate finance landscape, with a range of studies producing varying conclusions about their connection. A thorough analysis of the topic shows that while many studies highlight a strong connection between sales growth and earnings management, other evidence suggests that this relationship may not be straightforward. Several studies back the idea that rising sales growth is frequently associated with increased earnings management practices. For example is research by Naue, Anastasia, Harjanto, and Novyarni (2023), this research discovered that sales growth has a notable impact on earnings management, indicating that companies might alter earnings as a response to growing sales. Furthermore, Indrawati and Surjandari (2022) suggest that sales growth can influence the relationship between director compensation, audit fees, and earnings management. They propose that as companies expand, their management practices may shift towards manipulating earnings. Moreover, the research from (Abusharbeh & Zakarneh, 2024; Formiga Miranda & Machado, 2024; Lalwani & Jain, 2025) show that sales growth has influence towards earning management.
H_1: It is suspected that Sales Growth improve Earnings Management.

Capital Intensity and Earning Management

Capital intensity is a metric that evaluates the proportion of a company's fixed assets relative to its overall assets, with elevated levels of capital intensity frequently resulting in enhanced prospects for earnings management. Their study demonstrates that companies with significant investments in fixed assets might manipulate depreciation and amortization schedules to present more favourable earnings results (Aisyah, Firman, & Pratiwi, 2023). A positive correlation exists between capital intensity and real earnings management, whereby firms with substantial fixed asset investments are more likely to

manipulate reported results to affect financial views. The greater earnings management is linked to higher capital costs, stressing the complex balance that firms with high capital intensity must strike between investment and financial transparency (Han & Hsieh, 2025). This finding contributes to understanding how capital intensity might not only promote earnings management but also affect the overall cost structure for firms involved. Moreover, the research from (DeFond et al., 2025; Hendayana et al., 2024; Hossain et al., 2024) show that sales growth has influence towards earning management.
H_2: It is suspected that Capital Intensity improve Earnings Management.

Sales Growth and Tax Aggressiveness

Tax avoidance can be understood as a legal strategy that does not break any rules but aims to minimize a company's tax liabilities. Such practices typically involve exploiting discrepancies in tax regulations, which are structured in a way that complies with formal tax provisions but may undermine the economic substance of business activities. Research by Handayani and Ibrani (2023) It indicates that companies with slower sales growth tend to engage in higher tax avoidance, as reflected in their lower Cash Effective Tax Rates (CETR). This implies that as sales growth accelerates, the effective tax rate also increases, potentially discouraging companies from adopting aggressive tax strategies. In a similar vein, (Mulyaningsih, Soerono, & Mukhtar, 2023) study supports this view by showing that higher sales growth is linked to reduced tax aggressiveness, as firms with greater sales are more likely to incur larger tax liabilities. This relationship is further supported by Cahyanti, Cik, Digdowiseiso, and Muhmad (2024), who found that robust sales growth leads to a higher tax obligation, thereby diminishing the likelihood of tax avoidance practices. Moreover, the research from (Adela et al., 2023; Faisal et al., 2023) show that sales growth has influence towards earning management.
H_3: Supposedly, sales growth reduces tax aggressiveness.

Capital Intensity and Tax Aggressiveness

Capital intensity, defined as the ratio of fixed assets to total assets, is thought to favourably influence tax aggressiveness by improving a company's operational efficiency and tax planning tactics. This ratio is crucial in enhancing the company's capacity to manage taxes more efficiently. Increased capital intensity correlates with a firm's propensity to implement tax-saving strategies, utilizing its fixed assets to enhance tax planning. Research suggests that firms with greater capital intensity can utilize their investments in fixed assets to improve performance and lower tax liabilities. For example, Amarissa, Nautani, Harist, and Lumbantobing (2023) emphasize that capital intensity can result in cost savings, which may, in turn, enable the adoption of more aggressive tax strategies. This conclusion is supported by Lailiyah, Massela, Yulianto, and Khalid (2024) who observes that capital intensity increases tax aggressiveness, especially when influenced by the size of the firm. The underlying rationale is that firms with substantial investments in fixed assets can utilize depreciation and other tax shields more effectively, thereby reducing their taxable income.

Capital intensity is linked to tax avoidance practices. Putri's research indicates that as capital intensity rises, the likelihood of tax avoidance also increases, suggesting a strategic connection between asset investment and tax planning (Ramadhina, 2023) . This is further backed by Fitriani and Indrati (2023), who discovered a strong positive correlation between capital intensity and tax aggressiveness, reinforcing the idea that firms can adjust their capital structure to maximize tax benefits. Moreover, the research

from (DeFond et al., 2025; Hendayana et al., 2024; Hossain et al., 2024) show that sales growth has influence towards earning management.
H$_4$: It is suspected that capital intensity increases tax aggressiveness.

Earnings Management and Tax Aggressiveness

Earnings management has been extensively studied in connection with its impact on tax aggressiveness, with a general consensus that such practices can lead to increased tax aggressiveness among firms. This connection is largely driven by a firm's ability to manipulate reported earnings to secure favourable tax outcomes. Research shows that earnings management practices allow companies to alter their financial statements, which can, in turn, reduce their taxable income. Handayani and Ibrani clarify that the discrepancies between financial accounting standards and tax regulations allow firms to boost accounting profits while simultaneously lowering taxable profits in the same period, thereby creating a positive connection between financial reporting aggressiveness and tax reporting aggressiveness (Handayani & Ibrani, 2023).

Kuntadi (2023) findings corroborate this viewpoint, demonstrating that earnings management significantly influences corporate tax levels, hence reinforcing the notion that corporations employ earnings management as a tactic to enhance tax aggression. Leal, Janiszewski, Anjos, and Martins (2023) conducted a study that reveals a direct correlation between tax aggressiveness and earnings management, indicating that firms employing aggressive tax techniques are more prone to participate in earnings management practices. Moreover, the research from (Atayah et al., 2024; Chen et al., 2025; Chyz et al., 2023) show that sales growth has influence towards earning management.
H$_5$: It is suspected that profit management increases tax aggressiveness.

Sales Growth on Tax Aggressiveness with Earnings Management as a Mediating Variable

As a result of its complexity, the link between sales growth, tax avoidance, and earnings management has been the subject of many academic studies. Sales growth, or the rise in sales over a certain time period, is often linked to how profitable a business is. When sales go up, companies usually make more money, which can mean they owe more in taxes. Companies are more likely to use tax avoidance tactics to lower their tax obligations because of this.

Earnings management acts as an intermediary in this relationship. It involves altering financial statements to portray a preferred view of a company's financial condition. Companies may use earnings management to indirectly influence their tax liabilities. For instance, by inflating earnings, a company might appear more profitable, resulting in higher tax obligations. Conversely, by reducing earnings, a company can lower its taxable income, thereby engaging in tax avoidance (Marfiana & Putra, 2021; Mulyaningsih et al., 2023). The relationship between sales growth and earnings management is significant; as sales grow, the pressure to manage earnings efficiently also intensifies, which can impact tax strategies.
H$_6$: Sales growth is believed to influence tax aggressiveness, with earnings management acting as an intervening variable.

Capital Intensity on Tax Aggressiveness with Earnings Management as an Intervening variable

The relationship between capital intensity, tax aggressiveness, and earnings management is a critical area of study in corporate finance and accounting. Capital intensity refers to the extent to which a company utilizes fixed assets in its operations, which can significantly influence its financial strategies, including tax planning and earnings management practices. Research indicates that capital intensity can have a positive effect on tax aggressiveness. Companies with high capital intensity often have substantial fixed assets, which can provide opportunities for tax deductions through depreciation. This can incentivize firms to engage in aggressive tax strategies to minimize their taxable income (Astrina & Pertiwi, 2024). For instance, firms may leverage their capital assets to create tax shields, thereby reducing their overall tax liabilities.

Earnings management plays a crucial role as an intervening variable in this relationship. Firms may engage in earnings management to manipulate reported earnings, which can subsequently affect their tax obligations. For example, companies might use earnings management techniques to lower their reported income, thereby reducing their tax liabilities (Winanto, Armazy, Serawati, Pahala, & Wahono, 2024).

H_7: It is believed that capital intensity influences tax aggressiveness, with earnings management serving as an intervening variable.

RESEARCH METHODS

Type of Research

This research employs an associative quantitative design with path analysis. Companies in the non-cyclical consumer sector that were listed on the Indonesia Stock Exchange (IDX) from 2017 to 2023 are part of the population. Purposive sampling was used to choose 34 companies as a sample. The companies had to have full financial reports, use rupiah as their reporting currency, not have lost any money during the observation period, and give full data for all the required variables.

Operational Research Variables

Variable	Measurement	Abbreviation	Data Sources	Author
	Dependent variable			
Tax aggressiveness	Effective Tax Rate = Tax Expense / Pretax Income	ETR	IDX	(Adela, Agyei, & Peprah, 2023; Apriyadi & Syahputra, 2024; Guedrib & Marouani, 2023; Kovermann, 2018)
	Independent variables			
Sales growth	$(Sales_t - Sales_{t-1}) / Sales_{t-1}$	SG	IDX	(Apriyadi & Syahputra, 2024) (Xu & Luo, 2025; Zhou, Yang, Zhang, & Jiu, 2025)
Capital intensity	Total Fixed Asset / Total Asset	CAPIN	IDX	(Hidayat & Fitria, 2018; Marlina, Hasanudin, & Mulyasari, 2022; Safitri & Irawati, 2021; Wanti & Irawati, 2024)
Earnings Management	The Modified Jones Model $DA_{it} = (TA_{it} / T_{it-1}) - NDA_{it}$	EM	IDX	(Wang & Hou, 2024)

Data Analysis Approach

This research employs panel data regression analysis, which encompasses statistical data analysis, estimation of regression models (CEM test, FEM test, and REM test), evaluation of the regression model (Chow test and Hausman test), and classical assumption testing (multicollinearity, heteroscedasticity, and autocorrelation tests). Hypothesis testing is carried out using the coefficient of determination, partial tests (t-test), joint tests (F-test), and analysis of intervening variables.

RESULT AND DISCUSSION

Tabel 1. Statistic Description

	Tax Aggressiveness	Sales Growth	Capital Intensity	Earnings Management
Mean	0.257143	0.088319	0.326639	-0.043277
Maximum	2.140000	0.540000	0.880000	0.390000
Minimum	-1.620000	-0.470000	0.010000	-0.270000
Std. Dev	0.203184	0.150940	0.178272	0.080652

Source: Output EViews Statistic Version 9, 2024.

The mean value for tax aggressiveness is 0.257, and the standard deviation of 0.203 (lower than the mean value) indicates moderate variability in tax aggressiveness across companies, indicating that on average, companies show a moderate level of tax aggressiveness. The maximum value of 2.14 suggests that some companies exhibit very high levels of tax aggressiveness, while the minimum value of -1.62 implies that some companies may have negative tax aggressiveness, indicating tax avoidance or very low tax liability.

The standard deviation of 0.150940, which is greater than the mean value, and the mean value of 0.088319 for sales growth suggest that there is significant variation in sales growth throughout businesses. While some businesses have strong sales growth, others see reductions, as evidenced by the minimum sales growth of -0.47 and the greatest sales growth of 0.54. The significant variation indicates that factors influencing sales growth differ widely across businesses, such as industry conditions, market strategies, and economic environments.

In terms of capital intensity, the average value is 0.327, and the standard deviation is 0.178, which is less than the mean. This suggests that, on average, enterprises have a moderate level of capital intensity, however it varies widely amongst them. There is a large variety of capital investment across the organizations, as seen by the greatest value of 0.88 and the minimum value of 0.01.

The mean value for earning management is -0.043 suggests that, on average, companies tend to engage in slight earnings management towards reducing their reported earnings, while the standard deviation is 0.081, bigger than the mean suggests high variability in earnings management practices across companies. The maximum value is 0.39 and minimum of -0.27 indicate that some companies exhibit significant earnings manipulation, while others show less engagement in it.

Selection of Panel Data Regression Model

Chow Test

Table 2. Regression Model Fit Test Results

Test	Purpose	Result	Decision
Chow Test	Common effect model or fixed model	Prob. Corss-section F=0.0003	Fixed effect model
Hausman Test	Fixed effect model or random effect model	Prob. Corss-section F=0.0166	Fixed effect model

Source: Output EViews Statistic Version 9, 2024.

Classical Assumption Test

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results Table

White Test	Value	p-value
Obs*R-squared	5.4041	0.1445

Source: Output EViews Statistic Version 9, 2024.

To ensure the equality of residual variances from the independent variable data, a heteroscedasticity test was conducted using the White test. The outcome demonstrates that the Prob. Obs * R-squared value is higher than 0.05, suggesting that there are no heteroscedasticity problems with the data.

Autocorrelation Test

Table 6. Autocorrelation Test Results

Name of Test	Result
Durbin-Watson stat	1.3114

Source: Output EViews Statistic Version 9, 2024.

The correlation over time in the regression residuals between variables must be free from disturbance to produce BLUE (Best Linear Unbiased Estimator) data. An autocorrelation test is conducted with the Durbin-Watson (DW) test on the selected Fixed Effect Model regression, resulting in a value of 1.311384, which is within the permissible range of +2 to -2. Consequently, it can be inferred that the data fulfils the autocorrelation assumption.

Hypothesis Test

Coefficient of Determination

Table 7. Determination Coefficient Test Results

Number of observations	R-Squared	Adjusted R-Squared
238	0.7679	0.7659

Source: Output EViews Statistic Version 9, 2024.

An R-squared value nearing one indicates that the independent factors account for nearly all the variation in the dependent variable. The Adjusted R-squared value is 0.765946, indicating that earnings management, sales growth, and business age account for 76.59% of the variance, while the remaining 23.41% is ascribed to other factors.

Partial Test

Table 8. Statistical t Test Results Equation 1

Variable	Coefficient	Std. Error	T Statistic	Prob.
C	-0.004066	0.002530	-17.10875	0.0000
Sales Growth	0.820307	0.237632	3.452011	0.0007
Capital Intensity	2.563695	0.110658	23.16766	0.0000

Source: Output EViews Statistic Version 9, 2024.

The equation 1 indicates that sales growth is a substantial predictor of tax aggressiveness, evidenced by a t-statistic of 3.452011 and a p-value of 0.0007, both of which are statistically significant. This indicates that fluctuations in revenue growth significantly influence a company's tax aggressiveness. Moreover, capital intensity significantly affects tax aggressiveness, evidenced by a t-statistic of 23.16766 and a p-value of 0.0000, which is substantially below the 0.05 threshold, so affirming its considerable impact on tax aggression.

Table 9. Statistical t Test Results Equation 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.776704	0.159875	4.858208	0.0000
Sales Growth	-0.187266	0.072943	-2.567279	0.0109
Capital Intensity	0.409741	0.051313	7.985123	0.0000
Earning Management	0.068386	0.129248	0.529104	0.5972

Source: Output EViews Statistic Version 9, 2024.

The regression test results for Sales Growth in Equation 2 show a probability of 0.0109, which is below 0.05. This suggests that Sales Growth negatively affects tax aggressiveness, indicating that as sales growth increases, tax aggressiveness tends to decrease. In contrast, for Capital Intensity, the regression test shows a probability of 0.0000, well under the 0.05 threshold, This indicates a positive impact on tax aggressiveness, meaning that companies with higher capital intensity are more likely to implement aggressive tax strategies. On the other hand, the probability for Earnings Management is 0.5972, which is greater than 0.05, suggesting that earnings management does not have a significant effect on tax aggressiveness, suggesting it has little impact on shaping tax strategies.

F-Test (Simultaneous Test)

The results of the F statistical test (simultaneous test) are presented in the table below:

Table 10. Simultaneous Significance Test Results Table (F Test) Regression 1

Total Panel (balanced) Observations	F-statistic	Prob(F-statistic)
238	1.7741	0.0000

Source: Output EViews Statistic Version 9, 2024.

The F statistic is 0.0000 < 0.05. This means the research model is statistically significant. This indicates that the independent variables have a significant combined effect on the dependent variable. Therefore, this model is suitable for further statistical testing to determine the relationship between each variable.

Table 11. Simultaneous Significance Test Results Table (F Test) Regression 2

Total Panel (balanced) Observations	F-statistic	Prob(F-statistic)
238	24.1349	0.0000

Source: Output EViews Statistic Version 9, 2024.

The F-statistic is 0.0000 < 0.05. This means that in this equation model, the independent variables of capital intensity, sales growth, and earnings management jointly influence the dependent variable, namely tax aggressiveness.

Path Analysis Test

Path analysis is an advancement of regression analysis. Regression analysis primarily examines the direct impact of an independent variable on a dependent variable, whereas path analysis encompasses a wider scope by assessing both direct and indirect effects. Path analysis ascertains whether an independent variable affects a dependent variable via an intervening variable.

Picture 1. Path Analysis Test Results Framework

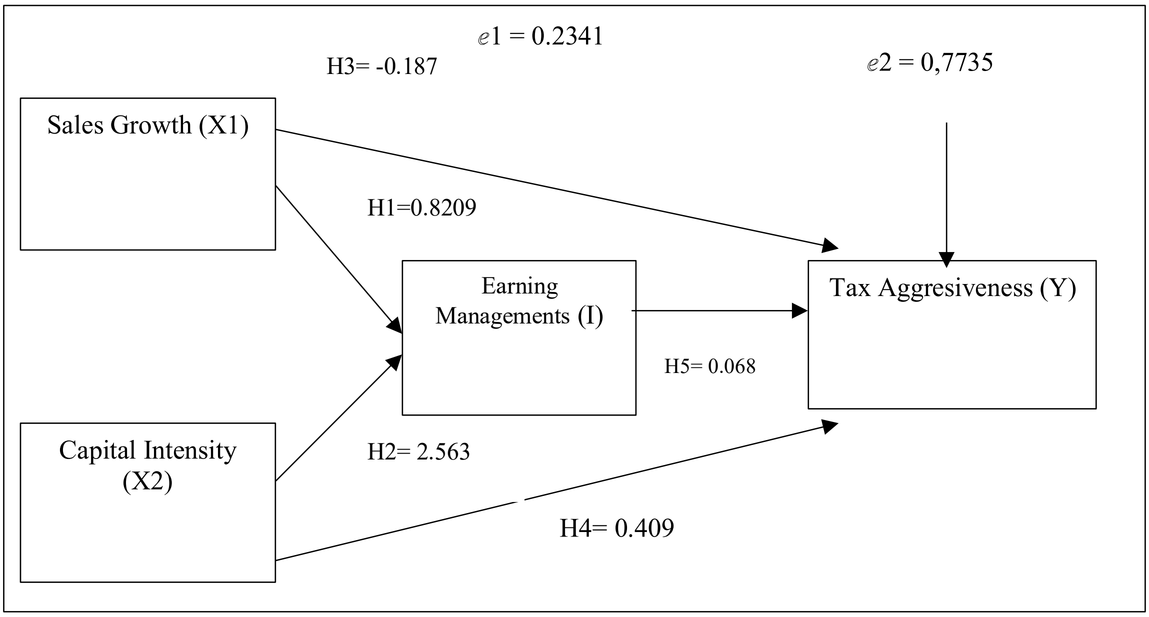

Table 12. Table sobel Test Sales Growth - Earnings Management - Tax Aggressiveness

X1-Z-Y		Test Statistic	P-value
a	**0.820**		
b	**0.068**		
sa	**0.237**	0.52111845	0.60228426
sb	**0.129**		

Source: Output Calculation for the Sobel Test, 2024.

Table 13. Table sobel Test Capital Intensity - Earnings Management - Tax Aggressiveness

X1-Z-Y		Test Statistic	P-value
a	**2.563**		
b	**0.068**	0.52699693	0.59819572
sa	**0.110**		
sb	**0.129**		

Source: Output Calculation for the Sobel Test, 2024.

The Sobel test was used to see how sales growth affected tax anger when earnings management was used as a mediating variable. The p-value of 0.60228426 is higher than the 0.05 level, as shown in Table 9. This means that earnings management does not act as a go-between for the link between sales growth and tax aggression. In the same way, Table 10's Sobel test looks at how capital intensity affects tax aggression with earnings management as a mediator. It comes up with a p-value of 0.59819572, which is also higher than the 0.05 level. This means that earnings management does not affect the relationship between capital intensity and tax aggression.

Discussion

Sales Growth and Earnings Management

The first hypothesis of this study suggests that sales growth has a positive effect on profit management. The research results show a coefficient of 0.820 and a p-value of 0.0007, which is below 0.05, indicating that sales growth positively influences profit management. As a result, the first hypothesis (H1) is supported. The average sales growth of the companies in the study was 8.83%, which reflects the annual percentage increase in sales. This growth level suggests that profits also rise, influencing managers to adopt strategies to optimize results. Sales growth not only represents past investment success but also serves as a predictor of future growth, acting as an indicator of demand and industry competitiveness. These findings align with previous research on the topic by Indrawati and Surjandari (2022) and Naue et al. (2023). In Indonesia’s competitive business environment, higher sales growth can pressure managers to manage earnings in ways that present stronger financial performance to stakeholders. This reflects the broader corporate tendency to balance market expectations with compliance to governance and regulatory standards. From the perspective of agency theory, sales growth can intensify conflicts between managers (agents) and shareholders (principals) when managers prioritize personal incentives linked to performance targets. Earnings management in this context serves as a tool for managers to reduce information asymmetry while still safeguarding their own reputations and rewards.

Capital Intensity and Earnings Management

The second hypothesis of this study, which states that "Capital Intensity positively impacts earnings management," is confirmed by the findings. The coefficient for capital intensity is 2.563, and the corresponding p-value is 0.0000, which is well below the conventional significance level of 0.05. This suggests a strong and statistically significant positive relationship between capital intensity and earnings management. In other words, companies with higher capital intensity are more likely to engage in earnings management practices, as they have more fixed assets at their disposal, which can be manipulated to influence financial outcomes. Therefore, the positive impact of capital intensity on earnings management confirms the second hypothesis (H2).

Earnings management refers to the intentional manipulation of financial accounts by management to achieve specific objectives. Capital intensity, defined as the proportion of fixed assets to total assets, plays a crucial role in how a company manages its finances, including earnings management. This study supports the notion that higher capital intensity is associated with increased earnings management practices. These findings align with previous research on the topic Aisyah et al. (2023) and Okyere, Fiador, and Sarpong‑Kumankoma (2021). In the Indonesian context, capital-intensive firms may use their asset structures as a strategic lever to manage reported earnings without necessarily breaching regulations. Such practices highlight the challenge for regulators in detecting subtle forms of manipulation that affect tax bases and corporate transparency. From an agency theory perspective, the high discretion managers have in valuing and depreciating fixed assets creates opportunities for opportunistic behavior. This opportunism can result in financial reporting choices that benefit managers’ career outcomes but may not align with shareholders' long-term interests.

Sales Growth and Tax Aggressiveness

The third hypothesis in this study, which states that "Sales Growth has a negative effect on Tax Aggressiveness," is supported by the findings. The results show a coefficient of -1.872 and a p-value of 0.0109, which is less than 0.05. Therefore, it can be concluded that Sales Growth negatively affects Tax Aggressiveness, and the third hypothesis (H3) is accepted.

This suggests that as sales growth increases, the effective tax rate also rises, which may discourage firms from engaging in aggressive tax strategies. Higher sales growth is associated with a decrease in tax aggressiveness, as firms with greater sales are likely to face larger tax obligations. The results of this study align with previous research on the topic by Cahyanti et al. (2024) and Handayani and Ibrani (2023) also a research by Mulyaningsih et al. (2023). Given Indonesia's reliance on corporate tax revenue, firms with higher growth tend to avoid practices that might invite stricter scrutiny from tax authorities. This reflects a cautious approach by successful firms to maintain reputational capital and avoid regulatory risks. Agency theory suggests that managers of high-growth firms may avoid aggressive tax strategies to prevent reputational damage that could reduce shareholder trust. This indicates that in certain contexts, the interests of managers and shareholders converge in prioritizing compliance over short-term tax savings.

Capital Intensity and Tax Aggressiveness

The fourth hypothesis in this study, which states that "Capital Intensity has a positive effect on Tax Aggressiveness," is supported by the findings. The results show a coefficient of 0.409 and a p-value of 0.0000, which is less than 0.05. Therefore, it can be concluded that Capital Intensity positively affects Tax Aggressiveness, and the fourth hypothesis (H4) is accepted.

The depreciation policy of fixed assets influences corporate taxes, particularly for capital-intensive companies. Taxes play a role in shaping a company's decisions regarding the renewal or expansion of its fixed assets. These findings are consistent with and align with previous research on the subject Amarissa et al. (2023) and Fitriani and Indrati (2023) also Lailiyah et al. (2024). In the Indonesian tax environment, capital-intensive firms may exploit depreciation allowances to minimize taxable income. This behaviour aligns with the broader issue of legal tax avoidance strategies that can erode the tax base without violating statutory requirements. Under agency theory, managers may exploit asset-heavy structures to reduce tax expenses, thereby boosting short-term performance metrics tied to compensation. However, such actions might conflict with shareholders' broader goals if they increase the company's exposure to regulatory changes or reputational risks.

Earnings Management and Tax Aggressiveness

The fifth hypothesis in this study, namely "Earnings Management has a positive effect on Tax Aggressiveness." The results show that the coefficient is 0.068 and the probability value for sales growth is 0.5972> 0.05. So, it can be concluded that the earnings management variable partially has no significant effect on tax aggressiveness, so the fifth hypothesis (H5) is rejected.

Earnings management and tax aggressiveness are two critical areas of financial reporting, although earnings management can lead to a decrease in taxable income through earnings management strategies, it does not necessarily correlate with an increase in tax aggressiveness. Companies can engage in earnings management without having to adopt an aggressive tax strategy. These results are consistent and in line with the research Mulyaningsih et al. (2023) but it is not line with Irawan, Kinanti, and Suhendra (2020) which states that there is a significant negative impact of earnings management to tax avoidance. In practice, Indonesian companies may manipulate earnings for purposes other than reducing tax liability, such as meeting loan covenants or signalling stability to investors. This shows that motivations for earnings management can be multifaceted and not solely linked to aggressive tax behaviour. Agency theory helps explain why earnings management might not translate into tax aggressiveness—managers may pursue earnings adjustments for self-preservation or career advancement rather than direct tax benefits. This suggests that agency conflicts can manifest in different strategic behaviors depending on managerial priorities and incentives.

Sales Growth on Tax Aggressiveness with Earnings Management as an Intervening Variable

The sixth hypothesis in this study, which states that "Sales growth affects tax aggressiveness with earnings management as an intervening variable," is tested using the Sobel test. The results show a p-value of 0.60228426, which is greater than 0.05. Therefore, it can be concluded that earnings management does not mediate the relationship between sales growth and tax aggressiveness. As a result, the sixth hypothesis (H6) is rejected.

Earnings management does not mediate the relationship between sales growth and tax aggressiveness. While sales growth is often associated with increased tax avoidance, its impact on tax aggressiveness becomes insignificant when considering other factors, particularly earnings management. This suggests that earnings management practices may overshadow the effects of sales growth on tax strategies. A study by Mulyaningsih et al. (2023) supports this finding, indicating that earnings management does not increase tax aggressiveness. The research highlights that companies engage in earnings management not solely to avoid taxes but also for other reasons, such as benefiting internal stakeholders, which aligns with agency theory. This underscores the complexity of the relationship between sales growth, earnings management, and tax aggressiveness. Furthermore, research by Assidi, Farooque, and Albitar (2022) The finding that profit planning increases tax aggressiveness, companies that carry out profit management tend to show lower tax payments so that profit management increases tax aggressiveness. In the Indonesian business context, where regulatory oversight is tightening, firms may prioritize sustainable growth over aggressive tax positions to safeguard long-term credibility. This explains why the mediating role of earnings management is absent despite the theoretical link between sales growth and tax aggressiveness. Agency theory implies that the absence of mediation may stem from managers balancing personal goals with the risk of shareholder backlash if aggressive tax planning jeopardizes future profitability.

Capital Intensity on Tax Aggressiveness with Earnings Management as an Intervening Variable

The seventh hypothesis of this study, which suggests that "Capital Intensity affects tax aggressiveness with earnings management as an intervening variable," was tested using the Sobel test. The results revealed a p-value of 0.59819572, which is greater than 0.05, indicating that earnings management does not mediate the relationship between capital intensity and tax aggressiveness. Therefore, the seventh hypothesis (H7) is rejected. While capital intensity may be related to tax avoidance, earnings management does not effectively mediate this connection. Earnings management does not moderate capital intensity and tax aggressiveness, which implies that other factors may have a more significant impact between capital intensity and tax aggressiveness. In Indonesia, capital-intensive companies may already utilize asset-related tax strategies directly, making the mediation role of earnings management redundant. This reinforces the need for tax authorities to focus on industry-specific monitoring mechanisms, especially for asset-heavy sectors. From an agency theory viewpoint, managers in capital-intensive firms may directly pursue tax-saving strategies to meet performance targets without resorting to additional earnings manipulation. This direct approach could reduce the relevance of earnings management as an intermediary, as managers already achieve their agency-driven objectives through asset-based tax planning.

CONCLUSION

After completing the research process, which involved sample selection, data collection, statistical testing, and theoretical analysis of the effects of capital intensity and sales growth on tax aggressiveness with earnings management as an intervening variable, the following conclusions were drawn: Sales growth and capital intensity positively impact Earnings management in companies in the Non-Cyclical Consumer sector listed on the Indonesia Stock Exchange from 2017 to 2023 shows that sales growth can reduce tax aggressiveness, while capital intensity increases it. However, earnings management does not affect tax aggressiveness in the companies studied. Furthermore, earnings management does not mediate the effects of sales growth, capital intensity, and tax aggressiveness. From the perspective of agency theory, sales growth, capital intensity, and earnings management may drive managers to pursue tax aggressiveness to maximize short-term profits or personal benefits, often at the expense of long-term risks or shareholder interests.

Suggestions

This research has several limitations that need to be noted. First, limitations on the data side, where the research only uses secondary data from company financial reports during a certain period, so there is a possibility of incompleteness or inconsistency in reporting. In addition, the scope of the research only covers companies in certain sectors, so the results cannot be generalized for the entire industry. Second, limitations in the measurement of variables, such as earnings management which is calculated using discretionary accruals through the Modified Jones model, which has its own assumptions and weaknesses. The measurement of tax aggressiveness also only uses one approach, even though there are several alternative measurements that can provide different perspectives. Third, theoretically, this research focuses on the agency theory approach, so it has not yet considered non-economic factors such as ethics, corporate culture, or the influence of regulations that can also affect aggressive tax behaviour. Therefore, these limitations are expected to be considered for further research in order to produce a more in-depth and comprehensive analysis.

Based on the research and the conclusions that were reached, the author suggests the following: Other industries listed on the Indonesia Stock Exchange (IDX) should be added to the sample by future researchers who want to make the study results more complete. In addition, longer watch periods should be thought about for future studies. This would increase the sample size and make the results more accurate. It is also suggested that future research include more variables that might affect tax aggressiveness, like the number of independent commissioners, the size of the business, its profitability, its use of debt, and other important factors.

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