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Corporate Tax Aggressiveness from Perspective: Capital Structure and Earning Management on Foreign Exchange Bank in Pandemic Era

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Abstract: Tax aggression is an illegal or legal tax planning activity with the aim of obtaining taxable profits through tax evasion or tax avoidance. This Research remains to measure Capital Structure and earning management are considered to be factors that influence the corporate tax aggressiveness. The research method used in this study is quantitative method. The unit of analysis is financial statements from 54 foreign exchange bank on pandemic era (2020-2023), with 216 samples, using panel data regression for hypotheses analysis. Capital structure has a positive influence but insignificant on corporate tax aggressiveness because the data studied was in the pandemic period, when many banks suffered a significant decline in profits due to credit relief policies. Then, earning management also has a positive influence but insignificant on the corporate tax aggressiveness, because Banking has become one of the most affected sectors of the pandemic, so banking companies feel no need to do earning management for tax evasion because they are losing condition. The results of the research, capital structure and profit management didn't have a significant impact on corporate tax aggressiveness, as the government issued a tax harmonization law at the end of 2021 by lowering the corporate tax rate from 25% to 22%, so companies including banks felt no need to do tax planning because they had received special treatment from the government.

Keywords: corporate tax aggressiveness; capital structure; earning management

Introduction

Taxes constitute a primary source of state revenue used to finance public expenditure and national development. Despite their essential role, corporate taxpayers often perceive taxes as a cost that reduces profitability, creating incentives to minimize tax obligations. This tension between the government's objective to maximize tax revenue and firms' objective to maximize after-tax profit gives rise to corporate tax aggressiveness, which has become a significant concern in countries implementing a self-assessment tax system such as Indonesia. Under this system, firms possess discretion in calculating and reporting their own tax liabilities, thereby increasing opportunities for strategic tax behavior.

From the perspective of Agency Theory, corporate tax decisions reflect conflicts of interest between managers (agents) and shareholders (principals). Managers possess private information regarding firm performance and financial reporting practices, creating information asymmetry that allows them to pursue tax strategies aligned with personal incentives, such as meeting earnings targets or securing performance-based compensation. These actions may expose firms to regulatory penalties, reputational risks, and long-term costs that are not necessarily aligned with shareholders' interests. Consequently, tax aggressiveness cannot be viewed solely as an efficiency-driven tax planning strategy but also as an agency problem arising from managerial discretion.

Aggressive tax behavior may also generate broader economic consequences, including tax disputes, reduced state revenue, and increased regulatory scrutiny. From a Positive Accounting Theory perspective, managerial choices regarding financial reporting and tax strategies are influenced by incentives related to compensation, political visibility, and regulatory pressure. Firms that operate in highly regulated and publicly scrutinized industries may limit aggressive tax practices to maintain legitimacy and avoid political costs. These theoretical perspectives highlight that corporate tax behavior is shaped not only by financial considerations but also by governance structures, managerial incentives, and institutional pressures.

Given these dynamics, examining corporate tax aggressiveness is essential to understand how managerial decision-making interacts with regulatory frameworks and firm characteristics. This issue becomes particularly relevant in the banking sector, where financial decisions are closely monitored and carry systemic implications. Therefore, investigating tax aggressiveness within this sector provides important insights into the interaction between managerial incentives, financial structure, and regulatory environment.

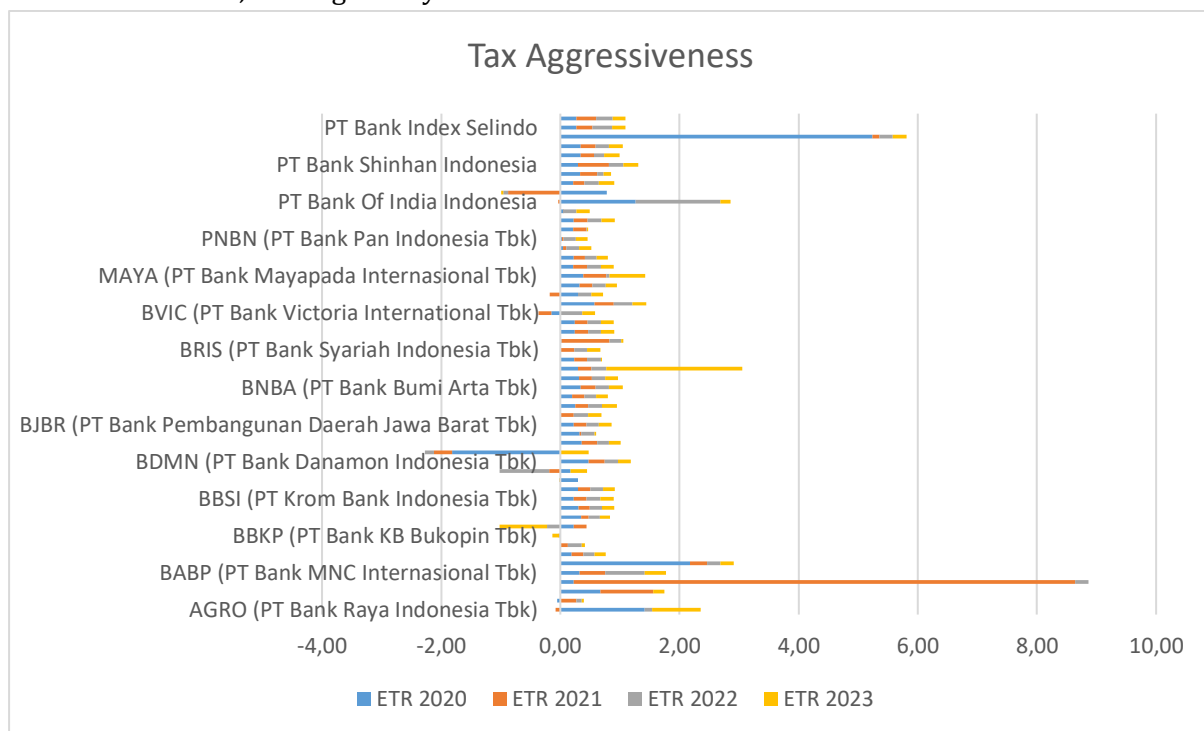


Figure 1. Banking’s Tax Aggressiveness on 2020-2023

Effective Tax Rate (ETR) is widely used in empirical research as a proxy for corporate tax aggressiveness because it reflects the proportion of accounting profit paid as tax expense. A lower ETR indicates greater tax avoidance, while a higher ETR suggests lower levels of aggressive tax behavior. Figure 1 illustrates the variation of ETR among Indonesian foreign exchange banks during the 2020–2023 period. The observed dispersion of ETR values indicates heterogeneous tax strategies across banks, suggesting that tax behavior is influenced by firm-specific financial and managerial characteristics rather than uniform regulatory compliance.

One key factor frequently associated with corporate tax aggressiveness is capital structure. From a tax planning perspective, debt financing provides interest tax shields that may reduce taxable income, thereby encouraging firms with higher leverage to engage in more aggressive tax strategies. However, empirical findings regarding the relationship between capital structure and tax aggressiveness remain inconclusive. Some studies report a positive relationship, suggesting that highly leveraged firms exploit debt-related tax benefits to minimize tax payments. Other studies document insignificant or negative relationships, indicating that excessive leverage may increase financial risk and regulatory scrutiny, thereby discouraging aggressive tax behavior.

These inconsistencies may stem from differences in research contexts, industry characteristics, and measurement approaches. Firms operating in highly regulated sectors may face constraints that limit opportunistic tax strategies, while economic conditions such as crisis periods may alter managerial incentives and financing decisions. In addition, prior studies employ different proxies for both capital structure and tax aggressiveness, which complicates cross-study comparison and contributes to mixed empirical evidence.

Within the framework of Agency Theory, capital structure decisions may reflect managerial incentives that do not fully align with shareholder interests. Managers may increase leverage to obtain tax advantages or to signal performance, even when higher debt levels increase financial risk. Conversely, Positive Accounting Theory suggests that firms facing greater political and regulatory visibility—such as banking institutions—may adopt more conservative financial and tax policies to avoid scrutiny. These competing theoretical perspectives imply that the effect of capital structure on tax aggressiveness is context-dependent.

Given these theoretical and empirical inconsistencies, examining the role of capital structure in shaping tax aggressiveness in Indonesian banking institutions during the 2020–2023 period provides an important opportunity to clarify prior findings within a highly regulated and economically volatile environment.

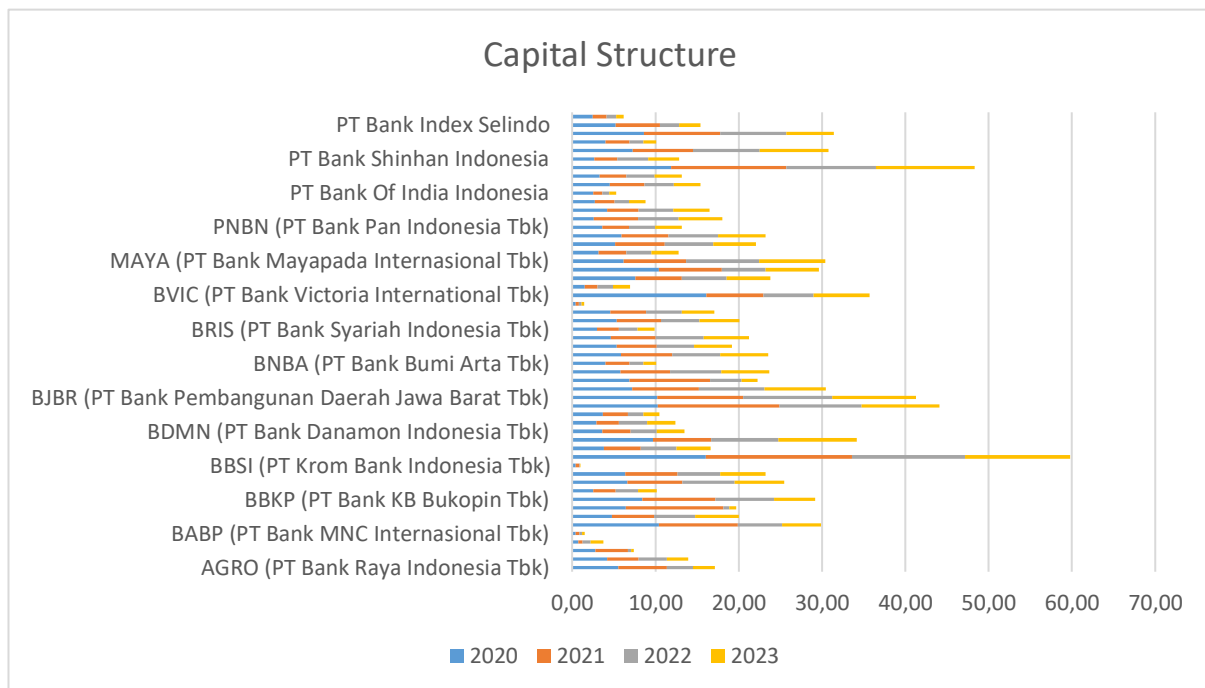


Figure 2. Banking’s Capital Structure on 2020-2023

Capital structure in this study is proxied by the Debt-to-Equity Ratio (DER), which reflects the extent to which firms rely on debt financing relative to equity. Figure 2 shows substantial variation in leverage among Indonesian foreign exchange banks during the 2020–2023 period, indicating heterogeneous financing strategies within a highly regulated industry. From a tax perspective, higher leverage may generate interest tax shields that reduce taxable income. However, excessive debt may simultaneously increase financial risk, monitoring intensity, and regulatory scrutiny, particularly in the banking sector. These countervailing forces suggest that the relationship between capital structure and tax aggressiveness is not linear and may depend on institutional context and economic conditions.

Another firm-level factor frequently associated with corporate tax aggressiveness is earnings management, defined as managerial discretion in financial reporting intended to influence reported earnings. Because taxable income is closely linked to accounting profit, managerial choices in accrual recognition and income smoothing may affect the effective tax

burden. Prior empirical studies examining the relationship between earnings management and tax aggressiveness report mixed findings. Some studies suggest that income-decreasing earnings management is used to reduce taxable income and tax payments, while others find insignificant or even negative relationships, particularly in highly regulated industries or during periods of economic stress.

These inconsistencies may be explained by differences in measurement approaches, research settings, and regulatory environments. Studies employ various proxies for earnings management (such as discretionary accruals) and tax aggressiveness, making results difficult to compare across contexts. Moreover, firms operating in sectors subject to strict supervision—such as banking—may face constraints that limit opportunistic reporting behavior, especially when reputational risk and compliance pressure are high.

From an Agency Theory perspective, earnings management represents a mechanism through which managers exploit information asymmetry to pursue personal objectives, including performance-based compensation or short-term reporting targets. Such discretion may enable managers to adjust reported income and influence tax outcomes in ways that are not fully aligned with shareholder interests. In contrast, Positive Accounting Theory predicts that firms facing greater political visibility and regulatory monitoring may adopt more conservative reporting practices to minimize scrutiny and avoid political costs. These competing theoretical predictions imply that the effect of earnings management on tax aggressiveness is context-dependent and requires empirical verification.

Given the unique characteristics of Indonesian banking institutions and the economic volatility during the 2020–2023 pandemic period, examining the role of earnings management in shaping corporate tax aggressiveness provides an important opportunity to clarify inconsistent findings in prior research.

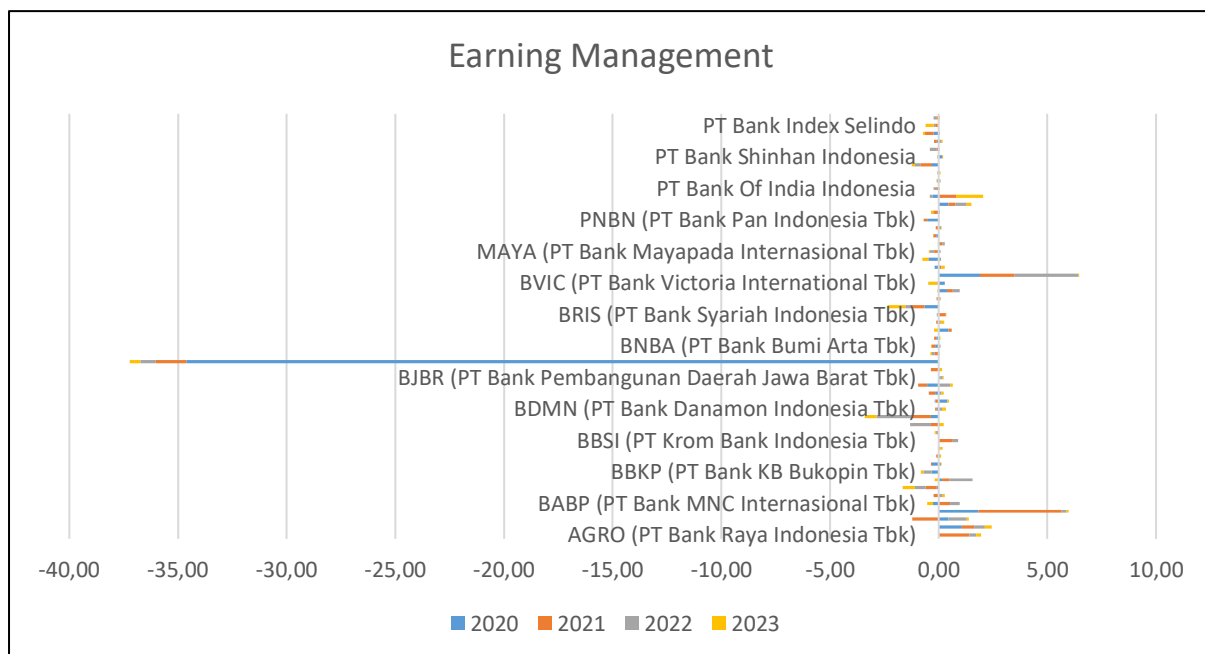


Figure 3. Banking’s Earning Management on 2020-2023

Figure 3 presents the variation in discretionary accruals as a proxy for earnings management among Indonesian foreign exchange banks during the 2020–2023 period. The dispersion of discretionary accrual values indicates that the extent of managerial discretion in financial reporting differs across institutions and over time. Such variation suggests that earnings reporting practices are influenced by firm-specific incentives, financial conditions, and regulatory environments rather than uniform industry behavior.

Changes in discretionary accrual patterns during the observation period may reflect managerial responses to economic uncertainty and policy adjustments, including shifts in corporate tax regulation and pandemic-related financial pressures. Within the framework of Agency Theory, these reporting choices may represent managerial efforts to influence reported performance and financial outcomes under conditions of information asymmetry. Conversely, from the perspective of Positive Accounting Theory, firms operating in highly regulated sectors such as banking may adopt more conservative reporting practices to reduce political and regulatory scrutiny. The observed heterogeneity in discretionary accruals therefore underscores the relevance of examining earnings management as a potential determinant of corporate tax aggressiveness within the Indonesian banking sector during the 2020–2023 period.

Method

Quantitative method is a method on this research (Sanulita et al., 2024; Tahir et al., 2023; Waty et al., 2023). The population in this study is a banking company that is listed on the Indonesian stock exchange for the period 2020-2023 as many as 54 companies. In this study, the researchers used a probability sampling technique, in which researchers set criteria for members of the population to be selected as sample members. The following are sample criteria for this study:

1. General banking companies listed on the Indonesian Stock Exchange before 2020
2. General Banking companies that regularly publish financial reports, annual reports and sustainability reports for the period 2020-2023

Referring to the above criteria, then the sample in this study is the financial reports of the banks that are listed in the EIB period of 2020-2023. Here's the banking companies that went into the sample on this study:

Table 1. Research Sampling

No.	Bank	No.	Bank
1.	AGRO (PT Bank Raya Indonesia Tbk)	28.	BNLI (PT Bank Permata Tbk)
2.	AGRS (PT Bank IBK Indonesia Tbk)	29.	BRIS (PT Bank Syariah Indonesia Tbk)
3.	AMAR (PT Bank Amar Indonesia Tbk)	30.	BSIM (PT Bank Sinarmas Tbk)
4.	ARTO (PT Bank Jago Tbk)	31.	BTPN (PT Bank BTPN Tbk)
5.	BABP (PT Bank MNC Internasional Tbk)	32.	BTPS (PT Bank BTPN Syariah Tbk)
6.	BACA (PT Bank Capital Indonesia Tbk)	33.	BVIC (PT Bank Victoria International Tbk)
7.	BBCA (PT Bank Central Asia Tbk)	34.	DNAR (PT Bank Oke Indonesia Tbk)
8.	BBHI (PT Allo Bank Indonesia Tbk)	35.	INPC (PT Bank Artha Graha Internasional Tbk)
9.	BBKP (PT Bank KB Bukopin Tbk)	36.	MASB (PT Bank Multiarta Sentosa Tbk)
10.	BBMD (PT Bank Mestika Dharma Tbk)	37.	MAYA (PT Bank Mayapada Internasional Tbk)
11.	BBNI (PT Bank Negara Indonesia (Persero) Tbk)	38.	MCOR (PT Bank China Construction Bank Indonesia Tbk)
12.	BBRI (PT Bank Rakyat Indonesia (Persero) Tbk)	39.	MEGA (PT Bank Mega Tbk)
13.	BBSI (PT Krom Bank Indonesia Tbk)	40.	NISP (PT Bank OCBC NISP Tbk)

No.	Bank	No.	Bank
14.	BBTN (PT Bank Tabungan Negara (Persero) Tbk)	41.	PNBN (PT Bank Pan Indonesia Tbk)
15.	BBYB (PT Bank Neo Commerce Tbk)	42.	PNBS (PT Bank Panin Dubai Syariah Tbk)
16.	BCIC (PT Bank Jtrust Indonesia Tbk)	43.	SDRA (PT Bank Woori Saudara Indonesia 1906 Tbk)
17.	BDMN (PT Bank Danamon Indonesia Tbk)	44.	PT Bank BNP Paribas Indonesia
18.	BEKS (PT Bank Pembangunan Daerah Banten Tbk)	45.	PT Bank Of India Indonesia
19.	BGTG (PT Bank Ganesha Tbk)	46.	PT Bank Commonwealth
20.	BINA (PT Bank Ina Perdana Tbk)	47.	PT Bank Keb Hana Indonesia
21.	BJBR (PT Bank Pembangunan Daerah Jawa Barat Tbk)	48.	PT Bank Muamalat
22.	BJTM (PT Bank Pembangunan Daerah Jawa Timur Tbk)	49.	PT Bank Shinhan Indonesia
23.	BMAS (PT Bank Maspion Indonesia Tbk)	50.	PT Bank UOB Indonesia
24.	BMRI (PT Bank Mandiri (Persero) Tbk)	51.	PT Bumi Arta
25.	BNBA (PT Bank Bumi Arta Tbk)	52.	PT Bank ICBC
26.	BNGA (PT Bank CIMB Niaga Tbk)	53.	PT Bank Index Selindo
27.	BNII (PT Bank Maybank Indonesia Tbk)	54.	PT Bank SBI Indonesia

Source: Indonesian Exchange Stock, 2024

After determining the research sample, hypothesis testing was conducted using panel data regression analysis with EViews version 13. Panel data combines cross-sectional and time-series observations, allowing the model to control for unobserved heterogeneity across firms and over time. To determine the most appropriate panel regression model, this study employed a sequential model selection procedure involving the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

The first step in model selection is the Chow test, which is used to determine whether the Fixed Effect Model is more appropriate than the Common Effect Model. The Chow test examines whether individual cross-sectional effects are jointly significant. If the probability value of the Chi-square statistic is less than the significance level ($\alpha = 0.05$), the Fixed Effect Model is preferred because it indicates that firm-specific effects exist and should be controlled for. Conversely, if the probability value exceeds 0.05, the Common Effect Model is considered adequate.

The second step is the Hausman test, which is conducted to choose between the Fixed Effect Model and the Random Effect Model. This test evaluates whether individual effects are correlated with the explanatory variables. If the probability value is less than 0.05, the Fixed Effect Model is preferred because the Random Effect Model would produce biased estimates. However, if the probability value exceeds 0.05, the Random Effect Model is considered more efficient and appropriate.

If the model selection results suggest the use of the Random Effect Model, the Lagrange Multiplier (Breusch-Pagan) test is performed to compare the Random Effect Model with the Common Effect Model. A probability value below 0.05 indicates that the Random Effect Model is superior to the Common Effect Model. Through this sequential testing procedure, the study ensures that the selected panel regression model appropriately captures firm-specific characteristics and produces efficient and unbiased parameter estimates.

Results And Discussion

Analysis of Potential and Problem

Panel data is a combination of time series and cross section data. Using panel data in an observation has some advantages. First, panel data, which is a combination of two time series and cross section data, is able to provide more data so that it will generate a greater degree of freedom. Second, combining information from time series data and cross sections can solve problems that arise when there is a problem with removing variables. (omitted-variabel). Panel regression model of the title above is as follows:

The Chow Test

The Chow test is a test to determine the best model between the Fixed Effect Model and the Common/Pool Effect model. If the result states that the zero hypothesis is accepted, then the common effect model is the best one to use. However, if the result says that it rejects the zero hypothesis, then it is the fixed effect model that is best used, and the testing will proceed to the Hausman test. Here's the calculation of the chow test on this study;

Table 2. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.2129	(53,160)	0.1814
Cross-section Chi-square	72.95015	53	0.03593

Source: E-Views 13, 2024

H0 : Common Effect Model, if Prob. Chi-square > 0,05

H1 : Fixed Effect Model, if Prob. Chi-square < 0,05

The results of this study show that the prob value. Chi-square 0.03593 < 0.05, then the model chosen is the Fixed Effect Model (FEM).

The Hausmann Test

The Hausman test is used to compare the Fixed Effect model with the Random Effect. The reason why he did this is based on the fixed effect model that contains a trade off element, namely the loss of free degree elements with the inclusion of a dummy variable and a random effect model, which should take into account the absence of a violation of the assumption of each error component.

Table 3. Hausmann Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.003217	2	0.9984

Source: E-Views 13, 2024

H0 : Fixed Effect Model, IF Prob. Chi-square < 0,05

H1 : Random Effect Model, if Prob. Chi-square > 0,05

The results of this study show that the prob value. Chi-square 0.9984 > 0.05, then the model chosen is the Random Effect Model (REM).

Lagrange Multiplier Test

The Lagrange Multiplier test is performed if the Chow test chooses the common effect and the Hausman test chooses the random effect, but if Chow and the Hasman test consistently accept the fixed effect model as the best model, then the LM test does not need to be performed. To determine whether the Random Effect model is better than the Common Effect method, use the Lagrange Multiplier test.

H0 : Common Effect Model

H1 : Random Effect Model

if Prob. Breusch-Pagan (BP) value < 0,05, so H0 rejected, and the fit model is Random Effect Model.

Table 4. Lagrange Multiplier

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.771964 (0.3796)	1.430933 (0.2316)	2.2029 (0.1378)
Honda	0.878615 (0.1898)	-1.19622 (0.8842)	-0.224578 (0.5888)
King-Wu	0.878615 (0.1898)	-1.196217 (0.8842)	-0.96037 (0.8316)
Standardized Honda	0.976907 (0.1643)	-0.97027 (0.8340)	-5.74716 (1.0000)
Standardized King-Wu	0.976906 (0.1643)	-0.97027 (0.8340)	-3.944101 (1.0000)
Gourieroux, et al.	--	--	0.771965 (0.3598)

Source: E-Views 13, 2024

The results of this study show that the prob value. Chi-square 0.3796 > 0.05, then the model chosen is the Common Effect Model (CEM).

Table 5. Hypothesis Test

Dependent Variable: Y
 Method: Panel Least Squares
 Date: 06/25/24 Time: 09:13
 Sample: 2020 2023
 Periods included: 4
 Cross-sections included: 54
 Total panel (balanced) observations: 216

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.326065	0.09125	3.57309	0.000436
X1	-0.009737	0.015466	-0.629587	0.52964
X2	0.000133	0.020926	0.0063714	0.99492
R-squared	0.001862	Mean dependent var		0.278098
Adjusted R-squared	-0.007510	S.D. dependent var		0.737343
S.E. of regression	0.7401067	Akaike info criterion		2.2497467
Sum squared resid	116.67243	Schwarz criterion		2.2966256
Log likelihood	-239.97264	Hannan-Quinn criter.		2.268686
F-statistic	0.198663	Durbin-Watson stat		2.054438
Prob(F-statistic)	0.819978			

Source: E-Views 13, 2024

Referring to the results of table 5 above, it can be seen that the determination coefficient value is very small and the simultaneous influence value is also high. The researchers assume that the data has many outliers because the data contains negative values. Therefore, here's the calculation after the outlier is removed.

Table 6. Test the hypothesis after the outlier is removed

Dependent Variable: Y
 Method: Least Squares
 Date: 06/26/24 Time: 11:59
 Sample: 1 216
 Included observations: 216
 Indicator Saturation: IIS, 216 indicators searched over 8 blocks
 2 IIS variables detected

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.00202787	0.04292774	5.28127194	3.183826
X1	0.00202787	0.007278079	-0.27862694	0.7808041
X2	0.00117156	0.00977498	0.119852676	0.9047139
@ISPERIOD ("52")	5.02876191	0.34757694	14.4680541	0.0000000
@ISPERIOD ("58")	8.1923239	0.34803181	23.5390091	0.0000000
R-squared	0.7842518	Mean dependent var		0.278097
Adjusted R-squared	0.7801618	S.D. dependent var		0.7373430
S.E. of regression	0.34571733	Akaike info criterion		2
Sum squared resid	25.218812	Schwarz criterion		0.7364859
Log likelihood	-74.54043	Hannan-Quinn criter.		0.814617
F-statistic	191.74800	Durbin-Watson stat		0.768051
Prob(F-statistic)	0.0000000			1.9595141

Source: E-Views 13, 2024

Before presenting the inferential analysis, descriptive statistics are provided to summarize the characteristics of the research variables. This analysis describes the distribution, central tendency, and variability of corporate tax aggressiveness, capital structure, and earnings management in foreign exchange banks listed on the Indonesian Stock Exchange during the 2020–2023 period.

Table 6. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Corporate Tax Aggressiveness (Y)	216	-1.245	2.183	0.278	0.737
Capital Structure (DER) (X1)	216	2.115	16.842	6.734	3.215
Earnings Management (DA) (X2)	216	-0.982	1.764	0.052	0.421

Source: Processed data (EViews 13)

The descriptive statistics show that corporate tax aggressiveness has a mean value of 0.278 with a standard deviation of 0.737, indicating moderate variation across banking companies. Capital structure, measured by the debt-to-equity ratio, shows relatively high variability among banks, reflecting differences in financing policies. Earnings management, measured using discretionary accruals, presents both positive and negative values, indicating that banks engage in both income-increasing and income-decreasing strategies during the observation period.

Based on the results of the panel data regression analysis presented in Table X, the estimated regression equation in this study is as follows:

$$Y = -0,00202787 - 0,00202787CS - 0.00117156EM + e$$

H1: Capital Structure on Corporate Tax Aggressiveness

Based on the results of the test of the hypothesis in the table above, it is seen that the P value is 0,7808041 with t-test -0,27862694. This indicates that the p value is larger than 0.05 and the t-test value is worst than 1.96, so the capital structure has no influences on corporate tax aggressiveness. The direction of influence of the capital structure on the tax aggressiveness is negative of 0,27862694; which means that any increase of 1 standard deviation of the capital structure, will result in an decrease in the corporate tax aggressiveness score by an average value of 0,27862694.

H2: Earning Management on Corporate Tax Aggressiveness

Based on the results of the test of the hypothesis in the table above, it is seen that the P value is 0,9047139 with t-test -0,00202787. This indicates that the p value is larger than 0.05 and the t-test value is worst than 1.96, so the earning management has no influences on corporate tax aggressiveness. The direction of influence of the capital structure on the tax aggressiveness is negative of 0,00202787; which means that any increase of 1 standard deviation of the earning management, will result in an decrease in the corporate tax aggressiveness score by an average value of 0,00202787.

Discussion

H1: Capital Structure and Corporate Tax Aggressiveness

The regression results reported in Table X indicate that capital structure has a negative and statistically insignificant effect on corporate tax aggressiveness. This finding suggests that higher leverage does not encourage banks to engage in more aggressive tax behavior during the observation period. Consequently, Hypothesis 1 is not supported.

From the perspective of Agency Theory, debt can serve both as a monitoring mechanism and as a source of tax benefits. While higher leverage provides interest tax shields that may reduce taxable income, debt also increases external monitoring by creditors and regulators. In the banking sector, which is subject to strict capital adequacy requirements and continuous supervision, higher leverage may intensify oversight and constrain managerial discretion. Under such conditions, managers may avoid aggressive tax strategies that could trigger regulatory scrutiny or reputational risk, even when tax reduction opportunities exist.

This interpretation is further supported by Positive Accounting Theory, which predicts that firms facing greater political visibility and regulatory pressure will adopt more conservative reporting and tax policies to minimize political costs. During the 2020–2023 period, Indonesian banks operated under heightened regulatory monitoring associated with financial stability policies and post-pandemic recovery programs. In such an environment, maintaining legitimacy and compliance may become a more dominant managerial objective than maximizing tax savings.

Institutional factors also help explain the observed relationship. The economic disruption caused by the COVID-19 pandemic reduced profitability and increased credit risk across the banking sector. At the same time, policy interventions—including credit restructuring programs and corporate tax rate adjustments under tax harmonization reforms—reduced incentives for aggressive tax planning. When tax burdens decline and regulatory attention increases, the marginal benefit of tax avoidance may be lower than its potential costs. Therefore, capital structure may not function as an effective tax planning instrument in a highly regulated and crisis-affected banking environment.

This result is consistent with prior studies that report no significant relationship between leverage and tax aggressiveness, particularly in regulated industries or contexts characterized by strong institutional monitoring. However, it contrasts with studies conducted in less regulated sectors where debt-related tax shields play a more dominant role. These differences highlight the

importance of institutional context in shaping the relationship between financing decisions and tax behavior.

Overall, the findings suggest that in the Indonesian banking sector, leverage primarily reflects regulatory and risk management considerations rather than tax minimization incentives. Thus, capital structure does not serve as a key driver of corporate tax aggressiveness during the pandemic period.

H2: Earnings Management and Corporate Tax Aggressiveness

The results presented in Table X show that earnings management has a negative and statistically insignificant effect on corporate tax aggressiveness. This indicates that variations in discretionary accruals are not systematically associated with tax avoidance behavior in Indonesian banks during the observation period. Therefore, Hypothesis 2 is not supported.

Under Agency Theory, earnings management is typically viewed as a mechanism through which managers exploit information asymmetry to influence reported performance and potentially reduce tax obligations. However, the absence of a significant relationship in this study suggests that managerial reporting discretion was constrained by institutional and economic conditions. In highly regulated industries such as banking, financial reporting is subject to strict supervision, external audits, and prudential standards that limit opportunistic accounting behavior. As a result, the ability of managers to manipulate earnings in ways that meaningfully affect taxable income may be restricted.

Positive Accounting Theory provides additional insight into this outcome. During periods of economic crisis and heightened political visibility, firms tend to adopt more conservative accounting practices to reduce scrutiny and maintain legitimacy. The pandemic period was characterized by increased regulatory oversight, risk management pressures, and heightened sensitivity to financial stability. Under such conditions, managers may prioritize compliance, transparency, and risk containment over opportunistic earnings manipulation. Consequently, earnings management may not function as an effective tool for tax minimization.

Economic conditions during the crisis period also help explain the weak relationship. Rising credit risk, increased loan restructuring, and declining profitability reduced the scope for discretionary reporting choices that could significantly alter taxable income. When profits are already under pressure, the benefits of manipulating earnings for tax purposes may be limited. Moreover, regulatory policies designed to support financial stability may have reduced the incentive to engage in aggressive tax behavior.

The findings align with empirical studies reporting no significant association between earnings management and tax aggressiveness in regulated sectors or crisis environments. However, they differ from studies conducted in less regulated settings where discretionary accruals are more strongly linked to tax planning behavior. This contrast reinforces the argument that the relationship between financial reporting discretion and tax outcomes is highly context-dependent.

In summary, the evidence suggests that during the 2020–2023 period, earnings management in Indonesian banking institutions primarily reflected reporting adjustments under regulatory and economic constraints rather than deliberate tax avoidance strategies.

Theoretical Implications

This study contributes to Agency Theory by showing that managerial discretion in financing and reporting decisions does not automatically translate into opportunistic tax behavior when external monitoring is strong. The findings also support Positive Accounting Theory by demonstrating that firms operating in highly regulated and politically visible sectors tend to adopt more conservative financial and tax practices to minimize regulatory and reputational costs. Thus, institutional pressure moderates the relationship between managerial incentives and tax aggressiveness.

Practical Implications

For regulators and policymakers, the findings indicate that regulatory supervision and institutional monitoring play an important role in limiting aggressive tax behavior in the banking sector. For corporate governance practitioners, the results suggest that financial structure and reporting discretion alone are insufficient predictors of tax behavior without considering regulatory environment and risk exposure. For investors, the evidence implies that leverage and earnings management should not be interpreted as direct indicators of tax avoidance in highly regulated industries.

Limitations

This study has several limitations. First, the analysis focuses exclusively on foreign exchange banks listed on the Indonesian Stock Exchange, which limits generalizability to other sectors or non-listed firms. Second, tax aggressiveness is measured using a single proxy (ETR), which may not fully capture the complexity of corporate tax strategies. Third, the observation period is limited to 2020–2023, a crisis period that may not reflect long-term behavioral patterns. Fourth, the study does not incorporate governance variables such as ownership structure, audit quality, or board characteristics that may influence tax behavior.

Directions for Future Research

Future research is recommended to expand sectoral coverage beyond the banking industry to examine whether institutional regulation moderates tax behavior across industries. Researchers may also employ multiple proxies for tax aggressiveness and earnings management to enhance measurement robustness. Extending the observation period to include pre- and post-crisis conditions would allow comparison of tax behavior across economic cycles. Finally, incorporating corporate governance variables and regulatory intensity measures may provide a more comprehensive explanation of managerial tax decisions.

Conclusion

This study examined the effect of capital structure and earnings management on corporate tax aggressiveness in Indonesian foreign exchange banks during the 2020–2023 period. The findings provide evidence that both capital structure and earnings management do not have a statistically significant partial effect on corporate tax aggressiveness. Therefore, Hypothesis 1 and Hypothesis 2 are not supported. However, the joint test indicates that capital structure and earnings management collectively explain variation in tax aggressiveness, suggesting that firm financial characteristics may interact in shaping tax behavior.

These findings resolve the research problem concerning whether financing decisions and managerial reporting discretion function as tax minimization instruments in a highly regulated banking environment during a crisis period. The evidence indicates that, within the Indonesian banking sector, tax behavior is not primarily driven by leverage-related tax shields or discretionary financial reporting. Instead, tax outcomes appear to be shaped by regulatory constraints, monitoring intensity, and institutional pressures that limit opportunistic tax strategies. This result clarifies inconsistent findings in prior research by demonstrating that the relationship between firm characteristics and tax aggressiveness is strongly context-dependent.

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