Available online at
https://mar.uitm.edu.my/index.php

e-ISSN: 2550-1895

Management And Accounting Review 25 (2) 2026, 526-542

Management And Accounting Review

Unmasking Tax Aggressiveness in Indonesian Banking: The Mediating Role of Earnings Management

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ARTICLE INFO

Article history:
Received 9 September 2025
Revised 9 July 2026
Accepted 21 July 2026
Published 1 August 2026

Keywords:
Firm Size
Profitability
Tax Aggresiveness
Earning Management
Governance

DOI:
10.24191/MAR.V25i02-11

ABSTRACT

The purpose of this research was to determine the impact of the firm size and profitability on the level of tax aggressiveness using the mediation of earnings management in the banking sector in Indonesia. The research was prompted by concerns about the rising levels of aggressive tax practices and the significance of financial governance for transparency and sustainable economic development. Using the Agency Theory and the Legitimacy Theory as theoretical frameworks, this study analyzed the effects of firm characteristics on tax behavior through managerial discretion in financial reporting. A quantitative research design was used with secondary data obtained from the banking firms listed on Indonesia Stock Exchange (IDX) from 2019 to 2023. The final sample was 169 firm-year observations which were analyzed using PLS-SEM. As a result, it was concluded that profitability positively impacted both earnings management and tax aggressiveness. In turn, earnings management significantly affected tax aggressiveness and served as a mediator between firm characteristics and tax behavior. Firm size, in turn, did not affect the level of tax aggressiveness, but it significantly impacted it indirectly through earnings management. The findings of the study help to add to the literature in the areas of tax aggressiveness, earnings management, and corporate governance. The findings of the study also have some practical implications for the regulation and policymaking authorities and financial institutions for developing robust governance systems and avoiding tax aggressiveness strategies.

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1. INTRODUCTION

Empirical research shows the positive relationship between firm size and profitability on one hand, and earnings management on the other hand, which then affects tax aggressiveness. These relationships, even being rather weak, are still statistically significant. It shows that the tax policy of corporations is a very complex area. These findings are especially relevant for the Indonesian banking industry because large and profitable firms have much greater potential to manipulate their earnings and tax policies, making proper supervision and financial governance extremely important (Handoyo & Putri, 2022; Hussain et al., 2020; Blaufus et al., 2023).

The development of digital banking after the pandemic had created the need for adaptive and technology-based supervision even more important. The actions taken by the Otoritas Jasa Keuangan **(**OJK) during the pandemic has shown how important it is to have flexible and effective governance mechanisms in order to maintain financial stability and integrity. This makes tax aggressiveness and earnings management very important area, which need to be supervised, in the current situation. Risk-based supervision (RBS) has become especially crucial in this situation due to the rapid development of digital finance and sustainable economic governance in the emerging economy of Indonesia.

The literature shows that the banking industry is particularly susceptible to earnings management activities (Das & Mallick, 2014). Organizations adopting aggressive tax policies tend to engage in manipulation of accounting data for attaining financial goals (Pereira et al., 2023; Sucahyo et al., 2020). Large and profit-making organizations have better capabilities and incentives to pursue complex tax management and earnings smoothing strategies but regulations may curtail such activities (Blaufus et al., 2023; Martins & Sule, 2024). High-profitability firms are found to be aggressive in terms of tax payments (Martins & Sule, 2024; Sucahyo et al., 2020); however, some literature suggests that even unprofitable firms engage in earnings management practices to indicate their better performance (Handoyo & Putri, 2022). Earnings management plays an important role as a mediator between organizational characteristics and tax aggressiveness. Firms pursuing aggressive tax management policies usually try to manage their earnings in order to meet the expectations of various stakeholders, but the level of such practices would depend upon good governance, market discipline, and regulation (Utami & Amelia, 2024; Hussain et al., 2020; Handoyo & Kusumaningrum, 2022).

However, despite considerable amount of research on the topic of tax aggressiveness, there still exist several research gaps. Firstly, previous research has mainly focused on the direct impact of firm size and profitability on tax aggressiveness without much consideration of the mediating effect of earnings management, especially in the banking sector. Secondly, empirical results of the effects of firm size and profitability on tax aggressiveness remain controversial. Finally, there is limited evidence on how the changing regulatory framework of Indonesia's financial system, especially under Otoritas Jasa Keuangan (OJK), affects the connection between earnings management and tax aggressiveness.

The uniqueness of this research can be seen in developing an integrative framework for examining the interplay between firm size, profitability, earnings management, and tax aggressiveness under Indonesia's current financial regulation framework in the banking sector. In contrast to previous research, which is mainly focused on the direct relationships, this research considered the mediating effect of earnings

https://doi.org/10.24191/MAR.V25i02-11

management and the institutional environment of Indonesia's post-pandemic financial regulatory framework. Consequently, the present research makes a contribution to the Agency and Legitimacy Theories through empirical evidence from the banking sector of an emerging economy.

These gaps were examined in this research through which the study was conducted on the listed Indonesian banks. The contributions of the results in terms of theory include the advancement of the Agency Theory and the Legitimacy Theory while, practically, the contribution of the findings is of great value to regulatory authorities, tax authorities, and banks. It has been proven that proper supervision, strong corporate governance, and flexible digital supervision are critical in improving transparency and reducing financial aggression in Indonesia.

2. LITERATURE REVIEW

2.1 The Agency Theory

The Agency Theory (Jensen & Meckling, 1976) addresses the conflict of interests between shareholders (principals) and managers (agents). In the presence of compensation of managers and their career progression based on financial outcomes, managers can manage their earnings for personal gains. Prior studies have found that managerial discretion, overconfidence, and agency issues play a significant role in earnings management and tax aggressiveness (Utami & Amelia, 2024; Carrer & Slavov, 2021; Leal et al., 2023; Habib et al., 2022). Thus, managerial opportunism is an important source of financial and governance issues.

2.2 Tax Aggressivenes

Tax aggressiveness is the term used for describing tax-related tactics adopted by businesses to cut down on taxes owed legally. Earlier research has established the positive relationship between firm size, managerial skills, and discretionary power, and tax aggressiveness (Sucahyo et al., 2020; Prawira & Sandria, 2021; Martins & Júnior, 2020). Additionally, aggressive tax management could add value to shareholders but there are concerns about governance and regulation related to it (Kesumaningrum et al., 2024). The above points show how necessary it is for good governance practices to control tax practices. For measuring tax aggressiveness in this research, the Effective Tax Rate (ETR) was considered, which can be computed as a ratio of income tax expense to profit before tax. The lower ETR indicates high tax aggressiveness since it means that firms are capable of cutting their taxes owing to some strategies of tax planning. That is why in the research, tax aggressiveness was inversely linked to ETR value.

$$ETR = \text{Income Tax Expense} / \text{Profit Before Tax} \quad (1)$$

2.3 Earning Management

Earnings management is defined as the manipulation of financial reporting for the purpose of achieving some objective. Previous research has shown that managerial incentives and governance play an important role in earnings management (Dwiarti et al., 2022; Paino & Iskandar, 2021; Rahayu, 2024). Despite the fact that IFRS implementation has been beneficial to Indonesia, there may still be areas within regulatory provisions where managers can manipulate accounting numbers, especially within the banking industry (Handoyo & Putri, 2022). Earnings management in this research was measured by means of discretionary accruals which were calculated from the Modified Jones Model. The following are the equations and flow of earning management in the Modified Jones Model (Dechow et al., 1995).

a. Calculating Total Accruals (TAC) is shown in the following formula:

$$TACit = Nit - CFOit \tag{2}$$

Where:

$TACit$ = Total Accruals of company i in period year t

Nit = Net Profit of company i in period year t

$CFOit$ = Cash Flow from operating activities of company i in period year t

b. Calculate Total Accruals (TAC) using Ordinary Least Squares (OLS) to obtain the regression coefficients shown in the following formula.

$$TACi,t = \alpha 1(Ai,t-11) + \alpha 2(Ai,t-1\Delta REVi,t-\Delta RECi,t) + \alpha 3(Ai,t-1PPEi,t) + \varepsilon i,t \tag{3}$$

Note:

$TACit$ = Total Accrual of company i in period year t

$Ait{-}1$ = Total Assets of company i in period year t-1

$\Delta REVit$ = Company i's revenue in year t minus company i's revenue in year t-1

$PPEit$ = Total tangible assets of company i in year t

$\beta 1$, $\beta 2$, $\beta 3$ = Parameters obtained from the regression equation

c. Calculating non-discretionary accruals (NDA) is shown in the following formula:

$$\text{NDAi,t}=\beta 1(\text{Ai,t}-11)+\beta 2(\text{Ai,t}-1\Delta\text{REVi,t}-\Delta\text{RECi,t})+\beta 3(\text{Ai,t}-1\text{PPEi,t}) \tag{4}$$

Description:

$NDAit$ = non-discretionary accruals of company i in year t

$Ait{-}1$ = Total assets of company i in year t-1

$\Delta REVit$ = Revenue of company i in year t minus revenue of company i in year t-1

$\Delta RECit$ = Accounts receivable of company i in year t minus revenue of company i in year t-1

$PPEit$ = Total tangible assets of company i in year t

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$\beta 1, \beta 2, \beta 3$ = Parameters obtained from the equation Regression

d. Calculating Discretionary Accruals (DA)

$$DAi,t = (Ai,t - 1TACi,t) - NDAi,t \quad (5)$$

Description:

$DAit$ = discretionary accruals of company i in period year t

$TACit$ = Total Accruals of company i in period year t

$Ait{-}1$ = Total Assets of company i in period year t-1

$NDAit$ = non-discretionary accruals of company i in period year t

2.4 Firm Size

Size of a firm is important in financial reporting and taxation planning because larger firms have the capacity to use complicated tax planning. According to Sucahyo et al. (2020), and Prawira & Sandria (2021), big firms have access to experts who can help them plan and manage their finances and taxes in an effective manner. As stated by Martins & Júnior (2020), size of a firm is combined with leverage and profitability to create greater opportunities for tax planning. Blaufus et al. (2023) explained that larger investment in legal and finance capacity creates greater strategic opportunities. In this regard, size is crucial due to the regulation of Indonesian OJK in relation to large banks.

$$\text{Size} = \text{Ln (Total Asset)} \quad (6)$$

2.5 Profitability

Return on Asset (ROA) or Return on Equity (ROE) are common indicators for evaluating the profitability of a company, which serves as an indicator of its financial condition and is a stimulus for tax planning in order to keep the level of net income high. It was revealed in literature that profitable companies use tax planning approaches actively (Prawira & Sandria, 2021; Hussain et al., 2020; Sucahyo et al., 2020). According to Leal et al. (2023), earnings sustainability is prioritized over paying more taxes by firms. However, profitability makes firms vulnerable to regulators and auditors.

$$\text{ROA} = \text{Net Income/Total Asset} \times 100\% \quad (7)$$

2.6 Conceptual Framework

In this study, the theoretical framework connected the independent variables of company size and profitability to the dependent variable of tax aggressiveness through the mediating effect of earnings management, taking into account the governance context influenced by the financial regulation system of Indonesia, specifically Otoritas Jasa Keuangan (OJK) supervision.

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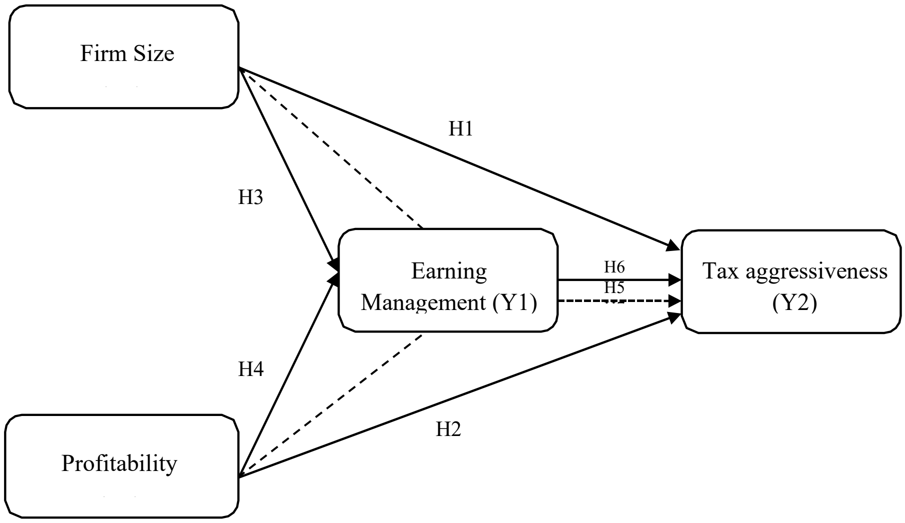

Figure 1. Conceptual Framework

Source: Author (2026)

The model considered that bigger and more profitable banks have greater opportunities for earnings management to decrease their taxes, hence the chances of tax aggressiveness are also higher. However, the role of effective financial governance was assumed to mitigate such practices and make them consistent with sustainable economic objectives.

2.7 Hypotheses

On the basis of theoretical foundations and empirical researches carried out previously, the following hypotheses were formulated:

H1: Firm size has a positive effect on earnings management.

H2: Profitability has a positive effect on earnings management.

H3: Earnings management has a positive effect on tax aggressiveness.

H4: Firm size has a positive effect on tax aggressiveness.

H5: Profitability has a positive effect on tax aggressiveness.

H6: Earnings management mediates the relationship between firm size and tax aggressiveness.

H7: Earnings management mediates the relationship between profitability and tax aggressiveness

3. METHODOLOGY

3.1 Research Design and Data Source

This study utilized a quantitative research methodology with secondary data sourced from audited financial statements and annual reports of banks traded on the Indonesia Stock Exchange (IDX) from 2019 to 2023. This choice of banks was prompted by their importance in generating tax revenues as well as stabilizing Indonesia's macroeconomic environment through their intermediation and governance roles. Data was gathered from the official website of the IDX (www.idx.co.id) and supplemented with appropriate references and literature.

3.2 Population and Sampling Technique

The population included all the banks traded on the IDX between 2019 and 2023, which amounted to 47 firms. A purposive sampling technique was used to select the sample for the study based on the following criteria:

a. The banks must have been consistently traded on the IDX throughout the entire observation period.
b. The availability of complete and easily accessible financial and annual reports.
c. The reporting is done in Indonesian Rupiah (IDR).
d. The banks did not have any net loss throughout the observation period.

Table 1. Sample Selection Results

No	Criteria	2019	2020	2021	2022	2023
1	Number of registered companies	43	45	47	47	47
2	Number of companies that did not present financial reports and annual reports	(0)	(0)	(0)	(0)	(0)
3	Number of companies that didnot present financial reports and annual reports in rupiah	(0)	(0)	(0)	(0)	(0)
4	Number of companies that experienced losses	(9)	(8)	(14)	(15)	(14)
	Total sample per year	34	37	33	32	33
	Total sample overall			169		

Source: Data Processed by Researchers (2024)

Based on these criteria, 169 observations of firm-year were taken as the sample.

3.3 Variables and Measurement

Table 2. Variables and Measurement

Variable	Measurement	Source
Tax Aggressiveness (TA)	Measured using the Effective Tax Rate (ETR), calculated as total tax expense divided by pre-tax accounting income.	Hanlon and Heitzman (2010)
Earnings Management (EM)	Proxied by discretionary accruals using the Modified Jones Model.	Dechow et al. (1995)
Firm Size (SIZE)	Natural logarithm of total assets.	Hanlon and Heitzman (2010); Richardson and Lanis (2007)
Profitability (PROF)	Return on Assets (ROA), calculated as net income divided by total assets.	Lanis and Richardson (2012)

Source: Data Processed by Researchers (2024)

3.4 Data Collection Method

The process of data gathering was done using the documentation approach, which entailed systematic extraction of quantitative data from annual and financial reports. Documentation was chosen as the method to use in order to obtain the financial information needed for the study.

3.5 Analytical Method

The research used Partial Least Squares Structural Equation Modelling (PLS-SEM) and SmartPLS to investigate both direct and mediating relationships between the observed variables. This method was chosen due to its applicability in predicting analysis and mediation tests in samples of small sizes. Analysis of data was conducted in three stages, which included: (1) Outer model evaluation for verification of measurement validity and reliability, based on Average Variance Extracted (AVE > 0.5), discriminant validity using Fornell-Larcker criterion and cross-loading, as well as reliability using Cronbach's Alpha and Composite Reliability ($\geq$ 0.7); (2) Inner model evaluation to confirm the predictive power by calculating R^2 for explained variance, Q^2 for predictive relevance and f^2 for effect size; and (3) Hypothesis testing using bootstrapping with 5,000 resamples, where significance of path coefficients was confirmed if $t > 1.96$ and $p < 0.05$ (two-tailed), together with an indirect effect test that showed whether there was earnings management mediation in the relationship between firm size, profitability and tax aggressiveness.

https://doi.org/10.24191/MAR.V25i02-11

4. RESULT AND DISCUSSION

4.1 Data Description

Table 4. Descriptive Statistics Test Results

Name	Mean	Observed min	Observed max	Standard deviation
Firm Size	32.724	27.984	37.849	2.179
Profitability	0.029	0.000	2.116	0.165
Earning Management	-0.007	-2.385	3.487	0.42
Tax Aggressiveness	0.308	0.003	8.418	0.639

Source: Data Processed by Researchers (2024)

Table 4 describes the descriptive statistics of the four important variables: Firm Size, Profitability, Earnings Management, and Tax Aggressiveness derived from the audited financial reports of Indonesian banks listed on Indonesia Stock Exchange (IDX) during 2019-2023. The Firm Size with an average value of 32.724 and low standard deviation (2.179) suggested homogeneity of assets among banks due to the rigorous capital adequacy regulations of Indonesia. The Profitability is 0.029, ranged between 0 and 2.116 with the standard deviation of 0.165 which signified the consistency of profit levels among most banks although some outliers had very high profits.

However, Earnings Management had the mean of –0.007, varying widely (–2.385 to 3.487) with the standard deviation of 0.420 indicating considerable heterogeneity in managing the earnings of Indonesian banks. Tax Aggressiveness was 0.308, ranging between 0.003 and 8.418 (SD=0.639). Thus, there was some level of heterogeneity regarding the strategy of tax management.

4.2 Collinearity Assessment

In order to make sure that the multicollinearity issue did not influence the estimation results, the VIF values were checked. As Hair et al. (2021) stated, the VIF values less than 5 meant no serious collinearity issues.

Table 5. Collinearity Assessment Results

Variable	VIF
Firm Size	1.783
Profitability	2.102
Earnings Management	2.674

Source: Data Processed by Researchers (2024)

This implied that the VIF values were all less than the suggested value of 5.0, hence the lack of multicollinearity in the study. Thus, the structural model was analyzed with confidence.

4.3 Model Fit Assessment

For assessing the model fit of the PLS-SEM model, Standardized Root Mean Square Residual (SRMR) and Normed Fit Index (NFI) were used. Hair et al. (2021) recommended that SRMR values should be less than 0.08 while NFI values more than 0.90.

Table 6. Model Fit Assessment Results

Model Fit Index	Value	Recommended Threshold
SRMR	0.071	< 0.080
NFI	0.913	> 0.900

Source: Data Processed by Researchers (2024)

The results showed that the suggested model had an acceptable fit. The value of SRMR (0.071) was less than the acceptable level of 0.08, whereas the value of NFI exceeded 0.90, which implied that the structural model captured the relationships between the variables quite well.

4.4 Determination Coefficient Test

Table 7. Results of the Determination Coefficient Test

	R-square	R-square adjusted
Tax Aggressiveness	0.931	0.930
Earning Management	0.722	0.719

Source: Data Processed by Researchers (2024)

This model accounted for 93 % of the variation in Tax Aggressiveness and 71.9 % of the variation in Earnings Management, as evident from the adjusted R^2 values. The small difference between R^2 and adjusted R^2 indicated that there was no overfitting in the model, and the two variables of Profitability and Firm Size hadan important role in determining tax aggressiveness via earnings management.

4.5 Predictive Relevance Test Results

Table 8. Predictive Relevance Test Results

	Q^2predict
Tax Aggressiveness	0.822
Earning Management	0.698

Source: Data Processed by Researchers (2024)

All values of Q²predict exceeded zero, showing a high predictive strength of the model out-of-sample. The Tax Aggressiveness was predicted best ($Q^2 = 0.822$) while the Earnings Management was predicted fairly well ($Q^2 = 0.698$).

4.6 Structural Model Evaluation

Table 9. Structural Model Evaluation

Relationship	Path Coefficient
Earnings Management → Tax Aggressiveness	1.282
Profitability → Tax Aggressiveness	0.858
Profitability → Earnings Management	2.400
Firm Size → Tax Aggressiveness	0.018
Firm Size → Earnings Management	0.172

Source: Data Processed by Researchers (2024)

Structural model evaluation was done through the analysis of the path coefficients between constructs. The analysis revealed that profitability had the highest influence on earnings management while earnings management had the second highest influence on tax aggressiveness. On the other hand, firm size had comparatively weak influences on tax aggressiveness. Thus, the findings showed that earnings management played a crucial role in connecting firm characteristics and tax aggressiveness of banks in Indonesia.

4.7 Hypothesis Test

The hypothesis was tested using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, which is appropriate for complicated, non-normally distributed data (Hair et al., 2019; Ghozali, 2021). Significant differences were calculated by bootstrapping with 5,000 samples; significance was established at $t > 1.96$ and $p < 0.05$.

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Table 10. Hypothesis Test Results

Path	O	STDEV	t-Stat	p-Value
Firm Size → Tax Aggressiveness	0.038	0.030	1.239	0.215
Profitability → Tax Aggressiveness	0.450	0.067	6.762	0.000
Firm Size → Earnings Management	0.219	0.087	2.520	0.012
Profitability → Earnings Management	0.817	0.047	17.261	0.000
Earnings Management → Tax Aggressiveness	0.565	0.065	8.745	0.000
Firm Size → Earnings Management → Tax Aggressiveness	0.124	0.056	2.199	0.028
Profitability → Earnings Management → Tax Aggressiveness	0.462	0.051	8.993	0.000

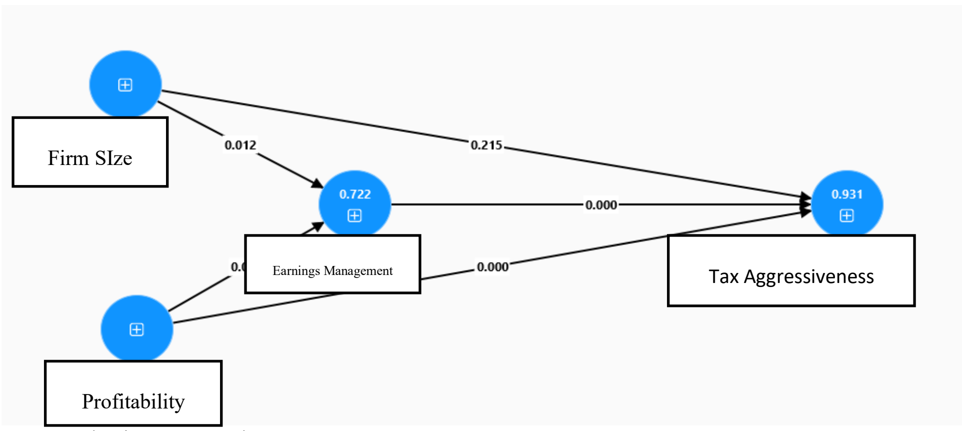

Fig 2. Hypothesis Test Results

It is found that Profitability played a vital role in affecting Tax Aggressiveness not only directly ($p = 0.000$) but also indirectly through Earnings Management ($p = 0.000$). It has been seen that Earnings Management played a strong role in predicting Tax Aggressiveness ($p = 0.000$). It has been seen that Firm Size had no direct impact on tax aggressiveness ($p = 0.215$) but had a significant impact on Earnings Management ($p = 0.012$).

https://doi.org/10.24191/MAR.V25i02-11

5. DISCUSSION

5.1 Company Size on Tax Aggressiveness

The empirical analysis revealed only an insignificant positive correlation between firm size and tax aggressiveness (path coefficient = 0.038; p = 0.215). Consequently, the larger the organization, the weaker the association between its size and tendency towards tax aggressiveness. Previous studies offered conflicting explanations to this issue. Although complicated structure and resources can be beneficial to reducing taxes for large organizations (Sucahyo et al., 2020), governance and ownership aspects can neutralize such tendencies (Carrer & Slavov, 2021; Kurniawan & Adrison, 2025). In a similar way, Blaufus et al. (2023) noted the limiting factors associated with reputation and compliance costs. It can be concluded that firm size by itself was not a decisive factor influencing tax aggressiveness. The study emphasized the necessity of using more comprehensive models, which takes into account not only governance, but also reputational pressure (Chen et al., 2020). This result has significant implications for Indonesian authorities, including the Otoritas Jasa Keuangan (OJK). It means that despite the complexity of financial structure and competent advisors, large organizations do not pose a high risk of tax avoidance. Thus, the supervision based on the risk should focus not on size, but on complexity and leverage.

5.2 Profitability on Tax Aggressiveness

Profitability exhibited a significant positive association with tax aggressiveness (path = 0.450; p < 0.001). Profitable companies had higher motives and capabilities to conduct tax minimization activities (O. S. Martins & Júnior, 2020; Prawira & Sandria, 2021). Additionally,the Resource-based View Theory corroborates such a process by stating that financially well-off companies are able to use advanced planning techniques (Sucahyo et al., 2020; Martins & Sule, 2024). In terms of regulation, high profitability, apart from being a sign of financial health, also posed an alarm on the possibility of companies using aggressive tax methods. The Otoritas Jasa Keuangan (OJK) is advised to increase its supervision of highly profitable companies especially in finance and banking through auditing and compliance measures.

5.3 Company Size on Earnings Management

Size had a positive and significant impact on earnings manipulation (path = 0.219; p = 0.012). Large firms may manipulate earnings to satisfy market demands or secure investments (Rahayu et al., 2024). However, the literature was not consistent in that some research found better corporate governance practices in larger firms that minimized manipulation (Farah Freihat et al., 2025). Hence, market conditions and governance practices become mediators of this relationship (Handoyo & Putri, 2022; Hussain et al., 2020). Due to their complexity, large firms in Indonesia need greater oversight. The OJK needs to improve corporate governance rules, audit committee independence, and internal control mechanisms.

5.4 Profitability on Earnings Management

The influence of profitability on earnings management was very strong (path = 0.817; p < 0.001). High profitability encouraged manipulation of financial reports in order to maintain the trust of investors or to achieve performance targets when bonuses are calculated based on the reported profits (Utami & Amelia, 2024; Rahayu, 2024; La Soa et al., 2025). Strong external audit and transparency were required to mitigate such tendencies.

5.5 Earning Management on Tax Aggressiveness

Earning management was highly associated with tax aggressiveness (path = 0.565; $p < 0.001$). Firms that engaged in earning management often used similar tactics for justifying their aggressive tax stance (Carrer & Slavov, 2021; Hussain et al., 2020). In other words, earning management can hide the actual tax base and allow more aggressive tax policy implementation. Therefore, OJK should regard earning management as an indicator of potential tax aggression.

5.6 Indirect Effects: Mediation by Earnings Management

In line with the findings from the mediation analysis, earnings management emerged as an important channel through which firm attributes impacted tax aggressiveness. The size attribute of a business had a small but indirect effect on tax aggressiveness via earnings management (path = 0.124; $p = 0.028$). Businesses tend to have sufficient capability for earnings manipulation during tax planning (Sucahyo et al., 2020), even if this effect was weak since good governance can override the incentive to engage in earnings manipulation (Blaufus et al., 2023). Profitability had a large indirect effect (path = 0.462; $p < 0.001$) on tax aggressiveness where high-profit businesses can manipulate their earnings to minimize taxes (Hussain et al., 2020; Pereira et al., 2023; Utami & Amelia, 2024). The implications from these findings are that earnings management is an important intermediary in the connection between financial outcomes and tax aggression, and regulations have to cover this issue as well.

6. CONCLUSION

The current study examined the impact of firm size and profitability on tax aggressiveness with the help of the mediating effect of earnings management in Indonesia-based banks listed on the Indonesia Stock Exchange between the years 2019 and 2023. It was found that profitability had a positive impact on earnings management and tax aggressiveness whereas earnings management had a positive impact on tax aggressiveness. Earnings management also worked as an intermediary factor between firm characteristics and corporate taxation behavior. While firm size did not have a direct impact on tax aggressiveness, it had a significant indirect impact via earnings management. This study extends the existing research framework in terms of the Agency Theory and the Legitimacy Theory in relation to the regulatory environment of financial sector in Indonesia and provided evidence that financial performance, managerial behavior, and regulatory environment had an interaction effect in shaping up the tax behavior of corporations operating in heavily regulated industry like banking. Practically, this study highlight the need for improving corporate governance structure, accounting transparency, and risk-based supervision. These findings, especially for regulatory authorities such as Indonesia's Financial Services Authority (OJK), underscored the need for flexible regulatory frameworks, improved surveillance, and better audit quality to retain trust and preserve the integrity of the financial system. However, since this study only used banks as the sample and a single indicator of tax aggressiveness, future research may consider adding more variables for governance and more indicators for tax aggressiveness to provide a more complete perspective on firms' tax and financial reporting behavior.

https://doi.org/10.24191/MAR.V25i02-11

7. ACKNOWLEDGEMENTS/FUNDING

The author would like to express sincere gratitude to Universitas Pendidikan Nasional (Undiknas), Denpasar, Indonesia, for providing institutional support, research facilities, and an academic environment that contributed to the successful completion of this research. The authors also appreciate the valuable support from the Faculty of Economics and Business, Universitas Pendidikan Nasional, throughout the research process. No external funding was received for this study.

8. CONFLICT OF INTEREST STATEMENT

The author declares that this research was conducted in the absence of any personal, commercial, or financial relationships that could be construed as a potential conflict of interest. The author further confirms that there are no competing interests associated with this study.

9. AUTHORS' CONTRIBUTIONS

Putu Putri Prawitasari solely conceived and designed the study, collected and analyzed the data, interpreted the findings, prepared the original manuscript, revised and edited the manuscript, and approved the final version for publication. The author is responsible for all aspects of the research and the integrity of the work.

10. DATA AVAILABILITY/SUPPLEMENTARY MATERIALS

The datasets analysed during this study were obtained from publicly available annual reports of banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2019–2023. These data are available from the Indonesia Stock Exchange and the respective companies' official websites. No new datasets were generated during this study.

11. ETHICS STATEMENT

The author declares that this study did not involve human participants or animal subjects. The research was conducted using publicly available secondary data obtained from the annual reports of banking companies listed on the Indonesia Stock Exchange (IDX). Therefore, ethical approval and informed consent were not required.

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