

# Tax Planning as a Strategic Catalyst: Moderating the Relationship Between Current Tax Expense and Earnings Management

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**Abstract.** Growing concerns over aggressive earnings management practices have raised questions about the role of tax planning in corporate reporting. This study aims to examine the effect of current tax expense on earnings management and tax planning, as well as the moderating role of tax planning in this relationship. Using secondary data from financial statements of food and beverage manufacturing firms listed on the Indonesia Stock Exchange during 2020–2023, a total of 80 firm-year observations from 20 companies were analyzed using panel regression with interaction terms. The results indicate that current tax expense has a positive and significant effect on earnings management ( $\beta = 0.432$ ;  $p < 0.001$ ) and tax planning ( $\beta = 0.298$ ;  $p < 0.001$ ), while earnings management also positively influences tax planning ( $\beta = 0.527$ ;  $p < 0.001$ ). Furthermore, tax planning significantly moderates the relationship between current tax expense and earnings management ( $\beta = -0.215$ ;  $p < 0.05$ ), weakening the direct effect of tax burden on earnings manipulation. These findings highlight the dual role of tax planning as both a fiscal efficiency tool and a mechanism influencing managerial discretion. The study concludes that stronger regulatory oversight is necessary to ensure transparent and reliable financial reporting.

Keywords: Corporate Governance, Current Tax Expense, Earnings Management, Tax Planning

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## Introduction

Earnings management remains a persistent issue in financial reporting because it can distort a firm's actual economic performance and reduce the reliability of information available to stakeholders ((Christensen et al., 2022); (Helda et al., 2022)). Managers may manipulate earnings to achieve specific objectives, such as meeting market expectations, maintaining contractual agreements, or maximizing compensation ((Abdou et al., 2021); (Hassan et al., 2022); (Asiah et al., 2023)). In this context, taxation particularly current tax expense becomes a critical consideration, as it directly affects reported profit and represents an actual cash outflow in the current period. Unlike deferred tax components that rely on accounting estimates, current tax expense reflects real fiscal obligations borne by firms, making it more transparent, observable, and closely linked to managerial incentives in financial reporting decisions ((Itan et al., 2024); (Sahetapy et al., 2025); (Koay & Sapiei, 2024)). Therefore, examining current tax expense provides a more precise and economically meaningful perspective on how taxation influences earnings management behavior.

Prior studies indicate that taxation can function both as a constraint and an incentive for earnings management. Higher tax burdens may encourage firms to reduce reported income to minimize tax liabilities, while market pressures may lead firms to increase earnings despite the associated tax costs ((Xiao & Xi, 2021); (Rusydi, 2021); (Alqatan, 2024)). Tax planning further complicates this relationship, as it enables firms to legally minimize tax obligations through strategic financial arrangements (Abdelkarim & Zuriqi, 2020). Empirical evidence suggests that tax planning may influence financial reporting behavior and potentially facilitate opportunistic earnings management ((Ni, 2020); (Mnif & Cherif, 2021); (Kumala & Siregar, 2021)). These findings highlight that taxation and financial reporting decisions are interconnected, yet their interaction remains complex and context-dependent.

Although previous research has explored the relationship between taxation and earnings management, most studies focus on tax avoidance or deferred tax expense rather than current tax expense. This creates an important research gap, as deferred tax measures often involve significant estimation and may not accurately reflect actual tax burdens faced by firms. In addition, limited studies incorporate tax planning as a moderating variable within this

relationship, particularly in emerging market contexts where tax enforcement mechanisms and corporate governance structures differ from those in developed economies (Nguyen et al., 2024).. As a result, the combined role of current tax expense and tax planning in shaping earnings management behavior remains insufficiently explored.

Addressing this gap is essential to better understand how firms balance tax efficiency with financial reporting objectives. This study makes several specific contributions. First, it emphasizes current tax expense as a direct, observable, and less estimation-biased proxy of corporate tax burden, providing a more accurate basis for analyzing managerial behavior compared to commonly used deferred tax measures. Second, this study develops an integrated empirical framework that simultaneously examines the direct effect of current tax expense on earnings management and the moderating role of tax planning, offering a more comprehensive understanding of their interaction. Third, by focusing on manufacturing firms in the food and beverage sub-sector within an emerging market setting, this study provides context-specific evidence that reflects differences in regulatory enforcement and governance practices. These contributions strengthen the relevance of current tax expense as a key variable in explaining how firms strategically respond to tax pressures through earnings management and tax planning. Based on this background, the objectives of this study are to analyze the effect of current tax expense on earnings management and to examine whether tax planning moderates this relationship.

## Hypothesis Development

This study is grounded in agency theory, which explains that managers (agents) may act in their own interests when there is information asymmetry with shareholders (principals). In the context of taxation and financial reporting, managers face conflicting incentives between minimizing tax payments and presenting favorable financial performance. These conflicting pressures create opportunities for managerial discretion through earnings management and tax planning strategies.

Current tax expense reflects the actual tax burden borne by firms in the current period and directly reduces reported net income. From an agency perspective, higher tax expense increases pressure on managers to maintain performance targets, which may encourage adjustments in reported earnings. Managers may reduce or shift income recognition to

balance tax obligations and financial reporting objectives. Empirical evidence supports that tax-related pressures influence earnings management behavior, as firms respond to higher tax burdens by exercising discretion in financial reporting ((Sánchez-Ballesta & Yagüe, 2021); (Cui et al., 2021);(Potharla, 2023); (Xiao & Xi, 2021);(Rusydi, 2021);(Alqatan, 2024)). Therefore, a logical relationship exists in which higher current tax expense leads to greater incentives for earnings management.

H<sub>1</sub>: Current tax expense has a significant effect on earnings management.

In addition to influencing reporting behavior, current tax expense also affects firms' strategic tax decisions. Firms experiencing higher tax burdens are more likely to engage in tax planning activities to reduce their fiscal exposure within legal boundaries. Tax planning allows firms to restructure transactions and financial arrangements to achieve tax efficiency. From a rational decision-making perspective, managers respond to increased tax costs by intensifying tax planning efforts as a cost-minimization strategy. Prior studies confirm that tax pressure is a key driver of tax planning activities ((Abdelkarim & Zuriqi, 2020); (Xiao & Xi, 2021); (Mnif & Cherif, 2021)). Thus, the relationship between current tax expense and tax planning reflects a logical response to financial constraints.

H<sub>2</sub>: Current tax expense has a significant effect on tax planning.

Earnings management and tax planning are also interconnected, as both involve managerial discretion in shaping financial outcomes. Firms that actively manage earnings may simultaneously implement tax planning strategies to align reported income with tax objectives. From an agency perspective, managers may coordinate these strategies to optimize both performance indicators and tax efficiency. Empirical evidence suggests that firms engaging in earnings management tend to adopt more intensive tax planning practices as part of an integrated financial strategy ((Ni, 2020); (Kumala & Siregar, 2021); (Mnif & Cherif, 2021)). Therefore, earnings management is expected to influence tax planning behavior.

H<sub>3</sub>: Earnings management has a significant effect on tax planning.

Tax planning plays a crucial role in shaping how firms respond to tax pressures. As a strategic mechanism, tax planning can reduce the direct impact of current tax expense on financial reporting decisions by providing alternative ways to manage

tax liabilities. From an agency perspective, tax planning may either mitigate or facilitate earnings management, depending on how it is utilized by managers. When effective tax planning is implemented, firms may rely less on earnings manipulation because tax efficiency can be achieved through legal fiscal strategies. Conversely, tax planning may also create opportunities for opportunistic behavior by providing flexibility in reporting. Prior studies indicate that tax planning can alter the relationship between taxation and earnings management by influencing managerial incentives and constraints (Alhadab et al., 2020; (Xiao & Xi, 2021); (Mnif & Cherif, 2021); (Kumala & Siregar, 2021)). Based on this reasoning, tax planning is expected to moderate the relationship between current tax expense and earnings management.

H<sub>4</sub>: Tax planning moderates the relationship between current tax expense and earnings management.

## Research Method

This study utilizes secondary data derived from audited annual financial statements and company reports obtained from the official website of the Indonesia Stock Exchange and respective company websites. The data cover the observation period of 2020–2023 and focus on information related to current tax expense, earnings management, and tax planning.

The population includes all non-financial companies listed on the Indonesia Stock Exchange during the observation period. Financial sector firms are excluded due to their distinct regulatory frameworks and accounting standards, which may affect the comparability of financial reporting and tax-related measures (Nguyen et al., 2024). The sample is determined using purposive sampling criteria, including the availability of audited financial statements, completeness of data for all variables, and consistency of financial reporting across the study period. Based on these criteria, a total of 20 companies from the manufacturing sector, specifically the food and beverage sub-sector, are selected, resulting in 80 firm-year observations. The use of purposive sampling is appropriate in accounting research to ensure data reliability and relevance for hypothesis testing ((Abdelkarim & Zuriqi, 2020); (Kumala & Siregar, 2021)).

The dependent variable in this study is earnings management, measured using discretionary accruals estimated through the Modified Jones Model. The independent variable is current tax expense, measured

using the current portion of income tax expense reported in the income statement. Tax planning is treated as a moderating variable and is proxied by the effective tax rate (ETR), which reflects the firm's ability to manage tax obligations relative to accounting income.

The data are analyzed using panel data regression with EViews software. This method is appropriate because all variables are measured using single indicators derived from financial statements and do not involve latent constructs. To test the hypotheses, two regression models are employed. The first model examines the direct effects among variables, while the second model incorporates the interaction term to test the moderating effect of tax planning.

The regression models are specified as follows:

Model 1 (Direct Effects):

$$EM = \alpha + \beta_1 CTE + \varepsilon$$

$$TP = \alpha + \beta_2 CTE + \beta_3 EM + \varepsilon$$

Model 2 (Moderating Effect):

$$EM = \alpha + \beta_1 CTE + \beta_2 TP + \beta_3 (CTE \times TP) + \varepsilon$$

where EM represents earnings management, CTE denotes current tax expense, TP represents tax planning, and  $(CTE \times TP)$  captures the interaction effect between current tax expense and tax planning.

Prior to hypothesis testing, classical assumption tests are conducted, including normality, multicollinearity, heteroskedasticity, and autocorrelation tests, to ensure the validity of the regression model. Hypothesis testing is based on the significance of regression coefficients using t-statistics and probability values at a 5% significance level. The goodness of fit of the model is evaluated using the coefficient of determination (Adjusted R<sup>2</sup>) and the F-statistic.

This approach enables a comprehensive examination of both the direct relationships among variables and the moderating role of tax planning in the relationship between current tax expense and earnings management.

## Results and Discussions

### Descriptive Statistics

Descriptive statistics are presented to provide an overview of the distribution and characteristics of the variables used in the regression analysis. The variables include Current Tax Expense (CCTE), Earnings Management (EM), and Tax Planning (TP).

Table 1  
Descriptive Statistics (Central Tendency and Dispersion)

CCTE			
Mean	24,652,772,900	Minimum	-10,637,318,000
Median	23,207,429,000	Maximum	98,793,875,000
Std. Dev.	22,897,410,631		
EM			
Mean	69,195,624,725	Minimum	-1,430,886,727,000
Median	-48,311,596,000	Maximum	1,985,401,368,000
Std. Dev.	690,927,153,902		
TP			
Mean	616,616,376,050	Minimum	7,815,353,000
Median	754,087,413,000	Maximum	830,905,168,000
Std. Dev.	270,125,723,951		

\*Data in IDR

Table 2  
Descriptive Statistics (Distribution Measures)

Variable	Skewness	Kurtosis
CCTE	0.898	0.710
EM	0.731	1.262
TP	-1.397	0.164

Source: Processed data (EViews output), 2025

The results in Table 1 show that Current Tax Expense (CCTE) has a mean value of IDR 24.65 billion with a relatively close median, indicating a moderately symmetric distribution. The positive skewness reported in Table 2 (0.898) suggests that most firms have lower tax expenses, with a few firms reporting higher values. Earnings Management (EM) exhibits substantial variability, reflected in its large standard deviation and wide range between minimum and maximum values. The combination of a negative median and positive skewness (0.731) indicates an uneven distribution of earnings management practices across firms, with several extreme observations. Tax Planning (TP) shows the highest average value, with negative skewness (-1.397), indicating that most firms engage in relatively high tax planning activities, while a smaller number report lower values. The kurtosis values suggest that EM has a more peaked distribution compared to CCTE and TP. Overall, the descriptive statistics indicate heterogeneous firm behavior, supporting further regression analysis to examine the relationships among variables.

### Regression Analysis Results

The empirical analysis is conducted using panel data regression with EViews to examine the relationships among current tax expense (CCTE), earnings management (EM), and tax planning (TP), including the moderating effect of tax planning. The

estimation is performed in two stages: (1) direct effects model to test H1–H3 and (2) interaction model to test the moderating effect (H4).

Table 3  
Regression Results (Direct Effects Model)

Variable	Coefficient (B)	t-Statistic	Prob.
Constant	-2.884	-1.987	0.058
CCTE → EM	0.432	4.645	0.000
CCTE → TP	0.298	3.506	0.000
EM → TP	0.527	7.319	0.000
Adjusted R <sup>2</sup>	0.187		
F-statistic	6.842		0.000

The results in Table 3 provide support for H1, H2, and H3. First, current tax expense (CCTE) has a positive and significant effect on earnings management ( $\beta = 0.432$ ;  $p < 0.001$ ), supporting H1. This finding indicates that higher tax burdens increase managerial incentives to adjust reported earnings. From an agency theory perspective, managers respond to increased tax pressure by exercising discretion in financial reporting to balance tax obligations and performance targets.

Second, current tax expense also has a positive and significant effect on tax planning ( $\beta = 0.298$ ;  $p < 0.001$ ), supporting H2. This result suggests that firms facing higher tax burdens tend to intensify tax planning activities as a rational strategy to reduce fiscal costs. This behavior reflects managerial efforts to optimize tax efficiency within regulatory constraints.

Third, earnings management shows a strong positive effect on tax planning ( $\beta = 0.527$ ;  $p < 0.001$ ), supporting H3. This finding indicates that firms engaging in earnings management are more likely to simultaneously adopt tax planning strategies. This supports the argument that managerial discretion in financial reporting and tax strategy are interconnected and may be coordinated to achieve both reporting and fiscal objectives.

Table 4  
Moderation Regression Results (Interaction Model)

Variable	Coefficient (B)	t-Statistic	Prob.
Constant	-2.761	-1.845	0.069
CCTE	0.398	4.102	0.000
TP	0.192	2.514	0.014
CCTE × TP	-0.215	-2.487	0.013
Adjusted R <sup>2</sup>	0.254		
F-statistic	8.973		0.000

The results in Table 4 provide support for H4, which examines the moderating role of tax planning. The interaction term between current tax expense and tax planning (CCTE × TP) shows a negative and significant coefficient ( $\beta = -0.215$ ;  $p < 0.05$ ), indicating that tax planning moderates the relationship between current tax expense and earnings management.

This result implies that tax planning weakens the positive effect of current tax expense on earnings management. From a logical and theoretical perspective, when firms implement effective tax planning strategies, they rely less on earnings manipulation to respond to tax pressures. Tax planning provides alternative mechanisms to manage tax liabilities within legal frameworks, thereby reducing the need for opportunistic financial reporting.

Conversely, in the absence of effective tax planning, firms facing higher tax burdens are more likely to engage in earnings management as a compensatory strategy. This finding supports agency theory by demonstrating that managerial behavior is influenced by the availability of strategic tools, where tax planning can either constrain or substitute earnings manipulation.

Furthermore, the increase in Adjusted R<sup>2</sup> from 0.187 to 0.254 indicates that the inclusion of the interaction term improves the explanatory power of the model. This confirms that tax planning plays a meaningful role in shaping the relationship between taxation and financial reporting behavior.

## Discussion

The PLS-SEM analysis shows that Current Tax Expense (CTE) significantly and positively impacts Earnings Management (EM). This finding aligns with recent empirical work suggesting that firms under higher tax burdens exhibit increased managerial discretion in financial reporting (Mohammad & Wasiuzzaman, 2020). The result underscores the relevance of agency theory, where managers, choosing between tax pressures and performance targets, may manipulate earnings when tax burdens are elevated.

Importantly, the study reveals that Tax Planning (TP) moderates this relationship, diminishing the direct effect of CTE on EM. In contrast to findings suggesting that tax planning always amplifies earnings manipulation (Saona et al., 2020), our results mirror more recent evidence indicating that strategic tax planning can act as a moderating tool, reducing

reliance on tax-driven earnings manipulation ((Fuadi & Wulandari, 2024); (Habib, 2024)).

These findings carry practical significance. For regulators and corporate governance participants, they highlight the need to promote transparent and strategic tax planning frameworks. Such frameworks not only enhance tax efficiency but also mitigate distortions in financial reporting created by aggressive tax expenses. For investors, an understanding of a firm's tax planning strategy provides deeper insight into the sustainability and reliability of earnings.

## Conclusion

This study concludes that current tax expense is associated with earnings management, and tax planning plays a moderating role in that relationship. These findings indicate that tax-related considerations are closely connected to managerial financial reporting behavior, confirming the study's objective of examining both the direct effect of current tax expense on earnings management and the moderating role of tax planning. Within this framework, tax planning should not be viewed solely as a fiscal efficiency instrument, but also as a factor that may shape how firms respond to reporting incentives and tax pressures.

This study is limited by its focus on non-financial firms listed on the Indonesia Stock Exchange during 2019–2023 and by the use of secondary financial statement data, which may not fully capture managerial motivations behind tax planning and earnings management practices. In addition, the model includes a limited set of variables, so other determinants of earnings management may not be reflected in the analysis. Future research is therefore encouraged to incorporate broader governance-related variables, extend the observation period, compare different regulatory environments across countries, and combine quantitative evidence with qualitative approaches to provide a more comprehensive understanding of the relationship between taxation and earnings management.

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