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Do Independent Commissioners Restrain Earning Management and Tax Avoidance?

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Abstrak

Tujuan – *Penelitian ini berusaha mengeksplorasi dampak manajemen laba terhadap tax avoidance, serta mengkaji peran dewan komisaris independen dalam memitigasi dampak tersebut pada perusahaan milik pemerintah (BUMN) sektor non-keuangan Indonesia.*
Desain/Metodologi/Pendekatan – *Metode yang diadopsi dalam penelitian ini adalah pendekatan kuantitatif dengan memanfaatkan data sekunder yang bersumber dari laporan tahunan serta keuangan BUMN non-keuangan dalam rentang waktu 2019-2023. Adapun sampel penelitian mencakup 17 perusahaan yang dipilih menggunakan teknik purposive sampling. Pengujian hipotesis yang dirumuskan memanfaatkan analisis regresi moderasi (Moderated Regression Analysis/MRA).*
Temuan – *Hasil analisis menemukan bahwa manajemen laba memiliki dampak yang signifikan terhadap tax avoidance. Keberadaan komisaris independen terbukti memitigasi hubungan tersebut, yang menegaskan bahwa penerapan tata kelola yang baik dapat menekan strategi agresif dalam perencanaan pajak.*
Keterbatasan/implikasi Penelitian – *Penelitian ini memberikan wawasan mengenai urgensi komisaris independen dalam mengawasi praktik manajemen laba dan tax avoidance. Temuan dalam penelitian ini dapat dijadikan referensi oleh regulator dan perusahaan dalam meningkatkan efektivitas tata kelola yang baik. Penelitian ini juga memberikan ruang bagi peneliti selanjutnya untuk meneliti faktor-faktor lain yang berpotensi memengaruhi hubungan manajemen laba dan tax avoidance*

Kata Kunci: BUMN, Komisaris Independen, Manajemen Laba, Tata Kelola Perusahaan, Tax Avoidance

Abstract

Purpose – *This research seeks to explore the influence of earnings management on tax avoidance, and examine how independent commissioners help to reduce this impact on Indonesia's non-financial state-owned enterprises (SOE's)*
Design/Methodology/Approach – *This study adopts a quantitative approach using secondary data collected from the annual and financial reports of non-financial SOEs between 2019 and 2023. The sample consists of 17 companies selected using purposive sampling. The formulated hypotheses are tested using Moderated Regression Analysis (MRA).*
Findings – *The analysis reveals that earnings management significantly affects tax avoidance. Additionally, the presence of independent commissioners helps mitigate this relationship, confirming that good corporate governance can limit aggressive tax planning strategies.*
Research Limitations/Implications – *This study highlights the importance of independent commissioners in monitoring earnings management and tax avoidance practices. The findings offer reference for regulators and companies to improve corporate governance effectiveness. Furthermore, this research opens opportunities for future studies to explore other factors that may influence the relationship between earnings management and tax avoidance.*

Keywords: Corporate Governance, Earnings Management, Independent Commissioners, SOEs, Tax Avoidance

Introduction

According to Law No. 28 of 2007 of the Republic of Indonesia tax is a required payment to the government, collected from individuals or businesses under legal regulation. These payments do not provide direct benefit to the taxpayers because they are utilized for national interest to promote public welfare. Tax revenue is the main government's revenue that will support public services like education, healthcare and infrastructure (Mangoting et al., 2021; Prastiwi, 2021). While the government sees taxes as a mandatory, business often view them as a financial burden (Ma & Thomas, 2019). This difference in perspective has led to the practice of tax avoidance.

Hanlon and Heitzman (2010) try to describe tax avoidance as a reduction of tax obligation through various tax planning strategies. These strategies legally allow businesses to minimize their tax expenses without violating the law. However, tax avoidance creates a unique dilemma: even though it is legally acceptable, governments see this practice negatively, because it reduces tax revenues that are needed to fund public services (Gavana et al., 2017). From an ethical standpoint, tax avoidance also raises ethical concerns regarding corporate responsibility. Entities or companies that engage in aggressive tax planning may contribute less to national development, and also potentially harm communities that rely on government funded services, as mentioned above. This issue is also significant in Indonesia. Tax ratio in Indonesia remains one of the lowest among Asian countries due to widespread tax avoidance (Muflihani et al., 2021). A 2024 report from the Parliamentary Analysis Center of the Expertise Agency of the Indonesian House of Representatives (DPR RI), highlights this problem, showing that the proportion of tax revenue to GDP in Indonesia remains lower compared to several neighboring countries. For comparison, Thailand (17.18%), Vietnam (16.21%), and Singapore (12.96%) while

Indonesia is still struggling to improve tax revenue collection.

Transparency and information disclosure are very essential in maintaining public trust in corporations. As previously explained, tax avoidance is still considered a grey area from both legal and ethical perspectives. It can create negative perceptions, leading to public distrust, increase public scrutiny, and potential long term ethical and social consequences may ultimately harm the business.

One well known case is the tax dispute between PT Perusahaan Gas Negara (PGN), a state-owned enterprise (SOE), and the Directorate General of Taxes (DJP) regarding the value-added tax (VAT) obligations on natural gas transactions in 2012 and 2013. PGN sought to minimize its tax liabilities through legally permissible strategies, which, when viewed from a broader perspective, could be categorized as tax avoidance. Additionally, such strategies may impact reported earnings, suggesting a possible connection between tax avoidance and earnings management. Earnings management refers to managerial practices aimed at achieving a desired level of net income (Parvin et al., 2020). Research by Siska et al. (2024) and Indriani & Ramli (2024) suggests that earnings management is frequently used as a means to engage in tax avoidance, particularly through accrual manipulation.

Tax avoidance is often driven by the objective of reducing corporate tax costs. According to Scott (2015), corporate managers tend to perceive taxes as an expense that should be minimized. Octavia & Sari (2022) describe that companies reduce taxable income to lower their tax payments, as taxes are considered a cost that can decrease a firm’s equity value. Tjahyadi and Carolina (2024) confirm that some companies report significantly lower profits compared to similar firms or even declare unreasonable fiscal losses, despite having operated and recorded sales for years. In some cases, companies engage in earnings management by reducing reported profits for example, by accelerating expense recognition or deferring revenue to lower their tax liabilities. Several studies have explored the connection between earnings management and tax avoidance. Febriyanti & Faisal (2023), Falbo & Firmansyah (2021), Pajriyansyah & Firmansyah (2017), Purba (2018), and Irawan et al. (2020) identified a strong association between earnings management and tax avoidance. Nevertheless, other studies have reported differing results. Hidayat & Wijaya (2021), Sadjiarto et al. (2024), and Agus et al. (2024) concluded that earnings management has no significant influence on tax avoidance.

The presence of independent commissioners becomes an interesting and important topic due to the mixed findings from the previous research. Independent commissioners ensure that financial decisions not only benefit shareholders but also comply with the existing regulations. Research by Faaza (2024) indicates that having more independent commissioners will reduce earnings management significantly. The reason is independent commissioners could strengthen oversight, and help prevent financial manipulation. Their presence also reduces the pressure on company executives to misrepresent financial information. Dewi (2019) explains that independent commissioners act as mediators in corporate decision-making, ensuring that managers prioritize shareholders interest while following legal and regulatory compliance. In addition, Frederica (2023) identified an inverse correlation between independent commissioners and tax avoidance, suggesting that a greater presence of independent commissioners decrease the likelihood of engaging in tax avoidance strategies. According to Phandi and Tjun (2021), if the proportion of independent commissioners exceeds 30%, corporate governance is considered effective. This indicates that having a strong oversight ensure better compliance with corporate governance principles and improves overall corporate performance

Indonesian state-owned enterprises (SOEs), play an even more crucial role because these companies have responsibilities beyond profit-making. Unlike private firms, SOE's have to contribute to national economic progress and public welfare. The PGN case illustrates SOEs are not immune to challenges such as tax dodging and earnings management. To prevent firms from utilizing aggressive tax methods, independent commissioners must check that tax planning adheres to legal and ethical guidelines.

Independent commissioners serve as a control mechanism, ensuring that corporate earnings management and tax strategies adhere to ethical standards and legal frameworks. Therefore, it is important to examine how the earnings management influences tax avoidance among Indonesian SOEs and to explore whether independent commissioners moderate this relationship. This research seeks to contribute to the advancement of more effective governance policies, particularly in mitigating tax avoidance through strengthened oversight by independent commissioners.

Literature Review & Hypothesis

Agency Theory

The concept, introduced by Jensen & Meckling (1976) assumes that individuals are primarily driven by self-interest, potentially resulting in conflicts of interest between the principal and the agent. In the context of state owned enterprises (SOEs), the government acts as principal, expecting managers to operate the company in a way to maximize public welfare and financial sustainability. Shareholders, as principals, establish contracts to maximize their welfare by ensuring continuous profitability. Meanwhile, managers, acting as agents, are driven to fulfill their economic and psychological needs, such as securing investments, loans, and compensation contracts. Agency problems occur when managers act in their own interest rather than prioritizing shareholders Managers tend to select and implement accounting methods that enhance their performance on financial statements, aiming to receive bonuses from the principal. However, managers as agents, often have a personal interest or motivation, like securing higher compensation, career advancement or maintaining a political and professional network. These conflicting interests can result in agency problems, where managerial decisions are driven by personal or group benefits rather than the broader objectives of the SOEs.

One common way that managers/agents pursue their personal gain is by choosing an accounting method that improves financial statement appearance often with the aim of receiving performance-based bonuses from shareholders. Agency theory helps explain how managers might manipulate earnings not only for individual benefits but also to serve specific organizational or political agendas. In many cases earnings management is closely tied to tax avoidance strategies, as managers may seek to reduce tax liabilities to maintain artificially inflated earnings. Frank et al. (2005) highlight how tax avoidance can be a tool for earning management, providing an opportunity for company to report higher profits while legally minimizing their tax obligation. However, these practices can undermine transparency, reduce government tax revenue and create regulatory concern.

To mitigate the agency problem and increase corporate integrity, a strong governance mechanism is needed. One of the keys is the board of commissioners, particularly independent commissioners. An independent commissioners play a vital role in overseeing management decisions and ensuring accountability. While management focuses on performance and efficiency, independent commissioner can be a safeguard against excessive earning management and aggressive tax strategies that could compromise the company's long-term sustainability and ethical standing. Their oversight could help maintain corporate integrity, protect government revenue and uphold public trust in state owned enterprises.

Positive Accounting Theory

Watts and Zimmerman (1978) initially developed this concept to explain how and why managers select a certain or specific accounting method based on underlying motivations. It also helps to predict the potential consequences of managerial decisions, especially in financial reporting. In this context, Watts and Zimmerman (1990) link positive accounting theory to managerial opportunism through three key hypotheses.

First, the Bonus Plan Hypothesis suggests that managers in companies with performance-based incentive plans tend to choose accounting methods that enhance reporting earnings. Since managerial success is measured based on financial performance, there is an incentive to manipulate accounting figures to secure bonuses and rewards. In the context of SOEs, this can become problematic if financial statements are adjusted to justify higher executive compensation without genuine improvements in operational performance. Second, the Debt Covenant Hypothesis explains how managers respond to financial constraints imposed by debt agreements. Companies with outstanding loans or risks of breaching their debt covenants, are often subject to financial covenants that require them to maintain certain financial ratios. If an SOE risks breaching these covenants, managers may resort to accounting adjustments that artificially inflate earnings, ensuring compliance with loan agreements and avoiding penalties from creditors. While this practice may provide short-term financial relief, it can distort the true financial health of the company and mislead stakeholders. Third, Political Cost Hypothesis is usually relevant with SOEs because they operate under intense government oversight and public scrutiny. Based on this hypothesis, companies face high political costs, such as taxation, regulatory intervention, labor demands, and public expectations. Those might intentionally underreport profits to minimize their exposure. Managers tend to apply earnings manipulation strategies to minimize the appearance of excessive profitability, thereby avoiding additional government-imposed financial obligations, such as higher dividend payouts to the state or increased public sector wage demands.

Through these hypotheses, Positive Accounting Theory provides valuable insights into the reasons why managers in state-owned enterprises engage in earnings management and tax avoidance. It emphasizes the complex relationship between financial reporting incentives and regulatory compliance, underscoring the necessity of robust corporate governance to discourage opportunistic behavior. Effective oversight by independent commissioners, auditors, and government regulators is essential for maintaining transparent financial reporting that serves the public interest rather than merely advancing individual managerial goals.

Hypothesis Development

The Impact of Earnings Management on Tax Avoidance

Earnings management refers to intentional modification of financial statements by corporate managers to present financial performance that may not accurately reflect the true economic condition of the company. Several reasons for this case have been discussed previously, but one of the key reasons for this practice is to influence the company's tax liability. In addition, tax avoidance involves legally reducing tax liabilities, often through financial strategies that can obscure the true financial health of the company.

When dissected from the perspective of agency theory, the divergences in interest frequently occur between shareholders and managers. Managers, motivated by personal incentives such as performance-based bonuses, might manipulate financial statements to meet certain financial targets. This behavior can lead to tax avoidance, which, although legally acceptable, carries the risk of regulatory scrutiny and potential reputational damage if detected by tax authorities.

Empirical research consistently describes a strong connection between earnings management and tax avoidance. A study by Leonardo et al (2023) found that managers who aim to improve financial performance are more likely to use earnings management as a tool for tax avoidance. Similarly, research by Rahmanda and Susilowati (2024) shows that companies engaging in a high level of earnings management are often done or practiced by management along with tax avoidance, as it can adjust taxable income. The more managers engage in earning management, the more they are to adopt aggressive tax avoidance strategies. Drawing from this result, the following hypothesis is formulated:

H1: Earnings management has a positive effect on tax avoidance.

The Influence of Independent Commissioners in Moderating the Relationship Between Earnings Management and Tax Avoidance

As stated in Financial Services Authority Regulation No. 56/PJOK.04/2017, independent commissioners are board members who have no relations to the companies, do not directly or indirectly own company shares, and have no personal connection with the organization. This is because their main role is to supervise and evaluate management performance to ensure compliance with corporate governance principles (Doho & Santoso, 2020). The regulation also required that at least 30% of the board of commissioners must consist of independent members.

Independent board members become a key component of corporate governance structure that helps oversee managerial choices, to make sure they are aligned with the company’s long-term goals rather than simply fulfilling management interest. Their presence is believed to help prevent and reduce opportunistic behavior, such as earnings manipulation to lower tax liabilities. By increasing financial transparency and accountability, independent commissioners can limit the extent to which managers engage in aggressive earnings management strategies for tax avoidance purposes.

Empirical research found that the influence of independent commissioners in moderating this relationship. Research by Sari and Pramiana (2024) and Hasna et al. (2023) describe that the higher the proportion of independent commissioners, the lower the likelihood of tax avoidance. In addition, Wulansari and Nugroho (2023) emphasized that the ability of independent commissioners in curbing tax avoidance depends on their level of independence and expertise in financial supervision. Based on this insight, the following hypothesis is given as follows:

H2: Independent commissioners reduce the positive relationship between earnings management and tax avoidance.

Based on the development of these hypotheses, the conceptual framework is illustrated in the following figure:

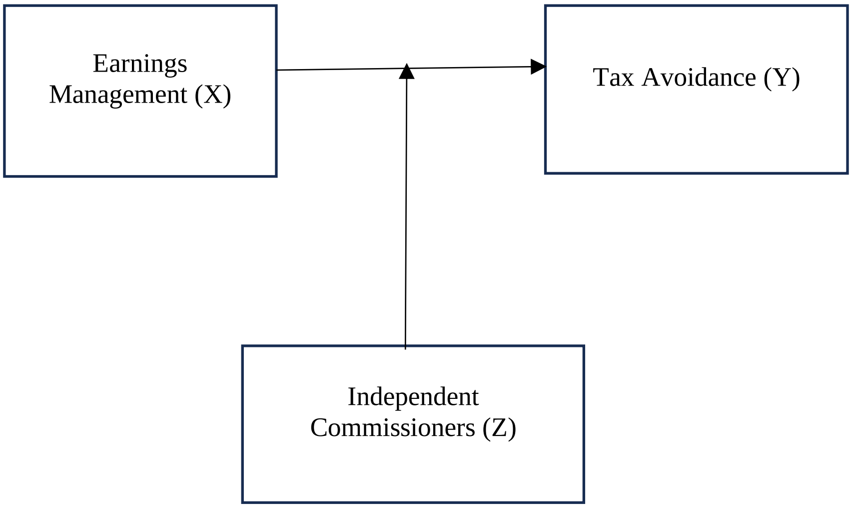

Figure 1
Conceptual Model

Research Method

This study investigates how the earnings management influences tax avoidance and how independent commissioners can weaken the effect. This study specifically focuses on Indonesia Stock Exchange (IDX) between 2019 and 2023. Out of total 27 companies, 17 companies were chosen through purposive sampling, and also considering annual and financial report data. This study utilizes existing data from the official websites of the respective companies and the Indonesia Stock Exchange. The data analyzed using the Statistical Package for the Social Sciences (SPSS) software.

Companies usually adopt tax avoidance strategies to manage their tax obligations by minimizing tax payments while remaining within legal boundaries. In this context, the effective tax rate (ETR) is used to assess tax avoidance, which evaluates how efficiently a company handles its tax burden by comparing tax expenses to pre-tax income. A higher ETR indicates that a company engages less in tax avoidance, as it indicates a larger proportion of income is allocated to tax payments.

ETR = Total Tax Expense/Earnings Before tax (EBT)

Earnings management involves managerial actions to either increase or decrease a company's earnings within a given period without affecting the firm's long-term economic profitability (Hardiyanti et al., 2022).

In this study, earnings management is assessed through discretionary accruals, calculated based on the Modified Jones Model (Dechow et al., 1995). The applied formula is:

$$TAC = NIi,t - CFOi,t$$

$$\frac{TA_{i,t}}{A_{i,t-1}} = \alpha 1 \frac{1}{A_{i,t-1}} + \alpha 2 \frac{\Delta REV_{i,t}}{A_{i,t-1}} + \alpha 3 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t}$$

$$NDA_{i,t} = \alpha 1 \frac{1}{A_{i,t-1}} + \alpha 2 \frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}} + \alpha 3 \frac{PPE_{i,t}}{A_{i,t-1}}$$

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

Figure 2
Modified Jones Model
Source: Dechow et al (1995)

Where:
TAC = Represent the gap between net income and cash flow from operating activities in a specific period. This also indicates the portion of earnings that do not involve actual cash transaction, also known as total accruals in period *t.*
NIt = Refers to the total earnings of company in certain period, after deducting all expenses, taxes and costs, or simply Net income of firm *i* in period *t*
CFOit = Represents the actual cash inflow generated by a company's core business operations for firm in certain period, also referred to as cash flow from operating activities of firm *i* in period *t*
TAit−1 = Denotes the total value of a company's assets in the prior period, which serves as a scaling factor for accrual calculations or total assets in period *t-1*
(Δ) REVit = Capture the gap in revenue between the current and previous periods, indicating fluctuations in sales performance, or changes in revenue in period *t*
(Δ) RECit = Captures variations in accounts receivable from one period to another, reflecting the portion of revenue that has been recorded but not yet collected in cash or Changes in accounts receivable in period *t*
PPEit = Stands for property, plant, and equipment in period *t*
DAit = Refers to the portion of total accruals that are subject to managerial discretion, often linked to earnings management practices or simply as discretionary accruals of firm *i* in period *t*
NDAit = Represents the component of accruals determined by a firm's economic activities and operational circumstances, independent of managerial influence or non-discretionary accruals of firm *i* in period *t*
α1, α2, α3 = Regression coefficients

The proportion of independent commissioners that act as a moderating variable is determined by the total number of independent commissioners within the company. This approach is in line with the studies by Amalia & Firmansyah (2022) and Dzulfikar & Firmansyah (2022).

$$\text{Proportion of Independent Commissioner} = \frac{\text{Number of Independent Commissioner}}{\text{Total Board of Commissioner}}$$

Results and Discussion

Research Results

Classical Assumption Test of Equation 2

Normality Test

Table 1
Normality Test Result
(Kolmogorov-Smirnov Test)

Statistic	Residual Value
Significance level (2-tailed)	0.200

Source: Proceed Using IBM SPSS 2025

Table 1 presents the Kolmogorov-Smirnov normality test. The Significance level (2-tailed) value is 0.200. As explained on table 1, the significant value (p-value) is above the 0.05 threshold, the data is assumed normally distributed. This suggests that the dataset does not deviate from a normal distribution, this means we can use statistical tests that require the data to be normally distributed.

Multicollinearity Test

Table 2
Multicollinearity Test

Variable	Tolerance	VIF
X	0,973	1,028
Z	0,973	1,028

Source: Proceed Using IBM SPSS 2025

This test is conducted to check or evaluate whether independent variable are correlated to each other. This can be detected using the centered Variance Inflation Factor (VIF). If the VIF value is 10 or lower and the tolerance value is above 0.1, the regression model is considered free from multicollinearity. As explained on table 2, the test results present no signs of multicollinearity among the independent variables in this study.

Heteroscedasticity Test

Table 3
Heteroscedasticity Test

Variable	Sig.
(Constant)	,000
X	,108
Z	,109

Source: Proceed Using IBM SPSS 2025

The heteroscedasticity test assesses whether the residual variances are unequal within the regression model. As shown in Table 3, the significance values for all variables exceed 0.05, indicating that the regression model in this study does not exhibit heteroscedasticity.

Autocorrelation Test

Table 4
Autocorrelation Test

Model	Durbin-Watson
1	1,912

Source: Proceed Using IBM SPSS 2025

The autocorrelation test produced a Durbin-Watson (DW) value of 1.912. This value is then compared with the upper bound (dU) from the reference table, which is 1.6715, and 4 - dU, which is 2.3285. Given that dU < DW < 4 - dU (1.6715 < 1.912 < 2.3285), it can be concluded that the regression model does not exhibit autocorrelation, indicating that the assumption of residual independence is satisfied.

Test of the Coefficient of Determination (Without Moderation)

Table 5
Test of the Coefficient of Determination (Without Moderation)

Model	R	R Square	Adjusted R Squared	Std. Error of the Estimate
1	,739a[a]	,546	,541	,02367

Source: Proceed Using IBM SPSS 2025

An Adjusted R-Squared value of 0.541 (54.1%) indicates that 54.1% of the variation in tax avoidance can be explained by earnings management, while the remaining 45.9% is influenced by other factors not included in the model.

Multiple Linear Regression Analysis

Table 6
Multiple Linear Regression Analysis

Variabel	Coefficient	t Statistic	Prob.	Conclusion
C	0.169	40.659	0,000	
X1	0.181	9.997	0,000	Accepted

Source: Proceed Using IBM SPSS 2025

According on Table 6, the first regression equation, or before moderation, is as follows:

$$\mathbf{Y = \beta0+\beta1X+e}$$

$$Y = 0.169 + 0.118 + \varepsilon$$

The coefficient β1 0.181 indicates that for every 1-unit increase in earnings management, tax avoidance increases by 0.181 units, assuming all other variables remain constant. Furthermore, the p-value (0.000) is less than 0.05, signifying that earnings management has a significant effect on tax avoidance. Companies that engage in higher levels of earnings management tend to be more likely to practice tax avoidance.

Test of the Coefficient of Determination (Moderation)

Table 7
Test of the Coefficient of Determination (Moderation)

Model	R	R Square	Adjusted R Squared	Std. Error of the Estimate
1	,851[a]	,810	,758	,01032

Source: Proceed Using IBM SPSS 2025

The Adjusted R-Squared value increases to 0.758 (75.8%), indicating that 75.8% of the variation in tax avoidance can be explained by earnings management, independent commissioners, and their interaction. The increase in R-Squared from 54.1% to 75.8% suggests that independent commissioners, as a moderating variable, contribute to clarifying the relationship between earnings management and tax avoidance.

Moderated Regression Analysis (MRA)

Table 8
Moderated Regression Analysis

Variable	Coefficient	t Statistic	Prob.	Conclusion
C	0.229	47.821	0,000	
X1	0.172	13.466	0,000	Accepted
Z	-0.122	-11.813	0,000	Accepted
X_Z	-0.169	-5.537	0,000	Accepted

Source: Proceed Using IBM SPSS 2025

Based on Table 8, the second regression equation, incorporating the moderating variable, is as follows:

$$\mathbf{Y=\beta0+\beta1X+\beta2Z+\beta3(X\times Z) + e}$$

$$Y = 0229 + 0.172 – 0.122 – 0.169 + \varepsilon$$

Where:

- Z represents independent commissioners
- X×Z denotes the interaction between earnings management and independent commissioners

Earnings Management (X) continues to positively influence tax avoidance. However, its impact weakens (from 0.181 to 0.172) after introducing the moderating variable. Independent Commissioners (Z) exhibit a significant negative coefficient (-0.122, p = 0.000), suggesting that a greater proportion of independent commissioners leads to a lower tax avoidance. The interaction between Earnings Management and Independent Commissioners (β3 = −0.169 p = 0.000 is also significant, confirming that independent commissioners act as a moderating factor that weakens the relationship between earnings management and tax avoidance.

Discussion

Earnings Management and Tax Avoidance

The findings of this study reveal that earnings management significantly contributes to tax avoidance. This implies that the more aggressively a company engages in earnings management, the higher the likelihood that it will also implement tax avoidance strategies. This relationship can be examined through the framework of Agency Theory and Positive Accounting Theory, which provide insights into the underlying motivations and mechanisms driving these practices.

From the perspective of Agency Theory, as introduced by Jensen and Meckling (1976), suggest that managers (agents) and shareholders (principals) have conflicting interests. Managers may try to increase reported profit to make the company look better in the short term, which can support their personal goals, for example career growth or higher bonuses. However, in many cases it comes with tax avoidance strategies, where companies adjust their financial reporting to reduce tax payments.

Meanwhile, Positive Accounting Theory, developed by Watts and Zimmerman (1990), argues that both earnings management and tax avoidance are rational and reasonable choices made by managers to serve their strategic and economic interests. One of key ideas in this theory is the Political Cost Hypothesis, which suggests that companies with high public visibility such as state-owned enterprises (SOEs) tend to engage in earnings management to reduce their exposure to regulatory and political scrutiny. These companies may face external pressures, such as government regulations and public accountability, so they might adjust their financial reports to minimize regulatory attention and political pressure. As a result, managers in SOEs may find their way to lower tax burden, increasing tax avoidance.

Although some studies show that a higher effective tax return (ETR) means less tax avoidance, the findings of this study show that companies engaging in earnings management might use specific policies to lower ETR as part of the strategies. For example, companies might delay revenue recognition to the next period to reduce taxable income or accelerate expense recognition (such as marketing costs or depreciation) to lower taxes. Moreover, some companies might choose faster asset depreciation methods, so they can reduce taxable income in the short term. In that scenario, companies can still report strong financial performance to investors while paying less in taxes. Therefore, a lower ETR does not always indicate a company's inability to engage in tax avoidance. Instead, it might be a result of earnings management practices to adjust reported profits and tax payment.

These findings are consistent with previous empirical research conducted by Febriyanti and Faisal (2023), Falbo and Firmansyah (2021), Pajriyansyah and Firmansyah (2017), Purba (2018), Irawan et al. (2020), as well as Sholikhah and Sari (2023), all of which provide evidence supporting the notion that earnings management has a significant positive association with tax avoidance. The alignment of this study with prior literature further reinforces the argument that earnings management practices are closely linked to corporate tax minimization strategies.

The Role of Independent Commissioners as a Moderating Variable

In the lens of agency theory, the presence of independent commissioners played an important role in Good Corporate Governance (GCG), by helping reduce information gaps between managers (agents) and company owners (principals). Unlike internal commissioners, independent commissioners have a more objective supervisory function. They help prevent managers from acting in their own interests, such as engaging in aggressive earnings management or tax avoidance. In other words, independent commissioners help ensure that managerial decisions benefit shareholders and reduce conflicts of interest.

In Positive accounting theory, independent commissioners improve transparency and accountability. They ensure that financial reports accurately reflect the company's real financial condition, making it harder for managers to manipulate earnings to reduce taxes. Companies with strong corporate governance are more likely to follow tax regulations and avoid risky tax avoidance strategies.

Research by Sari and Pramiana (2024), as well as Hasna et al. (2023), supports these findings, that independent commissioners help reduce tax avoidance. Companies with a higher percentage of independent commissioners are less likely to engage in tax avoidance. Similarly, Wulansari and Nugroho (2023) found that the effectiveness of independent commissioners depends on their independence and financial expertise. Those with strong knowledge of corporate governance and tax regulations can provide better oversight.

Thus, independent commissioners not only serve as a symbol of compliance with GCG regulations but also play a strategic role in ensuring that managerial policies, including tax-related policies, align with the principles of transparency, accountability, and business sustainability. To support that, independent commissioners suggest having a deep understanding of corporate governance and tax regulation. By doing so, independent commissioners can perform better. Moreover, independent commissioners not only serve as a symbol of compliance with GCG regulations but also play a strategic role in ensuring that managerial policies, including tax-related policies, align with the principles of transparency, accountability, and business sustainability. Independent commissioners with strong expertise and a deep understanding of corporate governance and tax regulations can perform their supervisory functions more effectively. Those with deep knowledge of GCG and tax regulation can perform better.

Conclusion and Recommendation

Conclusion

The purpose of this research is to examine how earnings management affects tax avoidance, and to see how independent commissioners act as moderating variables. The results reveal that earnings management has a significant and positive effect on tax avoidance. Indicating that companies engaging in aggressive earnings management are more likely to implement tax avoidance strategies to reduce their tax burden. This also supports the agency theory perspective, which suggests that managers might prioritize short term financial performance, sometimes by not fully complying with the regulations, which leads to higher tax avoidance.

Nevertheless, the presence of independent commissioners plays a vital role in moderating this relationship. Independent commissioners are considered as a key component of Good Corporate Governance (GCG). Independent commissioners enhance transparency, improve financial oversight, and limit managerial opportunism, but their role in reducing tax avoidance may not always be straightforward. Although they are expected to increase transparency, their effectiveness actually depends on their level of independence and expertise. Therefore, companies should have a higher proportion of independent commissioners and a deep understanding of good governance and tax regulations.

Recommendation

Based on these findings, companies should focus on their corporate governance mechanism, especially in the independence and effectiveness of commissioners. The more experienced and competent independent commissioners, the more effective the supervision functions, and also reduces probability the company will do earnings management and aggressive tax avoidance. Regulators should also work on policies that strengthen the role of independent commissioners in SOEs. This includes implementing stricter independence criteria and providing clear guidelines on their financial oversight responsibilities. Future research could explore other moderating factors that might influence it, such as audit quality, institutional ownership, or corporate social responsibility (CSR) practices, to gain a more comprehensive understanding of the relationship between earnings management and tax avoidance. By optimizing corporate governance practices, companies can improve financial transparency, strengthen investor confidence, and ensure long-term business sustainability while complying with tax regulations.

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