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| RESEARCH ARTICLE

The Effect of Related Party Transaction, Financial Distress, and Firm Size on Tax Avoidance with Earnings Management as Intervening Variable

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| ABSTRACT
This study aims to determine the effect of related party transactions, financial distress, and firm size on tax avoidance with earnings management as an intervening variable. The population in this study is manufacturing companies listed on the Indonesia Stock Exchange from 2018 - 2020, with a total of 168 companies. The sampling method used is a purposive sampling; 51 companies in the manufacturing sector are selected as samples. The analysis technique used is multiple linear regression and path analysis tests with the Eviews analysis tool. The results of this study are that related party transactions and financial distress have a negative effect on tax avoidance, while firm size has no effect on tax avoidance. Related party transactions and financial distress have no effect on earnings management, while firm size has a positive effect on earnings management. After being mediated by earnings management, firm size has a positive effect on tax avoidance, while related party transactions and financial distress have no effect on tax avoidance.

| KEYWORDS
Related party transaction, financial distress, firm size, tax avoidance, earnings management

| ARTICLE INFORMATION
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1. Introduction

Tax is an important sector of state revenue because it finances most of the state budget. Along with the development of the industrial world, the government needs to adapt regulations quickly and precisely. It is possible to quickly update tax regulations to reduce the potential for lost taxation in Indonesia because there are loopholes in tax regulations that can be exploited.

Efficiency or company performance is measured and recognized based on various sources that are multi-dimensional, which according to Lewin & Minton (1986), involves several goals and types of organizations whose results (loss or profit) reflect the strategic plans that have been made by managers. In the context of corporate efficiency, managers use tax planning efforts to maximize results. According to Shackelford & Shevlin (2001), effective tax planning is influenced by the firm's relationship with various parties and the company managers in balancing the value of tax savings with potential non-tax costs in determining the optimal tax avoidance.

Firms have incentives to minimize taxes (Park, 2018). Intra group companies carry out strategies to minimize taxes using related party transactions. When affiliated company transactions are larger, the level of tax avoidance is higher. Nadhifah and Arif (2020), in their research, conclude that transfer pricing has a negative effect on tax avoidance. In contrast to the results of this study, Falbo & Firmansyah (2018) states that aggressiveness in determining transfer pricing does not affect tax avoidance practices.

When a company is in financial distress, its accounting policies have the potential to be manipulated so that it can pay off its debts by increasing its temporary operating income. Dewi, Hamdi, & Rahmi (2020) concludes that financial distress has an effect on tax

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avoidance. Different results are stated by Valensia and Khairani (2019). Their research concludes that financial distress does not significantly affect tax avoidance.

According to political power theory, the larger the size of the company, the more resources it has to influence government policy so that it benefits the company (Siegfried, 1972). Company size is an effort to classify a company using several indicators, including the number of employees, total sales, total assets, and others. In the research by Dewinta & Setiawan (2016) and Kim & Im (2017), it is stated that company size has an influence on tax avoidance, with a positive relationship direction. However, the research by Dewi and Jati (2014) gives contradictory results; the results state that tax avoidance is not influenced by firm size.

Earnings management carried out by management can produce different consequences. Management will present high profits when management tries to attract interested parties (investors, suppliers, creditors, and others). The higher the amount of profit presented, the bigger the tax obligations that must be paid (tax costs appear). It is different when management tries to reduce taxable profits. They will report lower income, resulting in financial reporting costs, because there is a perception that the company's performance is poor (Shackelford & Shevlin, 2001).

Based on the phenomenon of differences in research results (research gap) that has been described above, the researchers are to re-test by developing from previous research.

2. Literature Review

2.1 Agency Theory

Agency theory explains the point of view of conflicts that occur between management and shareholders due to different interests (Jensen & Meckling, 1976). The conflicts arise due to differences (asymmetry) in goals. Management tends to prioritize their personal interests over the company. With the authority they have, managers can manage the company resources, so that management can take advantage of transaction gaps within the company group to support their interests.

2.2 Related Party Transaction

There are two main sources of rules governing related party transactions, namely the Statement of Financial Accounting Standards (PSAK), Number 7, and BAPEPAM regulations. PSAK Number 7 regarding related party disclosures provides guidance for the disclosure of related party transactions. Related party transaction is also regulated in BAPEPAM Regulation Number: VIII.G.7, concerning Guidelines for the Presentation of Financial Statements.

These regulations actually indicate that related party transaction is normal in the company's operations. However, this transaction provides an opportunity for management to commit fraud for the company's interests. In some cases in Indonesia, the affected shareholders are minority shareholders or who are not part of the company's founding family.

2.3 Financial Distress

Financial distress is a condition in which a company experiences liquidity difficulties, as indicated by the company's declining ability to fulfill its obligations to creditors. Financial distress is a condition in which the company's net profit has been negative for several years (Hofer, 1980). Financial distress is when financial conditions decline before experiencing bankruptcy or liquidation.

2.4 Firm Size

(Brigham & Houston, 2001) defines firm size as the average total net sales of the year until several years later. The company earns pre-tax income in terms of sales that are greater than variable costs and fixed costs. On the other hand, if sales are less than the fixed and variable costs, the company suffers a loss.

Large companies tend to have the resources to generate profits compared to small companies. Large and stable profits have the consequences of paying large taxes as well, so it can encourage management to do tax avoidance. In addition, the complexity of the business also provides more opportunities for tax avoidance.

2.5 Hypothesis Formulation

Referring to agency theory, the problem that arises is the occurrence of conflicts of interest between owners and management (Jensen & Meckling, 1976). This related party transaction is the key to unfair transfer pricing. The higher the transaction between groups of companies is, the greater the transfer pricing value. Park (2018) states that related party transactions affect the level of tax avoidance in the business group.

H1: Related party transaction has a positive effect on tax avoidance.

Financial distress experienced by the company can increase the potential for bankruptcy. To ensure the survival of the company, management carries out tax avoidance practices (Brondolo, 2009). Research conducted by Meilia & Adnan (2017) shows the results that financial distress has a significant effect on tax avoidance.

H2: Financial distress has a positive effect on tax avoidance.

According to political power theory, the larger the size of the company, the more resources it has to influence government policy so that it benefits the company (Siegfried, 1972). In research, Dewinta & Setiawan (2016) finds that firm size has a positive effect on tax avoidance.

H3: Firm size has a positive effect on tax avoidance.

Related party transaction indicates the occurrence of aggressive accounting, which allows companies to increase profits arbitrarily (David Sherman, 2001). Juvita & Siregar (2013) states that the amount of related party transaction has a positive effect on earnings management.

H4: Related party transaction has a positive effect on earnings management.

Companies with financial distress are more likely to present financial reports that are adjusted to the wishes of management (Koch, 2003). The results of previous research conducted by Saraswati et al. (2016) state that there is an influence of financial distress on earnings management.

H5: Financial distress has a positive effect on earnings management.

Profit setting is done by the manager because the amount of tax must be determined based on the profit in the financial statements (Sulistyanto, 2018). Research on firm size conducted by Purnama (2017) concludes that firm size has a significant positive effect on earnings management.

H6: Firm size has a positive effect on earnings management.

Related party transactions can be categorized into those that are detrimental or profitable (Utama, 2015). Agency theory views related party transactions from a conflict of interest perspective. Ellyani (2018) mentions in his research that there is an indirect effect of related party transactions on tax aggressiveness through earnings management, and earnings management can mediate the relationship between related party transactions and tax aggressiveness.

H7: Earnings management can mediate the effect of related party transactions on tax avoidance.

Financial distress encourages companies to increase temporary operating income by manipulating accounting policies so that it seems as if they can pay off debts or manipulate payments to creditors (Frank et al., 2009). Dewi et al. (2020) concluded that financial distress has an effect on tax avoidance. Rachel Muljono & Sung Suk (2018) stated that financial distress was proven to have a significant positive relationship with the magnitude of real earnings management.

H8: Earnings management can mediate the effect of financial distress on tax avoidance.

Large companies tend to have the resources to earn large and stable profits, with the consequences of paying large taxes as well, so that they can encourage management to do tax avoidance by exploiting gaps in the complexity of operations. Kim & Im (2017) mentions that company size has an effect on corporate tax avoidance. Ali et al. (2015), based on the research conducted, state that it can be concluded that firm size has a significant positive effect on earnings management.

H9: Earnings management can mediate the effect of firm size on tax avoidance.

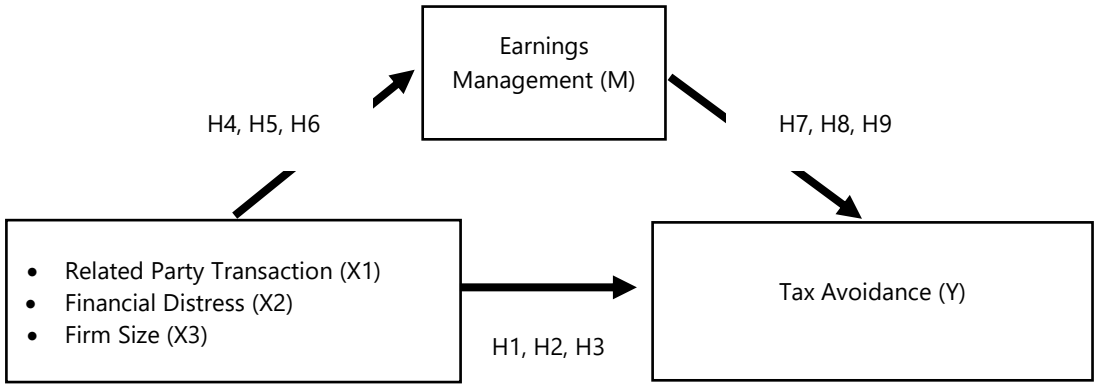

Figure 1. Framework of Thinking

3. Methodology

This research includes causal research with quantitative research type, where the research data uses numbers and statistical analysis.

3.1 The Definition of Operational Variable and Measurement Variable

3.1.1 Dependent Variable – Tax Avoidance

To measure tax avoidance, the researcher uses the Cash Effective Tax Rate (CETR) method. This model was used by Watts & Zimmerman (1978) and Chen et al. (2010)

$$CashETR_{it} = \frac{Cash\ Taxes\ Paid_{it}}{Pretax\ Income_{it}} \quad (1)$$

3.1.2 Mediation Variable – Earnings Management

Earnings management is measured using discretionary accruals with the Modified Jones Model (1991) Chen et al. (2010), as follows:

1) Total Accrual

$$TAC_{it} = NI_{it} - CFO_{it} \quad (2)$$

2) Nondiscretionary Total Accrual by using regression

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + \varepsilon_{it} \quad (3)$$

3) Nondiscretionary Total Accrual (NDTA)

$$NDTA_{it} = \beta_1 \left(\frac{1}{TA_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it} + \Delta Rec_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + \varepsilon_{it} \quad (4)$$

4) Discretionary Total Accrual (DTA)

$$DTA_{it} = \frac{TAC_{it}}{TA_{it}} - NDTA_{it} \quad (5)$$

Description:

TACit = Total Accrual of Company i in period t
$NIit$ = Company i's net income in period t
$CFOit$ = Operating cash flow (cash flow of operation) company i in period t
$TAit-1$ = Total assets of company i in year t-1
ΔRevit = Company i's revenue in period t minus revenue in period t-1
β = The coefficients obtained from the regression equation.
ΔTRec = Accounts receivable of company i in period t minus revenue accounts receivable in period t-1
$PPEit$ = Gross property, plant, and equipment
Eit = Error

3.1.3 Independent Variable

3.1.3.1 Related Party Transaction

Calculation of related party transactions, according to Wong (2003), is

$$RPT = \frac{Total\ related\ party\ debt\ transaction}{Total\ Liability\ owned\ by\ company} \quad (6)$$

3.1.4 Financial Distress

The indicator used for measuring this variable is the Z-score. The researchers who use the Z-score as an indicator of financial distress include Adhima (2017), Saraswati et al. (2016), Riadiani & Wahyudin (2015)

$$Z = 0{,}717X1 + 0{,}847X2 + 3{,}107X3 + 0{,}420X4 + 0{,}998X5 \quad (7)$$

Description:

Z : Z-Score Index
X1 : working capital/total asset
X2 : Retained Earning/Total Assets
X3 : EBIT/Total Assets
X4 : $\frac{\text{Market Value of Equity}}{\text{Book Value of Total Debt}}$

3.1.5 Firm Size

The indicator used in measuring the firm size variable is Natural Logarithm Total Assets owned by the company (Frank et al., 2009)

$$\text{Firm Size} = \text{Ln Total Assets}$$

3.2 Population and Research Sample

In this study, the population is manufacturing companies listed on the Indonesia Stock Exchange from 2018 - 2020. The companies that are used as the samples are 51 companies for 3 years, so the number of observations is 153.

3.3 Analysis Method

The data are analyzed using the Eviews version 10 application with the following stages: 1) Testing the estimation model; 2) Descriptive statistics; 3) classical assumption test (multicollinearity, autocorrelation, heteroscedasticity); 3) Regression analysis test; 4) Hypothesis test (Coefficient of determination test, f test, t-test, path analysis test). The following regression model is used in this study:

DA = α + β1RPT + β2ZScore + β3Size + e ..... Substructure 1

CashETR = α + β1RPT + β2ZScore + β3Size + β3DA + e ..... Substructure 2

4. Results and Discussion

4.1 Descriptive Analysis

Table 1. Descriptive Analysis

Variables	Obs.	Minimum	Maximum	Mean	Std. Dev.
TA (Y)	153	-2.940805	16.25408	-0.176551	1.389904
TPB (X1)	153	9.44E-05	0.862154	0.083229	0.159398
FD (X2)	153	0.536576	6.428470	1.991649	0.912319
UP (X3)	153	25.31018	33.49453	28.93532	1.707193
ML (Z)	153	-0.030012	0.008004	-0.000493	0.005802

Source: Output Eviews processed, 2022

From table 1, it can be seen that the sample consists of 51 companies for 3 years; the total data are 153 observations. The variables observed are TA (Tax Avoidance), TPB (Related Party Transaction), FD (Financial Distress), and ML (Profit Management).

Variable Y (Tax Avoidance/TA) has a minimum value of -2.940805 owned by PT. Malindo Feedmill Tbk 2020. The maximum value of 16,25407 is owned by PT. Surya Toto Tbk 2020. The average value is -0.176551, and the standard deviation is 1.389904.

Variable X1 (Related Party Transaction/TPB) has a minimum value of 9.44E-05 owned by PT. Tempo Scan Pacific Tbk 2020. The maximum value of 0.862154 is owned by PT. Beton Jaya Manunggal Tbk 2020. The average value is 0.083229, and the standard deviation is 0.159398. With a relatively small mean value, it shows that relatively few related party transactions are carried out by manufacturing companies in Indonesia.

Variable X2 (Financial Distress/FD) has a minimum value of 0.536576 owned by PT. Kimia Farma Tbk 2019. The maximum value of 6.428470 is owned by PT. Indonesia Fibreboard Industry Tbk 2020. The average value is 1.991649, and the standard deviation is 0.912319. The discriminant zone is when Z > 2.9 ("safe" zone), 1.23 < Z < 2.9 ("gray" zone), Z < 1.23 ("distress" zone).

Variable X3 (Company Size/UP) has a minimum value of 25.31018 owned by PT. Pratama Abadi Busa Industri Tbk 2020. The maximum value of 33,49453 is owned by PT. Astra International Tbk in 2019. The average value is 28.93532, and the standard deviation is 1.707193.

Variable Z (Profit Management/ML) has a minimum value of -0.030012 owned by PT. Jembo Cable Company Tbk 2020. The maximum value of 0.008004 is owned by PT. Trisula International Tbk 2018. The average value is -0.000493, and the standard deviation is 0.005802.

4.2 Estimation Model Test

From the results of the Chow test, it is obtained that the chi-square cross section is 0.1016 > 5%, so the common effect model is chosen. From the results of the Hausman test, the random cross-section value is 0.9807 > 5%, so the random effect model is chosen.

4.2.1 Classic assumption test

Substructure 1

The result of the autocorrelation test is 1.607408. So it can be concluded that 1.776 <2.009 < 2.392592 means that this regression model does not occur in autocorrelation.

Substructure 2

The result of the autocorrelation test is 1.607408. So it can be concluded that 1.776 <2.009 < 2.392592 means that this regression model does not occur in autocorrelation.

4.2.2 Multicollinearity Test

The results of the multicollinearity test for substructures 1 and 2 show that there is no high correlation value between the independent variables, not exceeding 0.90, so it can be concluded that there is no multicollinearity between the independent variables (Ghozali, 2016).

4.2.3 Heteroscedasticity Test

The results of the heteroscedasticity output for substructures 1 and 2 in a cross-sectional panel show a probability value of 0.000. Because the p-value is 0.000 <0.05, Ho is rejected, which means the regression model is heteroscedasticity, so it uses cross-section weights.

4.3 Regression Analysis Test

Substructure 1

Table 2. Hypotheses Test Substructure 1

Variable	Direction	Coefficient	Prob.	Conclusion
C		-2.464018	0.0149	
TPB (X1)	Negative	-0.503786	0.6152	H3 rejected
FD (X2)	Positive	1.560167	0.1208	H4 rejected
UP (X3)	Positive	2.776701	0.0062	H5 rejected
Adj R2			0.049150	
Prob F Statistic			0.014663	

Source: Output Eviews processed, 2022

Based on table 2, the following multiple linear regression equation is obtained:

ML = -0.007134 - 0.000918TPB + 0.000207FD + 0.000246UP + e

Substructure 2

Table 3. Hypotheses Test Substructure 2

Variable	Direction	Coefficient	Prob.	Conclusion
C		-0.301969	0.7631	
TPB (X1)	Negatif	-2.488041	0.0140	H1 rejected
FD (X2)	Negatif	-3.742776	0.0003	H2 rejected
UP (X3)	Negatif	-1.809258	0.0724	H3 accepted
ML (Z)	Negatif	-7.219603	0.0000	
Adj R2			0.320920	
Prob F Statistic			0.000000	

Source: processed data, 2022

Based on table 3, the multiple linear regression equation is as follows:

TA = -0.084911 + -0.021952 TPB + -0.021952FD + -0.004967UP + -8.896874ML + e

4.3.1 The Coefficient of Determination Analysis

From the results of the analysis in the table above, it is obtained information that on R Square Adjusted Substructure 1 in the form of Z 0.049, which means that Earnings Management is influenced by (X1), (X2), (X3) by 4.9% and the remaining 95.1% is influenced by other variables. Information on R Square Adjusted Substructure 2 is Y 0.320920, which means that Tax Avoidance is influenced by (X1), (X2), (X3), and (Z) by 32.09%, and the remaining 67.91% is influenced by other variables.

4.4 F test

The calculated F values for Substructures 1 and 2 are greater than the F table, and the significance value obtained is less than 0.05. It can be concluded that this regression model rejects H0 and accepts Ha.

4.5 Path Analysis (Sobel Test)

Table 4. Path Analysis

Path	Indirect Coefficient	Sobel Statistic	Conclusion
T => ML => TA	0,0081673	0,5028	Sobel Ststistic < 1,96 (H_a rejected)
FD => ML => TA	-0,00184	-1,521	Sobel Ststistic < 1,96 (H_a rejected)
UP => ML => TA	0,00219	-2,591	Sobel Ststistic > 1,96 (H_a accepted)

Source: processed data, 2022

4.6 Discussion of Research Results

4.6.1 Related party transaction has a positive effect on tax avoidance

Based on the results of the t-test, it is stated that the related party transaction variable has a significant negative effect on tax avoidance, so Ha is rejected. This study cannot prove that companies experiencing financial distress tend to practice tax avoidance. The company's transparency in disclosing related party transactions shows management's efforts to reduce concerns about tax avoidance. However, in the event that the company does not describe in detail the related party transactions, then the possibility of tax avoidance is carried out through subsidiaries. Tax Avoidance is carried out through transactions that can later ease the company's tax burden so that a buying and selling transaction flow is made through subsidiaries. The results of this study are in line with research conducted by Nadhifah & Arif (2020) in their research which concludes that transfer pricing has a negative effect on tax avoidance.

4.6.2 The Effect of Financial Distress on Tax Avoidance

Based on the results of the t-test, it is stated that the financial distress variable has a significant negative effect on tax avoidance, so Ha is rejected. Companies with major financial distress tend to report higher taxes. By looking at the trend of declining profit before tax during the observation period, it is possible for the company to avoid overpayment status so that it does not become a priority for tax office audits. The results of this study are in line with research by Nadhifah and Arif (2020) and Hartoto (2018), which show that financial distress has a negative effect on tax avoidance.

4.6.3 The Effect of Firm Size on Tax Avoidance

Referring to the results of the t-test, it is stated that the firm size variable has no effect on tax avoidance, so Ha is rejected. This result is not in accordance with Siegfried (1972), which states that in accordance with Political power theory, large companies do less tax avoidance. From the research data sample, more company sizes are below the average value. In line with the statement

theory expressed by Siegfried (1972), the majority of manufacturing companies on the IDX has limited resources to carry out tax avoidance. This result is in line with research conducted by Nyoman et al. (2014), which states that company size, multinational company institutional ownership, and the proportion of the board of commissioners have no effect on tax avoidance conducted by companies.

4.6.4 The Effect of Related Party Transaction on Earnings Management

The test results on the fourth hypothesis, the related party transaction variable has no effect on the Earnings Management variable, so Ha is rejected. This study cannot prove the effect of RPT on earnings management. BAPEPAM regulations explain that companies that have related party transactions must disclose all types and amounts of related party transactions in the financial statements separately. Judging from the sample of companies used, as many as 119 observations are below the average value of special party transactions. From this data, the majority of manufacturing companies are dominated by the tendency to make little use of related transactions in earnings management policies. This result is in line with research conducted by Bachtiar (2003), which states that the better the disclosure of related party transactions, the smaller the earnings management by the company.

4.6.5 The Effect of Financial Distress on Earnings Management

The test results on the fifth hypothesis, the financial distress variable has no effect on the Earnings Management variable, so Ha is rejected. This study cannot prove the effect of FD on earnings management. With reference to the Z score of 1.23, it is stated that the company is in the "distress zone", then obtained as many as 122 observations are not included in the distress category, while 31 observations are in the distress zone. With this composition, the financial distress variable is unable to influence the tax avoidance variable. The result of this study is in line with (Kristyaningsih et al., 2021), which states that financial distress has no effect on earnings management.

4.6.6 The Effect of Firm Size on Earnings Management

The test results on the sixth hypothesis, the firm size variable has a significant effect on the Earnings Management variable so that Ha is accepted. This study proves the effect of FD on earnings management. Large-scale companies use accounting options to reduce earnings reporting. This Hypothesis relates to government regulations, such as tax laws. The size of the tax that will be billed depends on the size of the company's profit. This condition stimulates managers to manage and regulate their profits in a certain amount so that the taxes paid are low (Sulistyanto, 2018). The result of this study is in line with research on firm size conducted by (Purnama, 2017), concluding that firm size has a significant positive effect on earnings management.

4.6.7 The Effect of Related Party Transaction on Tax Avoidance with Earnings Management as a Mediation Variable

The test results on the seventh hypothesis concluded that the Effect of Related Party Transaction on Tax Avoidance with Earnings Management as a Mediation Variable is rejected. This hypothesis is not proven because the earnings management variable is not strong enough to encourage the significant effect of the related party transaction variable on tax avoidance. With the average company doing earnings management of 0.493%, it shows that the company does not implement an earnings management strategy specifically to minimize tax payments. (Khasanah, 2021) obtained the same research results, that earnings management did not show a significant effect as a mediating variable of the effect of related party transactions on tax avoidance. This result is different from the result obtained (Cendekiawati & Harto, 2016), which states that related party transaction does not directly affect tax avoidance, while earnings management is proven to mediate the relationship between related party transaction and tax avoidance.

4.6.8 The Effect of Financial Distress on Tax Avoidance with Earnings Management as a Mediation Variable

The test results on the eighth hypothesis show that earnings management cannot mediate the effect of financial distress on tax avoidance. The results of descriptive statistics on earnings management show an average value of -0.000493, indicating that relatively small manufacturing companies carry out earnings management. By looking at the direction of the negative relationship, management uses it to minimize profits. The inability of earnings management to mediate is also due to the fact that most manufacturing companies are not in a state of distress. Kusumadewi (2022) states that earnings management cannot mediate the effect of institutional ownership, public ownership, and profitability variables on tax avoidance.

4.6.9 The Effect of Firm Size on Tax Avoidance with Earnings Management as a Mediation Variable

From the test results, firm size has a significant indirect effect on tax avoidance. In the Sobel test, earnings management has a negative value, so the larger the company that carries out earnings management, it tends to reduce tax avoidance actions. So that the profit value displayed in the financial statements tends to be the main goal of the management. The results of this study are in line with Kim & Im (2017), which state that company size has an effect on corporate tax avoidance. Ali et al. (2015) state that company size has a significant positive effect on earnings management.

5. Conclusion, Implication, and Suggestions

5.1 Conclusion

Based on the results of data analysis that has been carried out on a sample of manufacturing companies listed on the Indonesia Stock Exchange in 2018 - 2020, it is concluded that related transactions, financial distress, and company size do not have a significant positive effect on tax avoidance. Related party transactions and financial distress have no significant effect on earnings management, but firm size has a significant positive effect on earnings management. The earnings management variable is only able to mediate the effect of firm size on tax avoidance.

5.2 Suggestion

After doing this research, the researcher realizes that there are still many shortcomings, so the researcher provides some suggestions for further research, namely as follows:

1. In this study, the samples used are the manufacturing companies listed on the Indonesia Stock Exchange for the period 2018 to 2020. It is hoped that further researchers can increase the samples of companies and increase the observation periods.

2. In this study, the value of Adjusted R2 is still low; it is hoped that further researchers can add variables that affect tax avoidance, such as profitability, GCG, leverage, and other variables.

3. Earnings management is proven to fully mediate the effect of company size on tax avoidance, so it is hoped that the regulator will be able to carry out adequate supervision so that earnings management and tax avoidance actions do not violate the applicable regulations.

4. Earnings management is proven to fully mediate the influence of company size on tax avoidance, so it is hoped that the regulator will be able to carry out adequate supervision so that earnings management and tax avoidance actions do not violate applicable regulations.

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Appendices

Dependent Variable: Z_ML
Method: Panel EGLS (Cross-section weights)
Date: 03/01/22 Time: 10:41
Sample: 2018 2020
Periods included: 3
Cross-sections included: 51
Total panel (balanced) observations: 153
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.007134	0.002895	-2.464018	0.0149
X1_TPB	-0.000918	0.001821	-0.503786	0.6152
X2_FD	0.000207	0.000133	1.560167	0.1208
X3_UP	0.000246	8.86E-05	2.776701	0.0062

Weighted Statistics

R-squared	0.067916	Mean dependent var	0.001149
Adjusted R-squared	0.049150	S.D. dependent var	0.006528
S.E. of regression	0.005462	Sum squared resid	0.004445
F-statistic	3.618970	Durbin-Watson stat	1.607408
Prob(F-statistic)	0.014663		

Unweighted Statistics

R-squared	0.002953	Mean dependent var	-0.000493
Sum squared resid	0.005102	Durbin-Watson stat	1.350301

Dependent Variable: Y_TA
Method: Panel EGLS (Cross-section weights)
Date: 03/01/22 Time: 15:01
Sample: 2018 2020
Periods included: 3
Cross-sections included: 51
Total panel (balanced) observations: 153
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.026714	0.088467	-0.301969	0.7631
X1_TPB	-0.084911	0.034128	-2.488041	0.0140
X2_FD	-0.021952	0.005865	-3.742776	0.0003
X3_UP	-0.004967	0.002745	-1.809258	0.0724
Z_ML	-8.896874	1.232322	-7.219603	0.0000

Weighted Statistics

R-squared	0.338790	Mean dependent var	-4.164203
Adjusted R-squared	0.320920	S.D. dependent var	4.968741
S.E. of regression	1.096293	Sum squared resid	177.8752
F-statistic	18.95803	Durbin-Watson stat	1.408710
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.004217	Mean dependent var	-0.176551
Sum squared resid	292.4005	Durbin-Watson stat	1.513913