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A Comparative Analysis of the Effect of Tax Planning, Profitability, and Leverage on Earnings Management in Financial Sector Companies Listed on the Indonesia Stock Exchange and Bursa Malaysia during 2020–2024

Feby Fitriani Yolanda Siagian[1]*, Iskandar Muda[2], Rina Br. Bukit[3]
University of North Sumatera
Corresponding Author: Feby Fitriani Yolanda Siagian febysiagian008@gmail.com

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A B S T R A C T

This study aims to examine the effects of tax planning, profitability, and leverage on earnings management in financial sector companies listed on the Indonesia Stock Exchange and Bursa Malaysia during 2020–2024. The sample was selected using a purposive sampling technique, resulting in 63 companies with a total of 316 firm-year observations. Panel data regression analysis was conducted using EViews software, preceded by stationarity tests, cointegration tests, and classical assumption tests. The findings reveal that tax planning has a negative and significant effect on earnings management. Profitability does not have a significant impact on earnings management. Meanwhile, leverage has a positive and significant effect on earnings management. These results suggest that tax planning strategies and debt utilization are important determinants of earnings management practices among financial sector companies in Indonesia and Malaysia

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INTRODUCTION

Financial statements represent one of the primary sources of information used by stakeholders to evaluate a company's financial performance and position. Among the information disclosed, earnings are considered a critical indicator in economic decision-making by investors, creditors, and regulators. However, the quality of earnings information may be affected by earnings management practices undertaken by management. Earnings management refers to managerial actions that utilize accounting policies and judgment to influence reported earnings, thereby portraying a more favorable financial condition of the company (Desta, 2017). This practice arises due to agency conflicts resulting from the separation between ownership and control, potentially reducing the credibility and reliability of financial reporting (Erawati, 2021).

In the financial sector, particularly banking and financing companies, earnings management has distinct characteristics compared to other industries. Banking performance is highly influenced by lending activities, where Loan Loss Provisions (LLP), known in Indonesia as Cadangan Kerugian Penurunan Nilai (CKPN), constitute a major accrual component affecting reported earnings (Ozili, 2020). LLP functions as a buffer against potential credit losses arising from borrowers' default. Adequate and conservative provisioning can protect bank capital during periods of increased non-performing loans (Skala, 2021). Since LLP is recognized as an expense in the income statement, changes in its amount directly affect reported earnings. Consequently, LLP has frequently been used as an instrument for earnings management, particularly through income smoothing practices (El Sood, 2012). Evidence from China also indicates that commercial banks employ LLP as a mechanism to smooth earnings (Dong, Liu, & Hu, 2012).

The implementation of International Financial Reporting Standard (IFRS) 9 introduced the Expected Credit Loss (ECL) model, requiring earlier recognition of potential credit losses. Although IFRS 9 aims to improve credit loss reporting quality, the standard provides substantial managerial discretion in estimating expected losses, thereby creating opportunities for earnings management through credit provisioning policies (Skala, 2021). In Indonesia, IFRS 9 has been adopted through PSAK 71, effective since 2020, while Malaysia implements the equivalent standard through Malaysian Financial Reporting Standard (MFRS) 9.

Several factors have been identified as determinants of earnings management, including tax planning, profitability, and leverage. Tax planning refers to strategies employed by firms to minimize tax liabilities by utilizing provisions within tax regulations (Sari, 2022). While tax planning aims to achieve tax efficiency, it may also create incentives for managers to manipulate earnings to reduce taxable income (Anshari & Kusumawati, 2023). Previous studies have shown inconsistent findings regarding the relationship between tax planning and earnings management. Kennedy et al. (2023) and Febriana (2023) found that tax planning positively influences earnings management, whereas Petronila et al. (2025) reported a negative relationship. Furthermore, Prinanda et al. (2025) found no significant effect.

Profitability also plays an important role in influencing managerial behavior. Firms with high profitability may attempt to maintain stable earnings performance to meet market expectations, thereby encouraging earnings smoothing practices (Dang & Pham, 2022). Dewi and Sari (2022) argued that profitable companies tend to preserve their financial image through earnings management. However, empirical evidence remains inconclusive. Trinh and Nguyen (2022) and Khuong et al. (2023) documented a positive relationship between profitability and earnings management, whereas Ozili (2021) found no significant association within the banking industry.

Leverage has also been widely recognized as a factor influencing earnings management. Companies with high debt levels face greater pressure to comply with debt covenants and maintain creditor confidence, increasing incentives to engage in accrual-based earnings management (Ghose, Borgohain, & Laskar, 2025). Habib et al. (2022) and Dang and Nguyen (2022) found a positive relationship between leverage and earnings management, while Yulianingtias and Suryadi (2024) reported insignificant results.

Agency theory explains that conflicts of interest between shareholders and managers, coupled with information asymmetry, encourage opportunistic managerial behavior in financial reporting (Chen et al., 2025). Under such conditions, tax planning activities, profitability pressures, and leverage constraints may motivate managers to engage in earnings management practices to achieve short-term objectives.

Empirical phenomena observed in financial sector companies listed on the Indonesia Stock Exchange and Bursa Malaysia indicate fluctuations in tax planning activities, profitability, leverage, and CKPN during 2020–2024. Indonesian banking and financing companies exhibit varying CKPN levels that potentially reflect earnings management behavior through credit loss provisioning. Similar patterns are also observed among Malaysian financial institutions despite operating under MFRS 9. These similarities suggest that earnings management through discretionary loan loss provisioning remains relevant within both markets.

Despite extensive studies examining earnings management determinants, empirical findings remain inconsistent, particularly within the financial sector and cross-country contexts. Moreover, limited studies have simultaneously investigated tax planning, profitability, and leverage as determinants of earnings management in financial companies across Indonesia and Malaysia following the adoption of IFRS 9-based standards. Therefore, this study aims to examine the effect of tax planning, profitability, and leverage on earnings management in financial sector companies listed on the Indonesia Stock Exchange and Bursa Malaysia during the period 2020–2024. The findings are expected to contribute to the literature on earnings management in emerging markets and provide practical insights for regulators, investors, and corporate management regarding financial reporting quality.

THEORETICAL REVIEW

Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), explains the contractual relationship between principals (shareholders) and agents (managers), where managers are entrusted with operating the company on behalf of shareholders. This relationship often creates conflicts of interest due to differences in objectives and information asymmetry. Managers may act opportunistically to maximize personal benefits, such as obtaining performance-based compensation or maintaining their positions, by utilizing flexibility in accounting methods and tax policies. In the context of earnings management, tax planning, profitability pressures, and leverage obligations may encourage managers to manipulate reported earnings to achieve short-term objectives, thereby reducing the quality of financial reporting (Chen et al., 2025; Besoain & Sepúlveda, 2025).

Positive Accounting Theory

Positive Accounting Theory (PAT), developed by Watts and Zimmerman (1986), explains managerial choices of accounting methods based on economic incentives. This theory comprises three hypotheses: the bonus plan hypothesis, which suggests that managers select accounting policies that increase earnings to maximize compensation; the debt covenant hypothesis, which argues that highly leveraged firms tend to adopt income-increasing accounting methods to avoid debt covenant violations; and the political cost hypothesis, which proposes that highly profitable firms may reduce reported earnings to minimize political scrutiny and tax burdens (Tartono et al., 2021). These hypotheses provide a theoretical foundation for understanding the relationships between tax planning, profitability, leverage, and earnings management.

Fraud Triangle Theory

Fraud Triangle Theory, proposed by Cressey, suggests that fraudulent behavior arises from the interaction of three elements: pressure, opportunity, and rationalization. Financial pressures, such as profit targets and debt obligations, may motivate managers to engage in earnings management practices. Opportunities emerge from weak internal controls and flexibility in accounting standards, including discretion in tax planning and loan loss provisioning policies. Rationalization occurs when managers justify manipulative actions as necessary to satisfy stakeholder expectations or maintain organizational sustainability. These three dimensions collectively explain the occurrence of earnings management behavior within organizations (Ningsih, 2023; Handayani & Wardhaningrum, 2023; Maharany, 2024; Sipathuar & Wijaya, 2024).

Tax Planning

Tax planning refers to legal strategies employed by companies to minimize tax liabilities by utilizing available tax regulations and incentives (Sari & Hartanti, 2022). Although intended to improve tax efficiency, aggressive tax planning may create opportunities for managers to influence reported earnings through accounting discretion. The existence of temporary differences between accounting standards and tax regulations, including deferred tax recognition under PSAK 46, may increase managerial flexibility in determining taxable income. Consequently, tax planning has often been associated with earnings management practices, as managers attempt to balance tax minimization objectives with favorable financial reporting outcomes (Erawati & Yung Siang, 2021; Chen, Yong, & Zeng, 2024; Liman, 2025).

Profitability

Profitability reflects a company's ability to generate earnings from its resources and is commonly measured using Return on Assets (ROA). Higher profitability generally indicates effective management performance and attracts investors due to expectations of greater returns. However, profitable firms may have incentives to engage

in earnings management to maintain earnings stability and meet market expectations. Managers may adjust reported earnings upward or downward to portray consistent financial performance and sustain investor confidence. Therefore, profitability not only serves as an indicator of operational efficiency but also potentially motivates earnings management behavior (Kalbuana et al., 2022; Ningrum & Mahroji, 2024; Fitria et al., 2022).

Leverage

Leverage represents the extent to which a company relies on debt financing to support its operations and is frequently measured using the Debt to Asset Ratio (DAR). Firms with high leverage face pressure to comply with debt covenants and maintain creditor confidence, increasing incentives to engage in earnings management practices. Managers may adjust reported earnings to avoid covenant violations and present favorable financial conditions to creditors and investors. Previous studies indicate that leverage positively influences earnings management, particularly when firms seek to preserve financial stability under substantial debt obligations (Erawati & Yung Siang, 2021; Le, 2020; Kaldonski & Tomasz, 2020; William & Widjaja, 2023).

Earnings Management

Earnings management refers to deliberate managerial intervention in financial reporting processes to influence reported earnings while remaining within generally accepted accounting principles (Schipper, 1989). Managers engage in earnings management for various reasons, including maximizing compensation, meeting investor expectations, reducing tax burdens, and avoiding debt covenant violations. In financial institutions, Loan Loss Provisions (LLP) or Cadangan Kerugian Penurunan Nilai (CKPN) have become important instruments for earnings management because they directly affect reported profits and involve substantial managerial discretion. The adoption of IFRS 9 and its Expected Credit Loss (ECL) model has further expanded opportunities for managerial judgment in determining credit loss provisions, thereby increasing the potential for earnings management practices (Rizki & Baraja, 2022; Resende & Carmo, 2024; Allini & Macchioni, 2025; Yu et al., 2024).

METHODOLOGY

This study employs a quantitative approach to examine the effects of tax planning, profitability, and leverage on earnings management in banking subsector companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia during the 2020–2024 period. The study utilizes secondary data in the form of annual financial statements obtained from the official websites of the IDX and Bursa Malaysia. The sample was selected using a purposive sampling technique based on predetermined criteria, resulting in 63 companies with a total of 316 observations. Earnings management is proxied by Loan Loss Provision (LLP), while tax planning is measured using the Tax Retention Rate (TRR), profitability is measured by Return on Assets (ROA), and leverage is measured by the Debt to Asset Ratio (DAR). Data analysis was conducted using E-Views software through panel data regression analysis, including the selection of the most appropriate model using the Chow test, Hausman test, and Lagrange Multiplier test. In addition, this study performed descriptive statistical analysis, stationarity and cointegration tests, classical assumption tests, and hypothesis testing using partial tests (t-test), simultaneous tests (F-test), and the coefficient of determination (Adjusted R^2).

RESULTS

Descriptive Statistical Analysis

Descriptive statistical analysis is used to describe the general characteristics of the research data. The data in this study consist of banking and financial sector companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia for the 2020–2024 period, with a total of 316 observations (Indonesia: 246; Malaysia: 70). The variables analyzed include Earnings Management (Y), Tax Planning (X1), Profitability (X2), and Leverage (X3).

Table 1. Descriptive Statistics of Indonesia

	Y	**X1**	**X2**	**X3**
Mean	0.091	0.795	0.015	0.696
Median	0.038	0.780	0.011	0.768
Maximum	4.043	9.418	0.084	0.915
Minimum	0.001	-3.738	-0.181	0.008
Std. Dev.	0.285	0.733	0.023	0.219
Skewness	11.402	6.265	-2.084	-1.524
Kurtosis	153.901	89.950	24.817	4.419
Jarque-Bera	238734.473	79103.018	5056.644	115.870
Probability	0.000	0.000	0.000	0.000
Sum	22.47087023	195.5405789	3.591109045	171.1139891
Sum Sq. Dev.	19.84685998	131.7973804	0.130590174	11.72863472
Observations	246	246	246	246

Source: Eviews, 2026

Table 1. shows the descriptive statistical results for Indonesian companies. The average value of Earnings Management is 0.091, Tax Planning is 0.795, Profitability is 0.015, and Leverage is 0.696. The variation in standard deviation indicates differences in financial behavior among companies during the observation period.

Table 2. presents the descriptive statistics for Malaysian companies.

	Y	X1	X2	X3
Mean	0.027	0.772	0.009	0.869
Median	0.023	0.762	0.009	0.885
Maximum	0.071	1.231	0.015	0.908
Minimum	0.004	0.650	-0.020	0.745
Std. Dev.	0.015	0.063	0.005	0.045
Skewness	1.034	5.580	-3.800	-1.552
Kurtosis	3.979	43.094	25.733	4.281
Jarque-Bera	15.275	5051.962	1675.762	32.889

Probability	0.000	0.000	0.000	0.000
Sum	1.873	54.017	0.614	60.845
Sum Sq. Dev.	0.016	0.270	0.001	0.142
Observations	70	70	70	70

Table 2. presents the descriptive statistics for Malaysian companies. The results show that the average Earnings Management is 0.027, Tax Planning is 0.772, Profitability is 0.009, and Leverage is 0.869. Overall, Malaysian firms tend to have higher leverage compared to Indonesian firms, indicating stronger reliance on external financing.

Classical Assumption Test

Stationarity Test

The stationarity test is conducted to ensure that the data used in the regression analysis are stable over time.

Table 3. Stationarity Test of Earnings Management

Null Hypothesis: Unit root (individual unit root process)			
Series: Y			
Date: 05/28/26 Time: 07:36			
Sample: 2020 2024			
Exogenous variables: Individual effects			
Automatic selection of maximum lags			
Automatic lag length selection based on SIC: 0			
Total (balanced) observations: 252			
Cross-sections included: 63 (1 dropped)			
Method		Statistic	Prob.**
ADF - Fisher Chi-square		212.692	0.000
ADF - Choi Z-stat		-1.659	0.049

Sumber: Eviews ,2026

Table 3 shows that the probability values of ADF-Fisher Chi-square (0.000) and ADF-Choi Z-stat (0.049) are below 0.05. Therefore, Earnings Management is stationary at level I (0).

Table 4. Stationarity Test of Tax Planning

Null Hypothesis: Unit root (individual unit root process)

Series: X1

Date: 05/28/26 Time: 07:37

Sample: 2020 2024

Exogenous variables: Individual effects

Automatic selection of maximum lags

Automatic lag length selection based on SIC: 0

Total (balanced) observations: 252
Cross-sections included: 63 (1 dropped)

Method	Statistic	Prob.**
ADF - Fisher Chi-square	439.765	0.000
ADF - Choi Z-stat	-10.784	0.000

Table 4 indicates that Tax Planning is stationary at level with a probability value of 0.000.

Table 5. Stationarity Test of Profitabilit

Null Hypothesis: Unit root (individual unit root process)
Series: X2
Date: 05/28/26 Time: 07:38
Sample: 2020 2024
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0
Total (balanced) observations: 252
Cross-sections included: 63 (1 dropped)

Method	Statistic	Prob.**
ADF - Fisher Chi-square	254.337	0.000
ADF - Choi Z-stat	-3.831	0.000

Table 5. shows that Profitability is stationary at level with a probability value of 0.000.

Table 6 Stationarity Test of Leverage

Null Hypothesis: Unit root (individual unit root process)		
Series: X3		
Date: 05/28/26 Time: 07:39		
Sample: 2020 2024		
Exogenous variables: Individual effects		
Automatic selection of maximum lags		
Automatic lag length selection based on SIC: 0		
Total (balanced) observations: 248		
Cross-sections included: 62 (2 dropped)		
Method	Statistic	Prob.**
ADF - Fisher Chi-square	178.45924	0.00099
ADF - Choi Z-stat	NA	

Table 5.6 shows that Leverage is stationary at level with a probability value of 0.001.

Cointegration Test

Table 7. Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.250	185.102	47.856	0.000
At most 1 *	0.138	95.566	29.797	0.000
At most 2 *	0.080	49.500	15.495	0.000
At most 3 *	0.073	23.466	3.841	0.000
Trace test indicates 4 cointegrating equation(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Max-eigenvalue)				
Hypothesized		Max-Eigen	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.250	89.536	27.584	0.000
At most 1 *	0.138	46.066	21.132	0.000
At most 2 *	0.080	26.034	14.265	0.000
At most 3 *	0.073	23.466	3.841	0.000

Source: Eviews ,2026

Table 7 shows that both Trace Statistic and Max-Eigen Statistic values are greater than the 5% critical value, with probability values of 0.000. This indicates that there is a long-run relationship among the variables in the model.

Panel Data Regression Model Selection.

Common Effect Model (CEM)

Table 8. Common Effect Model Results

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 05/28/26 Time: 08:04				
Sample: 2020 2024				
Periods included: 5				
Cross-sections included: 64				
Total panel (unbalanced) observations: 316				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.25506	0.06562	3.88668	0.00012
X1	-0.02576	0.02192	-1.17528	0.24078
X2	-1.59802	0.75043	-2.12946	0.03400
X3	-0.18583	0.07512	-2.47397	0.01389

Source: Eviews, 2026

Table 8. presents the estimation results using the Common Effect Model as the initial regression model.

Fixed Effect Model (FEM)

Table 9. Fixed Effect Model Results

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 05/28/26 Time: 08:04				
Sample: 2020 2024				
Periods included: 5				
Cross-sections included: 64				
Total panel (unbalanced) observations: 316				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.2527	0.1423	-1.7766	0.0769
X1	-0.0486	0.0183	-2.6623	0.0083
X2	-1.5763	0.8192	-1.9241	0.0555
X3	0.5301	0.1872	2.8318	0.0050

Table 9 shows that Tax Planning has a negative significant effect on Earnings Management, Profitability is not significant, while Leverage has a positive significant effect.

Random Effect Model (REM)

Table 10. Random Effect Model Results

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 05/28/26 Time: 08:04
Sample: 2020 2024
Periods included: 5
Cross-sections included: 64
Total panel (unbalanced) observations: 316
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.1578	0.0835	1.8896	0.0597
X1	-0.0475	0.0177	-2.6782	0.0078
X2	-1.5395	0.7339	-2.0977	0.0367
X3	-0.0313	0.1018	-0.3080	0.7583

Source: Eviews, 2026.

Table 10. Indicates that Tax Planning and Profitability have a negative significant effect, while Leverage is not significant.

Model Specification Tests

Table 11. Chow Test Results

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.945	-63249.000	0.000
Cross-section Chi-square	256.406	63.000	0.000

Table 11 shows a probability value of 0.000 (< 0.05), indicating that the Fixed Effect Model is more appropriate than the Common Effect Model.

Table 12 Hausman Test Results

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.9672	3.0000	0.0007

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	-0.0486	-0.0475	0.0000	0.7918
X2	-1.5763	-1.5395	0.1326	0.9195
X3	0.5301	-0.0313	0.0247	0.0004

Table 12 shows a probability value of 0.0007 (< 0.05), confirming that the Fixed Effect Model is the most appropriate model.

Classical Assumption Tests

Multicollinearity Test

Table 13. Multicollinearity Test Results

Variance Inflation Factors
Date: 05/28/26 Time: 08:08
Sample: 1 316
Included observations: 316

	Coefficient	Uncentered	Centered

Variable	Variance	VIF	VIF
C	0.00431	21.70949	
X1	0.00048	2.52322	1.01254
X2	0.56315	1.70531	1.20264
X3	0.00564	16.54263	1.21638

Source: Eviews,2026.

Table 13 shows that all centered VIF values are below 10, indicating that there is no multicollinearity problem in the model.

Heteroscedasticity Test

Table 14. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity

F-statistic	0.47477254	Prob. F (3,312)	0.700071
Obs*R-squared	1.43602249	Prob. Chi-Square (3)	0.697113
Scaled explained SS	139.212064	Prob. Chi-Square (3)	0.000000

Table 14 shows a probability value of 0.6971 (> 0.05), indicating that the model is free from heteroscedasticity.

Panel Data Regression Analysis

Table 15. Panel Regression Results (Fixed Effect Model)

Dependent Variable: Y
Method: Panel Least Squares
Date: 05/28/26 Time: 08:04
Sample: 2020 2024
Periods included: 5
Cross-sections included: 64
Total panel (unbalanced) observations: 316

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.2527	0.1423	-1.7766	0.0769
X1	-0.0486	0.0183	-2.6623	0.0083
X2	-1.5763	0.8192	-1.9241	0.0555
X3	0.5301	0.1872	2.8318	0.0050

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.5675	Mean dependent var	0.0770
Adjusted R-squared	0.4529	S.D. dependent var	0.2525
S.E. of regression	0.1868	Akaike info criterion	-0.3319
Sum squared resid	8.6879	Schwarz criterion	0.4644
Log likelihood	119.4368	Hannan-Quinn criter.	-0.0138
F-statistic	4.9512	Durbin-Watson stat	2.1893
Prob(F-statistic)	0.0000		

Based on Table 15, Tax Planning has a negative significant effect on Earnings Management, Profitability is not significant, and Leverage has a positive significant effect.

Hypothesis Testing

Table 16. Hypothesis Test Results

No	Hypothesis	Coefficient	Probability	Decision
1	H1: Tax Planning has a positive and significant effect on Earnings Management	-0.0486	0.0083	Rejected
2	H2: Profitability has a positive and significant effect on Earnings Management	-1.5763	0.0555	Rejected
3	H3: Leverage has a positive and significant effect on Earnings Management	0.5301	0.0050	Accepted

Table 16 shows that Tax Planning has a negative and significant effect on Earnings Management, resulting in the rejection of H1. Profitability has no significant effect on Earnings Management, leading to the rejection of H2. In contrast, Leverage has a positive and significant effect on Earnings Management, supporting H3.

DISCUSSION

Effect of Tax Planning on Earnings Management

Based on the regression results, tax planning has a negative and significant effect on earnings management, with a coefficient value of -0.0486 and a probability value of 0.0083 (< 0.05). This finding indicates that higher levels of tax planning are associated with lower earnings management practices among banking and financial companies listed on the Indonesia Stock Exchange and Bursa Malaysia during 2020–2024. Descriptive statistics also show that Indonesian

companies exhibit more diverse tax planning practices than Malaysian companies, reflecting differences in firm characteristics and internal policies. This result supports Positive Accounting Theory (Watts & Zimmerman, 1986), suggesting that companies engaging in structured tax planning tend to rely less on earnings manipulation because their financial objectives can be achieved through legitimate tax strategies. Therefore, effective tax planning may serve as a mechanism that discourages aggressive earnings management practices.

Effect of Profitability on Earnings Management

The regression analysis shows that profitability has no significant effect on earnings management, as indicated by a coefficient value of -1.5763 and a probability value of 0.0555 (> 0.05). Consequently, the second hypothesis (H2) is rejected. This finding suggests that the profitability level of banking companies in Indonesia and Malaysia during 2020–2024 does not systematically influence earnings management practices. The results imply that earnings management in the banking sector is more closely related to risk management considerations, such as loan loss provisioning, rather than the companies' ability to generate profits. Additionally, enhanced regulatory oversight and greater transparency in financial reporting during the post-pandemic period may have reduced management incentives to manipulate earnings based on profitability performance.

Effect of Leverage on Earnings Management

The regression results indicate that leverage has a positive and significant effect on earnings management, with a coefficient value of 0.5301 and a probability value of 0.0050 (< 0.05). Therefore, the third hypothesis (H3) is accepted. This finding suggests that companies with higher leverage are more likely to engage in earnings management practices. Consistent with Agency Theory and the Debt Covenant Hypothesis, firms with substantial debt obligations may have stronger incentives to manipulate earnings to comply with debt agreements and maintain favorable financial conditions. Furthermore, from the perspective of Fraud Triangle Theory, high leverage creates pressure on management to present stable financial performance, while the complexity of banking accounting practices provides opportunities for earnings management. Thus, leverage becomes an important factor driving earnings management in banking and financial institutions in Indonesia and Malaysia.

CONCLUSIONS AND RECOMMENDATIONS

This study aimed to analyze the effect of tax planning, profitability, and leverage on earnings management in banking companies listed on the Indonesia Stock Exchange and Bursa Malaysia during the 2020–2024 period. The results indicate that tax planning has a negative and significant effect on earnings management, suggesting that more effective tax planning reduces the tendency of companies to engage in earnings management practices. Profitability, proxied by Return on Assets (ROA), does not significantly affect earnings management, implying that profitability is not the primary determinant of earnings management in the banking sector, as other factors such as credit quality, loan loss provisions, and financing risks may play a more substantial role. Furthermore, leverage has a positive and significant effect on earnings management, indicating that companies

with higher debt levels are more likely to engage in earnings management due to increased pressure to maintain financial performance and meet creditor and investor expectations. Simultaneously, tax planning, profitability, and leverage significantly influence earnings management, demonstrating that earnings management is shaped by the interaction of various financial aspects rather than by a single factor alone.

FURTHER STUDY

Future research is recommended to expand the scope of the study by extending the observation period, increasing the sample size, and including banking institutions from other countries to provide broader comparative insights. In addition, future studies may incorporate other variables that potentially influence earnings management, such as corporate governance, audit quality, firm size, ownership structure, and credit risk. Researchers are also encouraged to employ alternative proxies for earnings management beyond Loan Loss Provision (LLP) to obtain a more comprehensive understanding of earnings management practices in the financial sector.

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