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The Effect of Employee Benefit Liabilities and Earnings Management on Tax Avoidance Moderated by Firm Size

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Abstract

Tax avoidance remains a critical issue affecting government revenue and market fairness. This study aims to examine the effects of employee benefit liabilities and firm size on earnings management on LQ45 companies listed on the Indonesia Stock Exchange. This study analyzes 26 companies selected through purposive sampling and yields 78 firm-year observations over the period 2022–2024. Data are analyzed using panel-based moderated regression analysis after meeting the classical assumption test. The results indicate that employee benefit liabilities have a negative effect on tax avoidance. Earnings management significantly affects accounting-based tax avoidance but does not significantly affect cash-based tax avoidance. Firm size is positively associated with tax compliance and significantly moderates the relationship between employee benefit liabilities and tax avoidance. Large firms with substantial employee benefit liabilities exhibit lower levels of tax avoidance. These findings contribute to a deeper understanding of tax behavior among large and liquid firms in the Indonesian capital market and offer implications for managers, regulators, and policymakers.

Keywords

Earnings Management, Employee Benefit Liabilities, Firm Size, LQ45 Companies, Tax Avoidance.

1. Introduction

Tax avoidance is a crucial issue in the context of accounting and taxation, particularly for public companies. While tax avoidance is not necessarily illegal, the practice often raises ethical and fiscal policy debates (De Colle & Bennett, 2014; Christensen et al., 2015; Bird & Davis-Nozemack, 2018; Tamam & Tarmidi, 2025). Companies attempt to minimize their tax burden through various means, both through legitimate tax planning and more aggressive strategies such as earnings management. Earnings management and employee benefit liabilities are two factors that can influence tax avoidance (Payne & Raiborn, 2018). Earnings management is often carried out to adjust financial statements to suit managerial interests, one of which is by lowering profits to reduce the tax burden. Meanwhile, employee benefit liabilities, as regulated in Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan*/PSAK) Number 24, also have implications for a company's financial statements and tax liabilities.

This study considers company size as a moderating variable, given that larger companies tend to have more resources and flexibility to develop complex tax avoidance strategies (Faizah, 2022; Lubis et al., 2022; Rizki & Nugroho, 2024). Tax avoidance is a strategy used by companies to minimize their tax burden by exploiting loopholes in tax regulations. While not illegal, this practice can negatively impact state revenues and create inequality in the tax system. Companies included in the LQ45 index, which reflects high liquidity and market capitalization on the IDX, are not immune to tax avoidance practices.

Previous research by Azis and Aprilia (2023), Sofiamanan and Machmuddah (2023), Putra and Kirana (2023), and Hendayana et al. (2024) has shown that profitability, leverage, and capital intensity influence tax avoidance in LQ45 companies. Companies use tax avoidance to reduce their tax liability by exploiting legal loopholes. This technique can have a detrimental effect on state revenues and lead to tax system inequalities, even though it is not prohibited. Businesses that are part of the LQ45 index, which represents substantial market capitalization and liquidity on the IDX, are nonetheless susceptible to tax evasion. Previous research by Kuntadi et al. (2025) has shown that profitability, leverage, and capital intensity influence tax avoidance.

One important element in financial statements that can impact tax burdens is employee benefit liabilities. PSAK Number 24 regulates the recognition and measurement of employee benefit liabilities, including short-term, post-employment, and severance benefits. Companies can utilize estimates of these liabilities to reduce taxable income, thereby lowering their tax burden (Chen et al., 2021). A Milliman survey indicates that, at the end of a typical year, the total employee benefit liabilities reported by LQ45 companies amounted to approximately IDR 107.1 trillion (Mardianti & Ardini, 2024).

Furthermore, earnings management is a practice in which management adjusts financial statements to achieve specific objectives, such as meeting profit targets or reducing the tax burden. Previous research by Nurhanimah et al. (2019) has found that profitability, leverage, and firm size influence earnings management practices in LQ45 companies. Large companies tend to have more resources to conduct earnings management and tax avoidance more effectively (Jarboui et al., 2020; Hanim et al., 2022). Firm size as a moderating variable is important to analyze because large companies have operational complexity and financial structures that enable them to develop more sophisticated tax avoidance strategies (Kelline et al., 2022).

Despite extensive research on tax evasion, the impact of employee benefit liabilities on tax avoidance remains underexplored. Prior studies have focused on determinants such as capital intensity and leverage, but few examine employee

benefits as a strategic tax-planning tool, particularly in large-cap firms (Wahab & Holland, 2015; Kovermann & Velte, 2021). Additionally, the moderating role of firm size in the relationship between earnings management, employee benefits, and tax avoidance remains unclear (Taufiq & Tertiarto, 2020). This study fills this gap by empirically examining these interactions within Indonesia's LQ45 companies. This study aims to analyze the effect of employee benefit liabilities and earnings management on tax avoidance, as well as the moderating role of firm size, in LQ45 companies listed on the Indonesia Stock Exchange during the 2022–2024 period. This study contributes to the literature by providing empirical evidence on the determinants of tax avoidance among large and liquid companies in the Indonesian capital market.

2. Literature Review and Hypothesis Development

2.1. Employee Benefit Liabilities and Tax Avoidance

Agency theory, introduced by Jensen and Meckling (2019), explains the conflict of interest between owners (principals) and managers (agents). Managers may engage in tax avoidance to increase net income and cash flow, which can benefit shareholders but also expose firms to legal and reputational risks. In the context of LQ45 companies in Indonesia, which are generally large, liquid, and capital-intensive, tax avoidance becomes an attractive strategy for managers seeking to maintain profitability and operational cash flow, thereby making agency theory highly relevant in explaining their tax behavior (Roslita & Safitri, 2022).

Employee benefit liabilities are long-term company liabilities arising from compensation to employees after their employment, such as severance pay, pensions, and other post-employment benefits (Jayanti et al., 2022). From a tax perspective, these liabilities have important implications because they can affect taxable income by increasing the recognition of employee benefit expenses in the income statement. The greater the employee benefit liability recognized by a company, the greater the deductible expense from pre-tax profit, potentially lowering both the Effective Tax Rate (ETR) and the Cash Effective Tax Rate (CETR) (Knezevic et al., 2024; Obafemi & Nandak, 2025). This situation opens opportunities for companies to legally avoid taxes through accounting policies related to actuarial estimates and the timing of employee benefit expense recognition.

In the context of LQ45 companies with large organizational structures and significant workforces, employee benefit liabilities are often managed strategically as part of long-term tax planning. While still within accounting standards and tax regulations, this practice can raise ethical questions if the primary objective is to reduce the company's tax contribution. Therefore, based on agency theory and previous empirical findings, employee benefit liabilities are expected to have a significant effect on tax avoidance, both measured by accounting and cash measures (Hadiwibowo et al., 2023; Dwiyanto, 2024).

H1: Employee benefit liabilities have a significant effect on tax avoidance.

2.2. Influence of Earning Management on Tax Avoidance

Stakeholder theory, introduced by Freeman (2010), emphasizes that companies are responsible not only to shareholders but also to governments, communities, employees, and other stakeholders. Given that taxes are a significant source of public funding for infrastructure and social welfare, this theory emphasizes the ethical and social ramifications of business tax decisions in the context of tax avoidance (Chouaibi et al., 2022). As a result, reducing tax payments may raise questions about a company's liabilities to stakeholders and society.

Earnings management is a managerial action taken to influence reported earnings figures, either through accrual manipulation or specific accounting policies (Nguyen

et al., 2023). Since accounting profit is the primary factor used to determine corporate income tax, profit management techniques are relevant to tax avoidance. Businesses can indirectly lower their tax burden without overtly breaking tax laws by using discretionary accruals to minimize profits.

Using the Kothari et al. (2005) model to detect earnings management provides a more accurate picture of management's opportunistic behavior because this model takes company performance into account when estimating discretionary accruals. Several studies have shown that earnings management is more strongly related to accounting-based tax avoidance than cash-based tax avoidance, as accrual manipulation does not always directly impact tax cash flows paid (Hadiwibowo et al., 2023; Okolo, 2024; Arimoro & Musa, 2025). In LQ45 companies, investor pressure to maintain earnings stability can encourage management to engage in earnings management and aggressive tax planning (Susanto et al., 2024). However, this effect tends to be more pronounced for ETR than CETR, as cash taxes are more affected by stricter fiscal provisions. Therefore, earnings management is expected to have a significant effect on accounting-based tax avoidance, but not necessarily on cash-based tax avoidance.

H2: Earnings management has a significant effect on tax avoidance.

2.3. Firm Size on Tax Avoidance

Firm size represents the scale of a company's operations, organizational complexity, and capacity to manage resources, including tax planning strategies (Wibowo, 2024). Larger firms generally operate with more sophisticated accounting systems, higher levels of disclosure, and stronger internal controls, which place them under greater public and regulatory scrutiny. In contrast, smaller firms often face limitations in skilled human resources and technical expertise, constraining their ability to manage tax liabilities optimally (Ulfa et al., 2021). These differences imply that firm size plays a crucial role in shaping corporate tax behavior. Due to heightened monitoring and reputational exposure, large firms tend to act more cautiously in implementing aggressive tax strategies, which is often reflected in relatively higher effective tax rates and cash effective tax rates compared to smaller firms.

However, the relationship between firm size and tax avoidance is not unidirectional. Large companies possess greater flexibility in conducting tax planning through lawful accounting practices, such as the strategic use of depreciation and amortization arising from capital expenditures, which can reduce taxable income and lower effective tax burdens. Moreover, access to professional tax consultants and a comprehensive understanding of tax regulations enable large firms to engage in efficient tax planning without breaching legal boundaries. Despite this capability, firms with high visibility, particularly those included in major market indices such as LQ45, often prefer conservative tax compliance strategies to mitigate reputational risks and potential sanctions (Wahyuni et al., 2017; Nurhanimah et al., 2019; Afifah, 2023). Empirical evidence from Mulyati et al. (2019) supports this dual perspective, showing that while firm size positively influences tax planning capacity, larger firms generally exhibit higher tax compliance levels. This indicates that firm size simultaneously enables tax planning opportunities while encouraging restraint in aggressive tax avoidance practices.

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

2.4. Firm Size as a Moderating Effect

Firm size is expected to moderate the relationship between employee benefit liabilities and tax avoidance, as larger firms have greater capacity to strategically manage long-term liabilities (Kovermann & Velte, 2015). In large firms, employee benefit liabilities are material and involve complex actuarial assumptions, providing managerial flexibility to influence profits and tax burdens. Consequently, their impact on ETR and CETR tends to be stronger because substantial liabilities can significantly reduce taxable income (Gaaya et al., 2023). In contrast, smaller firms have relatively limited employee benefit liabilities, resulting in a weaker effect on tax avoidance. Prior evidence shows that firm size strengthens the relationship between financial reporting components and long-term tax strategies (Afifah, 2021; Supriyatna & Akbar, 2025). Therefore, this study expects a significant interaction between employee benefit liabilities and firm size on tax avoidance.

Firm size is also expected to moderate the relationship between earnings management and tax avoidance, particularly for accounting-based measures. Larger firms possess more complex reporting systems and greater resources to conduct less detectable earnings management, making it more effective in reducing ETR (Kamil & Baharudin, 2020). Previous research also found that firm size does not continually strengthen the relationship between earnings management and cash-based tax avoidance (Rizqulloh et al., 2024). However, its moderating effect on CETR is expected to be weaker, as cash taxes depend on actual cash flows and strict fiscal regulations, limiting accrual-based manipulation regardless of firm size (Drake et al., 2020). Consistent with Afifah (2021) and Marfiana and Putra (2021), firm size is expected to influence the relationship between earnings management and ETR, but not CETR.

H4: Firm size moderates the effect of employee benefit liabilities on tax avoidance.
H5: Firm size moderates the effect of earnings management on tax avoidance.

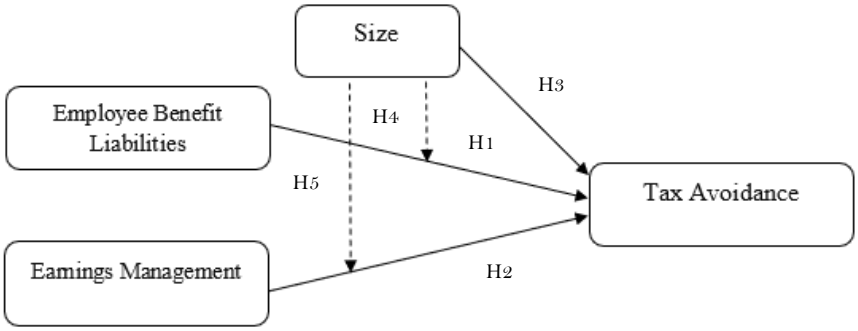

Figure 1. Research Model

The conceptual framework for this investigation is shown in Figure 1. The model demonstrates that employee benefit liabilities, earnings management, and firm size directly impact tax evasion. Additionally, the associations between employee benefit liabilities and tax avoidance, as well as between profit management and tax avoidance, are moderated by firm size. This concept emphasizes how firm size influences how managerial discretion and corporate finance policies impact tax evasion

3. Methods

This study employs an associative-quantitative methodology. With firm size (Z) acting as a moderating variable, the objective is to ascertain the impact of the independent variables, employee benefit liabilities (X1) and earnings management

(X2), on the dependent variable, tax avoidance (Y). Secondary data from LQ45 businesses listed on the Indonesia Stock Exchange (IDX) for the years 2022–2024 was used.

The population of this study comprises all companies listed on the Indonesia Stock Exchange that were included in the LQ45 index during the 2022–2024 period. Purposive sampling was employed to obtain firms with comparable characteristics and complete data, using the following criteria: (1) companies consistently listed in the LQ45 index throughout 2022–2024, (2) companies publishing complete annual financial reports, and (3) availability of data on employee benefit liabilities, earnings management, and firm size. Of the initial 45 LQ45 firms, 11 were excluded due to inconsistent index membership, 6 due to incomplete financial disclosures, and 2 due to reported losses during the observation period. Consequently, the final sample consisted of 26 companies, yielding 78 firm-year observations over three years for panel data analysis.

The dependent variable in this study is tax avoidance. Tax avoidance is measured using the Effective Tax Rate (ETR), defined as the ratio of income tax expense to profit before tax (Lanis & Richardson, 2012). Variable measurement is conducted using the following indicators. The Effective Tax Rate (ETR), which is determined by dividing income tax expense by profit before tax, and the Cash Effective Tax Rate (CETR), which is determined by dividing cash taxes paid by profit before tax, are two proxies used to quantify tax avoidance (Y). The more tax avoidance the corporation engages in, the lower the ETR and CETR ratios.

In this study, the independent variables consist of employee benefit liability, earnings management, and firm size as a moderating variable. Employee benefit liability (X1) is measured based on the total short-term and long-term employee benefit expenses reported in the financial statements. Short-term benefits include expenses for paid leave and annual bonuses, as reported in the income statement. Long-term benefits consist of Post-Employment Benefit Liabilities (PBO), calculated as the present value of future benefits multiplied by the ratio of the past employment period to the total employment period. Earnings management (X2) is measured using the Modified Jones Model using discretionary accruals (EM), which are the difference between Total Accruals (TA) and Non-Discretionary Accruals (NDA). This model is a modification of the Jones (1991) model by Dechow et al. (1995), designed to control for earnings manipulation through accounts receivable.

$$TA_{it} = \frac{NI_{it} - CFO_{it}}{Aset_{t-1}}$$

Where NI_{it} represents the net income of firm i in year t, t, CFO_{it} represents operating cash flow, and $Asset_{t-1}$ represent total assets at the end of the previous year.

The estimation of Non-Discretionary Accruals (NDA is conducted using cross-sectional regression by industry/year:

$$\frac{TA_{it}}{Asset_{t-1}} = \alpha_1\left(\frac{1}{Asset_{t-1}}\right) + \alpha_2\left(\frac{\Delta Rev_{it} - \Delta Rec_{it}}{Aset_{t-1}}\right) + \alpha_3\left(\frac{PPE_{it}}{Asset_{t-1}}\right) + \varepsilon_{it}$$

Where ΔRev_{it} is a change in revenue, ΔRec_{it} is a change in receivables, and PPE_{it} are fixed assets.

Discretionary Accruals (DA = X_2):

$$DA_{it} = \frac{TA_{it}}{Aset_{t-1}} - NDA_{it}$$

The regression coefficients (α_1, α_2, and α_3) are substituted into the regression formula to determine NDA. The degree of earnings management is shown by the absolute value of |DA|; the larger the value, the more extensive the practice. Finally, the natural logarithm of the firm's total assets is used to assess firm size (Z), a moderating variable.

Tax avoidance is more likely when the ETR is lower. Moderated Regression Analysis (MRA), which looks at the interaction impact between the independent variables and moderating variables. The following is the regression model that was employed:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z) + \varepsilon$$

Where:
Y = Tax Avoidance
X_1 = Employee Benefit Liabilities
X_2 = Earnings Management
Z = Firm Size
$X_1 \times Z$ and $X_2 \times Z$ = Moderation Interaction

To verify the validity of the model, classical assumption tests such autocorrelation, heteroscedasticity, multicollinearity, and normality were first carried out. Every piece of information used in this research came from the www.idx.co.id website. To analyze the data, multiple linear regression was used. SPSS version 25 for statistical analysis was used (Ghozali, 2018).

4. Results

The explanatory variables and the descriptive statistics for the tax avoidance proxies (ETR and CETR) are shown in Table 1. With a mean of 0.23395 and a standard deviation of 0.08195, the Effective Tax Rate for the ETR proxy falls between 0.03833 and 0.54753, suggesting comparatively little variation among businesses. Employee Benefit Liabilities (EBL) indicate a steady level of employee benefit responsibilities, with a minimum of 23.91826 and a maximum of 30.07684, a mean of 27.65283, and a low standard deviation of 1.51829. Earnings Management (EM) ranges from −0.17216 to 0.26772, with a mean close to zero (0.01129) and a standard deviation of 0.06888, reflecting higher variability. Firm size (SIZE) records a mean of 31.80540 and a standard deviation of 1.24526. The interaction variables EBL_SIZE and DA_SIZE have means of 880.93481 and 0.35832, respectively. For the CETR proxy, the Cash Effective Tax Rate exhibits substantial dispersion, with a mean of 0.40079 and a standard deviation of 0.59126, indicating high variability in cash-based tax avoidance.

Table 1. Descriptive Statistics (ETR and Cash ETR)

Variable	Minimum	Maximum	Effective Tax Rate		Cash Effective Tax Rate	
			Mean	Std. Dev	Mean	Std. Dev
EBL	23.91826	30.07684	27.65283	1.51829	27.65283	1.51829
EM	-0.17216	0.26772	0.01129	0.06888	0.01129	0.06888
SIZE	28.98961	34.90986	31.80540	1.24526	31.80540	1.24526
EBL x SIZE	694.52576	1041.67678	880.93481	77.60559	880.93481	77.60559
Discretionary Accruals x SIZE	-5.56479	8.72134	0.35832	2.19508	0.35832	2.19508
ETR	0.03833	0.54753	0.23395	0.08195	0.40079	0.59126
Cash ETR	0.01218	4.97635				

Table 2. Normality Test

Parameter	Effective Tax Rate	Cash Effective Tax Rate
N	78	78
Mean	-0.0063077	0.0000001
Std. Deviation	0.05736285	0.55885096
Absolute	0.065	0.081
Positive	0.065	0.081
Negative	-0.046	-0.081
Test Statistic	0.065	0.081
Asymp. Sig. (2-tailed)	0.200	0.200

The results of the normality tests for the ETR and CETR variables are shown in Table 2. The data are normally distributed because both proxies' Asymp. Sig. (2-tailed) are 0.200, which exceed the 0.05 significance criterion. The results meet the traditional assumption of normalcy with 78 observations. Additionally, Table 3 shows that all independent variables have tolerance values greater than 0.10 and VIF values less than 10 for both the ETR and CETR models, indicating the absence of multicollinearity issues. Consequently, the regression model satisfies the multicollinearity assumption.

Table 3. Multicollinearity Test

Variable	Effective Tax Rate		Cash Effective Tax Rate	
	Tolerance	VIF	Tolerance	VIF
Employee Benefit Liabilities	0.390	2.566	0.390	2.566
Earnings Management	0.968	1.033	0.968	1.033
Firm Size	0.394	2.538	0.394	2.538

Table 4. Heteroscedasticity Test

Variable	Effective Tax Rate		Cash Effective Tax Rate	
	β	Sig.	β	Sig.
Constant	-0.400	0.102	23.267	0.334
Employee Benefit Liabilities	0.014	0.102	-0.808	0.348
Earnings Management	0.262	0.486	-66.500	0.077
Firm Size	0.013	0.097	-0.682	0.378
Employee Benefit Liabilities × Firm Size	0.000	0.098	0.024	0.383
Earnings Management × Firm Size	-0.008	0.490	2.055	0.081

Based on the heteroscedasticity test using the Park method in Table 4, the research data show that the residual variances between observations are relatively equal, thus preventing heteroscedasticity. The significance values for all variables, including employee benefit liabilities, earnings management, firm size, and the interaction between employee benefit liabilities and earnings management moderated by firm size, are above 0.05, ranging from 0.077 to 0.490. These results indicate that the multiple linear regression model meets the assumption of homoscedasticity.

Table 5. Autocorrelation Test

Dependent Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin–Watson
Effective Tax Rate	0.467	0.218	0.164	0.07494436	1.443
Cash Effective Tax Rate	0.460	0.211	0.156	0.66685	1.639
Predictors: (Constant). Emb. Size. Earnings. Emb×Size. Earnings ×Size					

Based on the autocorrelation test using Durbin-Watson in Table 5, the D-W values of 1.443 and 1.639 are between -2 and +2. This indicates that there is no autocorrelation in the regression model, so that residual errors between periods are uncorrelated, ensuring the validity of the regression estimates used in the study. This study demonstrates that the independent variables employee benefit liabilities, earnings management, and firm size have an impact on tax avoidance by 21.8% (ETR) and 21.1% (Cash ETR), according to the coefficient of determination (R Square) test displayed in Table 5. Other factors that were not evaluated also affect the remaining 78%–79%. These findings suggest that the regression model's capacity to explain changes in the dependent variable is moderate.

Table 6. ANOVA test

Dependent Variable	Parameters	Sum of Squares	df	Mean Square	F	Sig.
Effective Tax Rate	Regression	0.113	5	0.023	4.012	0.003
	Residual	0.404	72	0.006		
	Total	0.517	77			
Cash Effective Tax Rate	Regression	8.573	5	1.715	3.856	0.004
	Residual	32.018	72	0.445		
	Total	40.590	77			
Predictors: (Constant). EMB. SIZE. EM. EMB×SIZE. EARNINGS×SIZE						

Based on the model feasibility test in Table 6, this study indicates that the regression model is suitable for use. The F-test results for n = 78 and K = 5 show F-counts of 4.012 and 3.856, both greater than the F-table of 2.3418. This indicates that the independent variables simultaneously have a significant effect on the dependent variable. Thus, it can be concluded that the research model is fit and valid for further analysis. This finding ensures that all independent variables are able to explain variations in the dependent variable simultaneously, so that the regression results can be interpreted with high confidence.

Table 7. Hypothesis Test (ETR)

Variable	B	Std. Error	Std. Beta	T-Statistic	Sig.
Constant	-9.071	3.080	–	-2.945	0.004
Employee Benefit Liabilities (EBL)	0.303	0.110	5.617	2.753	0.007
Earnings Management (ETR)	10.249	4.771	8.615	2.148	0.035
Firm Size	0.312	0.099	4.739	3.149	0.002
Employee Benefit Liabilities x Firm Size	-0.010	0.004	-9.670	-2.908	0.005
Earnings Management x Firm Size	-0.327	0.150	-8.747	-2.180	0.032

The results of the partial hypothesis test utilizing the ETR proxy in Table 7 demonstrate that each independent variable has a significant impact on the dependent variable. First, employee benefit liabilities significantly increased ETR with a t-statistic of 2.753 and a significance value of 0.007, which was higher than the t-table of 1.9916. This indicates that the greater the employee benefit liabilities, the higher the ETR, thus decreasing the level of tax avoidance. Second, earnings management had a t-statistic of 2.148 with a Sig. of 0.035, indicating a significant positive effect on ETR, indicating that earnings management practices are not used to reduce taxes.

Third, firm size showed a t-statistic of 3.149 with a Sig. of 0.002, greater than the t-table, indicating that firms with larger assets tend to have higher ETRs and are less aggressive in tax avoidance. Furthermore, the interaction between employee benefit liabilities and firm size (EBL x Size) had a t-statistic of -2.908 and a Sig. 0.005, indicating a significant negative effect. This indicates that in larger firms, the effect of employee benefit liabilities on ETR weakens or reverses, allowing larger firms to be more flexible in managing employee benefit liabilities to regulate ETR.

Finally, the interaction between earnings management and firm size (Earnings x Size) showed a t-statistic of -2.180 with a Sig. 0.032, indicating that the effect of earnings management on ETR decreases or reverses in large firms. In other words, firm size modifies the Earnings Management–ETR relationship, making earnings management less able to increase ETR, and firms can manage their taxes using other strategies. These results confirm the importance of firm size as a moderating variable in influencing the effectiveness of employee benefit liabilities and earnings management on tax avoidance levels.

Table 8. Hypothesis Test (CETR)

Variable	B	Std. Error	Std. Beta	T-Statistic	Sig.
Constant	-97.240	27.406	–	-3.548	0.001
Employee Benefit Liabilities (EBL)	3.269	0.980	6.836	3.337	0.001
Discretionary Accruals	81.939	42.451	7.774	1.930	0.058
Firm Size	3.150	0.881	5.403	3.575	0.001
Employee Benefit Liabilities (EBL) x Firm Size	-0.107	0.031	-11.481	-3.438	0.001
Discretionary Accruals_Firm Size	-2.489	1.332	-7.525	-1.868	0.066

Furthermore, based on the partial hypothesis test in Table 8 using the Cash ETR (CETR) proxy, the results show a distinct effect of each variable on cash taxes paid. First, employee benefit liabilities had a calculated t-statistic of 3.337 with a Sig. 0.001, greater than the t-table of 1.9916, indicating a significant positive effect on CETR. This indicates that an increase in employee benefit liabilities is accompanied by an increase in cash taxes, resulting in a decrease in cash-based tax avoidance.

Second, earnings management showed a calculated t-statistic of 1.930 with a Sig. 0.058, smaller than the t-table, so its effect on CETR was insignificant, indicating that earnings management practices do not affect the amount of cash taxes. Third, firm size had a calculated t-statistic of 3.575 with a Sig. 0.001, indicating a significant positive effect, indicating that large companies pay higher cash taxes than small companies, resulting in lower cash tax avoidance. Furthermore, the interaction between EBL and firm size (EBL x Size) showed a t-statistic of -3.438 and a Sig. 0.001, indicating a significant negative effect. This indicates that in large firms, an increase in EBL is not always accompanied by a comparable increase in CETR, thus providing scope for managing employee benefit liabilities for tax purposes.

The interaction between earnings management and firm size (Discretionary Accruals x Firm Size) showed a t-statistic of -1.868 and a Sig. 0.066, which was insignificant. This means that firm size neither strengthens nor weakens the effect of earnings management on CETR, thus making earnings management irrelevant as a cash tax avoidance tool in both large and small firms. These results emphasize the important role of employee benefit liabilities and firm size in influencing cash taxes paid, while earnings management plays a less significant role in the context of cash-based tax avoidance

5. Discussion

The empirical results show that employee benefit liabilities significantly affect tax avoidance, with t-statistic of 3.337 for CETR and 2.753 for ETR, both exceeding the t-table value of 1.9916. This indicates that higher employee benefit liabilities are associated with higher tax payments, implying that firms with substantial commitments to employee benefits tend to be less aggressive in tax avoidance. This finding is consistent with agency theory and political cost theory, which suggest that firms with long-term employee liabilities maintain tax compliance to mitigate legal, political, and reputational risks. The results support the findings of Marfiana and Putra (2021), who documented a negative relationship between employee benefit liabilities and tax avoidance in Indonesian manufacturing firms. However, they contrast with Schochet et al. (2022), who found that tax-avoiding firms tend to increase employee benefits by redistributing tax savings. These differences can be attributed to institutional factors in Indonesia, particularly the application of PSAK 24 and stricter labor protection regulations that limit managerial discretion in recognizing employee benefits for tax purposes.

The partial test results indicate that earnings management has a significant positive effect on accounting-based tax avoidance, with a t-statistic of 2.148. In contrast, its effect on cash-based tax avoidance is insignificant, with a t-statistic of 1.930. This suggests that earnings management practices in LQ45 companies are more oriented toward meeting financial reporting objectives rather than minimizing actual cash tax payments. The results are also consistent with Marfiana and Putra (2021), who found a positive relationship between earnings management and accounting-based tax avoidance.

Firm size is found to have a significant positive effect on both ETR and CETR, with t-statistic of 3.149 and 3.575, respectively. This indicates that larger firms tend to report and pay higher taxes, making them less aggressive in both accounting-based and cash-based tax avoidance. This outcome reflects the stronger monitoring and disciplinary mechanisms faced by large firms from tax authorities, investors, and the public. These results support the findings of Susanti (2017), who demonstrated that firm size has a significant positive effect on tax avoidance behavior.

The moderation analysis shows that firm size significantly moderates the relationship between employee benefit liabilities and tax avoidance for both ETR and CETR. In contrast, firm size moderates the relationship between earnings management and tax avoidance only for ETR, while its moderating effect on CETR

is insignificant. These findings suggest that large firms can manage employee benefit liabilities to prevent sharp increases in tax burdens, whereas earnings management remains irrelevant primarily to cash tax payments. This pattern is consistent with the findings of Ayem and Titania (2024). However, it differs from their results in the property sector and supports the argument of Firmanzah and Marsoem (2023) that the moderating role of firm size depends on industry characteristics.

The results indicate that employee benefit liabilities and firm size play a crucial role in shaping corporate tax avoidance behavior, particularly at the cash flow level, while earnings management primarily affects accounting-based tax outcomes. Large firms with substantial employee benefit commitments tend to maintain higher tax compliance as part of a reputational strategy toward investors, regulators, and the public. Conservative recognition of employee benefit liabilities limits opportunities for aggressive tax planning, resulting in higher ETR and CETR. These findings highlight the importance for regulators and the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) to monitor not only cash tax payments but also employee benefit liabilities and earnings accounting policies to assess potential tax avoidance comprehensively.

6. Conclusion

This study shows that employee benefit liabilities negatively impact tax avoidance, measured by both ETR and CETR. Companies with a strong commitment to employee benefits tend to maintain tax compliance and their reputation with investors, regulators, and the public. Earnings management affects accounting tax avoidance. However, it has no significant impact on cash tax avoidance, indicating that earnings management is more oriented toward financial reporting than toward cash tax savings. Firm size is positively correlated with tax compliance; large companies report and pay higher taxes, while small companies are more at risk of aggressive tax avoidance. Firm size moderation indicates that the effects of employee benefit liabilities and earnings management on taxes vary with firm size, particularly for employee benefit liabilities. Overall, companies with high employee benefit liabilities and large size exhibit lower levels of tax avoidance, while earnings management has a greater impact on accounting taxes than cash taxes.

This study has three limitations. First, the use of ETR and CETR proxies, the period, and the focus on the LQ45 sector limit the generalizability of the results to other industries or periods. Second, for business practitioners, the findings assess only employee benefit liabilities and earnings management, without considering operational factors or corporate culture. Third, for regulators, the results apply only to the tax policies in effect during the study and require adjustments if regulations change. For future researchers, it is recommended to use other tax-avoidance proxies, different time periods, and different sectors to assess the consistency of the findings. For business practitioners, compensation schemes and tax compliance should be long-term strategies, and earnings management should not be used as a primary tax management tool because it is less effective in reducing cash taxes. For governments, regulators, and tax authorities, it is important to consider clear policies regarding the tax treatment of employee benefits to encourage tax compliance while maintaining employee well-being.

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