

The Influence of Tax Planning, Leverage, and Company Size on Earnings Management in Health Sector

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Abstract

This study aims to analyze how tax planning, leverage, and company size influence earnings management. Study subjects included 38 healthcare manufacturing entities registered the Indonesia Stock Exchange (IDX) from 2021-2025. Data examined in study relies on secondary sources, with 23 companies determined through purposive sampling techniques. To analyze the utilized dataset, this research utilizes multiple linear regression, aided by the SPSS version 26. The empirical outcomes indicate tax planning and leverage are not proven to have a positive influence regarding earnings management, while company size exerts a favorable influence on this variable practice. Based on a series of previous research results, It is hoped that subsequent research ought to will add alternative determinants that are able to explain the earnings management phenomenon in more depth and strength, expand the research object to other sectors for comparison, and extend the observation period to describe long-term conditions and improve the accuracy of the analysis.

Keywords: Tax planning, Leverage, Company size, Earnings management

Introduction

In today's modern business era, business actors must be more adaptive, creative, and meticulous to face technological changes and increasingly fierce global competition. Today's business world relies on a digital mindset and a data-driven culture as the primary reference for decision-making, and also utilizes artificial intelligence technology. Therefore, a company's financial reporting is increasingly crucial as a tool for transparency and accountability in facing this era of intense competition and rapid technological change, supporting strategic decision-making (Corson, 2023).

According to Christella & Santo (2024), financial reports provide comprehensive information on transactions and other events. Financial reports in a company are quite an important instrument that can assess the condition and financial performance of the corporation, which will later function as a strategic information base for management in formulating policies and decision making by users of financial reports. Therefore, maintaining integrity and transparency is crucial to ensure stakeholder confidence in the quality of financial reporting.

In this regard, corporate net income is a fundamental benchmark in financial reports that is most closely monitored by users of the information as it is often serves as a basis for investor decision-making. However, in practice, the preparation of financial reports often does not reflect the company's true condition, resulting in earnings management practices. This is done by management to influence or manipulate reported earnings, thus affecting short-term profits (Al-Faraby et al., 2023). In practice, management often engages in earnings management to alter figures in financial reports to meet specific interests.

In this study, the author was interested in examining the healthcare sector because this sector appears to be very broad and continues to grow. Due to the financial disruptions caused by the COVID-19 pandemic, many companies financial outcomes has not fully recovered, and some companies have resorted to profit manipulation to maintain their performance or image. Various phenomena related to earnings management practices have been found in the health sector in Indonesia, such as those at PT Indofarma Tbk and PT Kimia Farma Tbk.

The first phenomenon of earnings management in Indonesia occurred in 2024, when state-owned pharmaceutical company PT Indofarma Tbk was suspected of manipulating its financial statements. The Supreme Audit Agency (BPK) found irregularities in the financial management of PT Indofarma Tbk and its subsidiaries, resulting in a drastic 99.65% decline in net profit in 2020, and persistent losses that continued to balloon through the first half of 2023.

According to a report by CNBC Indonesia (2024), financial performance showed a sharp decline. Nevertheless, the audit process of the company's financial statements remains a crucial instrument for received a fair opinion from an independent auditor. This led to allegations of financial statement manipulation, or earnings management, resulting in state losses of up to IDR 371.8 billion. This situation led to a change in management and received serious attention from the BPK and the Attorney General's Office, which had a significant social impact on employee salary arrears (<https://www.cnbcindonesia.com/>).

Another phenomenon of earnings management occurred at PT Kimia Farma Tbk (KAEF) in 2024, where manipulation of its financial statements was detected. The Ministry of State-Owned Enterprises (BUMN) explained that there were indications of fraud that occurred at in KAEF's financial statements, particularly at its subsidiary, PT Kimia Farma Apotek (KFA). The manipulation involved inflating financial reports, which should have reflected losses but were made to appear as profits. This resulted in losses of up to IDR 1.8 trillion due to the manipulation, which occurred around 2021-2022 but was only uncovered in 2024 (<https://www.liputan6.com>) (<https://www.bloombergtechnoz.com/>).

Earnings management is common in large companies today. Several factors can influence earnings management, including tax planning, leverage, and company size. Previous research used four independent variables: tax planning, cash holdings, profitability, and company size, as these factors have been shown to potentially influence earnings management practices in the infrastructure sector. However, this study focused on only three independent variables to obtain more specific and in-depth results regarding earnings management practices in the healthcare sector, which is considered relevant and dominant.

The first factor that can influence earnings management are tax planning. Corporate tax planning defined as a method employed by management for minimize the tax burden payable, using specific strategies within legal limits under Indonesian tax law (Zai & Masyitah, 2023). According to research by Christian & Addy (2022); Wati & Sumaryati (2022); Martasari (2023); Yulianingtyas & Suryadi (2024); Christella & Santo (2024), shows tax planning exerts significant impact on earnings management. In contrast, a study conducted by Agustin & Pratomo (2022); Al-Faraby et al. (2023); Natalie & Pratiwi (2023); Agurelia et al. (2023); Zai & Masyitah (2023); and Gea (2024) this indicates that tax planning policies haven't significant impact earnings management practices.

Next, the second factor analyzed is leverage, a financial indicator used to assess the proportion of a enterprise's assets funded through liabilities. The extent of company funding from loans or debt can be measured using the leverage ratio. This ratio shows the comparison between the company's debt and its assets and its capital and assets. The high leverage ratio is caused by the large proportion of debt the company has compared to the total assets it manages (Sadewa & Sopian, 2024). Several studies conducted by Christian & Addy (2022); Oktaviana & Rivandi (2023); Agurelia et al. (2023); Natalie & Pratiwi (2023); and Martasari (2023) have all examined the impact of earnings management. Meanwhile, research by Wati & Sumaryati (2022); Al-Faraby et al. (2023); Zai & Masyitah (2023); Gea (2024); Yulianingtyas & Suryadi (2024) shows leverage has a negative impact to earnings management. Indicates that higher the leverage, the lower earnings management (Natalie & Pratiwi, 2023).

The third factor, and the final factor discussed in this study, namely company size. This variable reflects the dimensions or scale of a company's capacity classified based on financial indicators, including total assets, natural logarithm of assets, market capitalization, total revenue, shares, capital, and other factors (Leba et al., 2024). Company size is also referred to as a ratio that can define the size of a company (Mulia & Setiawati, 2023). Research conducted by Wati & Sumaryati (2022); (Martasari, 2023); Al-Faraby et al. (2023); Christella & Santo (2024) the conclusion is that company size plays a role in triggering earnings management. However, a different perspective is shown by research from Zai & Masyitah (2023); Natalie & Pratiwi (2023); Oktaviana & Rivandi (2023); Agurelia et al. (2023); and Gea (2024) indicated company size demonstrates a non-significant repercussions for earnings management.

As previously described, earnings management significantly impact the governance of financial reporting, which in turn can minimize the risk of data manipulation and abuse of authority. Earnings management practices are one of the crucial aspects that companies operating in the healthcare sector need to pay attention to, which has unique industry characteristics, such as fluctuating public health-based demand and the current trend of high research costs. Consequently, several companies employ various methods to maintain corporate sustainability and maintain a stable public image.

Given the existing background and previous research, a sharp decline in corporate profits can encourage the implementation of earnings management actions as an effort to achieve the financial goals desired by management. Therefore, the objective of this research is to investigate how tax planning, leverage, and company size influence earnings management.

Literature Review

Agency Theory

Referring to the thoughts of Jensen & Meckling (1976), agency theory explains that when a party individual is motivated by self-interest, This condition has the potential to create an unequal relationship between the principal and agent. According to agency theory, this conflict-prone relationship is based on three basic characteristic assumptions : (1) humans basically have individualistic tendencies for the sake of self-interest, (2) humans have limitations in predicting or understanding the future (bounded rationality), and (3) humans tend to avoid risks (risk averse) (Eisenhardt, 1989). This assumption of basic human nature can create the possibility that managers, as humans, will act individually. This agency relationship can be established by the employer (principal) who gives a mandate to the employee (agent) to manage and run operations the business using their expertise, with the aim of sharing and managing risks (Handyastuti et al., 2023).

According to Natalie & Pratiwi (2023), agency theory is a theory that relates the relationship between principals and agents. Agency theory emerged as an approach used to analyze and resolve agency problems that can arise because agents (managers) have greater access to information, potentially leading on the emergence of conflicts of interest due to information asymmetry (Sarwoko, 2016). Principals (investors/creditors) also desire high returns from their company shares. Therefore, this is due to the managers having extensive access to all company information, This can be exploited by managers to engage earnings management practices. This action, has potential for increase the risk of agency conflicts between managers and shareholders, which require oversight to control (Septiandi & Aminah, 2025).

Hypothesis Development

Tax Planning Against Earnings Management

Tax planning is a process of arranging a tax scheme for a group of taxpayers in one business group, in order to optimize tax obligations legally with a certain method to ensure that all tax liabilities, both income tax and other tax levies, can be minimized safely (Lastarina & Mu'arif, 2025). The connection between tax planning and earnings management is that it must benefit shareholders by striving to continuously increase company value. Therefore, this relationship is supported by agency theory, which is useful for managing financial statements to achieve tax efficiency while simultaneously achieving profit targets.

Research conducted by Christian & Addy (2022); Wati & Sumaryati (2022); Martasari (2023); Yulianingtyas & Suryadi (2024); Christella & Santo (2024) shows that tax planning has a significant impact on earnings management. In other words, the more intensive an entity's tax planning, the greater the likelihood of earnings management occurring. This may occur because management seeks to adjust to reduce taxable profits and reduce tax burdens.

H1: Tax planning affect earnings management

Leverage Against Earnings Management

According to Agurelia et al. (2023), leverage serves to assess the portion of the company's total asset financing sourced from long-term and short-term obligations or liabilities. Therefore, if management is ineffective in managing finances, this can lead to increased leverage. Companies with excessive leverage are more likely to engage in earnings management as a means to avoid debt default (Kalbuana et al., 2022). Based on agency theory, managers, as agents, must strive to maintain the company's financial image to maintain creditors and investors' confidence, even if it does not align with the actual situation. This is because management can be triggered to conceal high leverage ratios by engaging in earnings management (Prasetyo & Suhendah, 2023).

Research by Christian & Addy (2022); Oktaviana & Rivandi (2023); Agurelia et al. (2023); Natalie & Pratiwi (2023); and Martasari (2023) reveals that leverage contributes to influencing earnings management policies. Entities that rely on high debt ratios generally exhibit a stronger tendency to engage in earnings management (Yulianingtyas & Suryadi, 2024).

H2: Leverage affect earnings management

Company Size Against Earnings Management

According to Bahri & Arrosyid (cited by Farhana et al., 2022), company size is a scale used to determine the size of a company based on sales value, equity value, number of employees, and total assets. Companies with large assets will increase company value, leading directors to prioritize profits and implement earnings management measures (Leba et al., 2024).

Based on the agency theory perspective, large-scale companies tend to may face more complex agency conflicts due to the possibility that management and shareholder interests may diverge. Research by Wati & Sumaryati (2022); Al-Faraby et al. (2023); (Martasari, 2023); and Christella & Santo (2024) indicates that company size affects earnings management.

H3: Company size affect earnings management

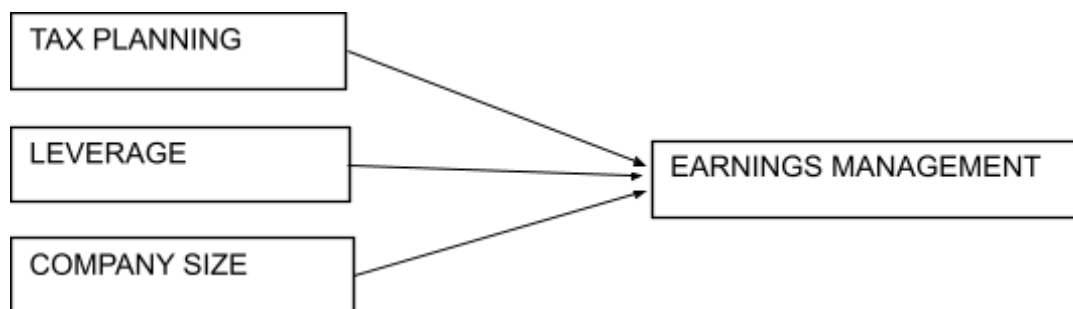


Figure 1. Research Model

The research approach applied in this study is a quantitative method. The data obtained in this study were sourced from Indonesia Stock Exchange (IDX) in the guise of annual financial disclosures document from a firms operating in the manufacturing sector issuer in the health sub-sector retrieved from authorized website <https://www.idx.co.id/>. Tax planning, leverage, and company size are the independent variables, while earnings management is the dependent variable.

The population defined in this study includes 38 manufacturing companies in the healthcare sector listed on the Indonesia Stock Exchange (IDX). Furthermore, the researcher employed purposive sampling method to select samples, resulting in 23 companies and a total sample of 115 over a 5-year period. The selection of a representative sample is determined by referring to the fulfillment of the following characteristics or criteria : (1) Companies not listed on the IDX consecutively from 2021 to 2025. (2) Companies that did not make a profit.

Table 1. Research Sampling Criteria

Num.	Description	Number of Companies
1.	Manufacturing companies in the healthcare sector listed on IDX during the research year	38
2.	the company does not consecutively report annual reports	(14)
3.	the company did not make any profit at all during the study year	(1)
4.	Company sample	23
	Total observation	115

Data will be processed using SPSS 26. The data evaluation procedure in this study was analyzed by means of multiple linear regression approach, which was preceded by a classical assumption test and ended with a hypothesis test to draw conclusions. To test the relationship between variables, the regression estimation model proposed by the researcher is compiled based on the following formula :

$$DA = \alpha + \beta_1 \text{ETR} + \beta_2 \text{DER} + \beta_3 \text{FS} + e$$

Description:

DA = Earnings Management

α = Constant

β_{1-3} = Regression coefficient for each variable

ETR = Tax Planning

DER = Leverage

FS = Company Size

e = Error Term

The variables in this study consist of two groups: independent variables and dependent variables. The independent variables are tax planning, leverage, and company size. The dependent variable is earnings management.

1. Earnings Management

In this study, the earnings management variable in this study is proxied through the value of discretionary accruals calculated using the accrual-based Modified Jones Model (Dechow et al., 1995). This model has two main components: Non-discretionary Accruals (NDA), which are normal accruals related to the company's economic activities, and Discretionary Accruals (DA), which are accruals subject to its own policies or decisions and reflect management's actions when manipulating earnings. The Modified Jones Model is chosen because it better separates normal accruals from accruals resulting from earnings manipulation, supported by its easy application to standard financial statement data. This makes it highly suitable for earnings management research that detects manipulation in financial statements.

This formula is implemented in four steps:

- a. Total Accruals (TA) to calculate the difference between net profit (NI) and operating cash flow (CFO)

$$TAC_{it} = NI_{it} - CFO_{it}$$

Information :

TAC_{it} = Total accruals of company i in year t

NI_{it} = Total net profit of company i in year t

CFO_{it} = Operating cash flow of company i in year t

- b. Total Accruals (TA) estimation using the Ordinary Least Square (OLS) equation

$$\frac{TAC_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon$$

Information :

A_{it-1} = Total assets of the previous year

ΔREV_{it} = Total earnings of company i in year t

PPE_{it} = Total fixed assets of company i in year t

- c. Calculating Non-Discretionary Accruals (NDA)

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right)$$

Information :

NDA_{it} = Non-discretionary accruals of company i in year t

ΔREC_{it} = Company receivable i in year t

- d. Calculation of Discretionary Accruals (DA) as a measure of earnings management

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$$

Information :

DA_{it} = Discretionary accruals of company i in year t

TAC_{it} = The amount of accruals of company i in year t

A_{it-1} = Total assets of the previous year

NDA_{it} = Non-discretionary accruals of company i in year t

2. Tax planning

In measuring the level of tax planning, the Effective Tax Rate (ETR) formula is applied as an instrument to analyze the amount of tax burden borne by the company. The lower the ETR, the higher the level of tax planning required to reduce a company's tax burden. This formula is derived from Suandy (cited by Zai & Masyitah, 2023).

$$ETR = \frac{\text{Tax expense}}{\text{Pretax income}}$$

Information :

ETR = Effective tax rate

Tax expense = Tax burden
 Pretax income = Profit before tax

3. Leverage

Leverage is useful for measuring the proportion of corporate assets that are structured or financed using debt instruments, rather than own capital. According to Sawir (cited in Zai & Masyitah, 2023), debt is a fixed financial burden that remains payable regardless of the company's profit. When the DER is greater than 1, the enterprise is financed more by debt than equity, which can increase financial risk.

$$DER = \frac{\text{Total liabilities}}{\text{Total equity}}$$

Information :

DER = Debt to equity ratio
 Total liabilities = Total debt
 Total equity = Total equity

4. Company size

This describes scale or size of company which is measured based on total assets, natural logarithm of asset size (log size), market value, overall income, capital equity, and other relevant indicators. Company size is operationalized through using value of the natural logarithm (Ln) the average overall company assets during the observation period, according to Harahap (cited in Sadewa & Sopian, 2024).

$$\text{Firm size} = \text{Ln} (\text{Total aset})$$

Keterangan :

Ln = Natural logarithm
 Total aset = Total assets

Results

Table 2. Normality Test Results.
 One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		115
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.12915980
Most Extreme Differences	Absolute	.074
	Positive	.070
	Negative	-.074
Test Statistic		.074
Asymp. Sig. (2-tailed)		.164 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: SPSS 26 Data Processing Results

In Table 1, Normality testing in this study was carried out by applying the One-Sample Kolmogorov-Smirnov test method. Referring to the results of the data analysis, the Asymp. Sig. (2-tailed) value was obtained at 0.164. Because this value is greater than the significance value of the 0.05 criterion ($p > 0.05$), then ($0.164 > 0.05$). Therefore, The results of the normality test indicate that the research data is normally distributed. This figure suggests that the regression model utilized is suitable and valid because has been satisfied without any data distribution issues, allowing this study to proceed to the next analysis.

Table 3. Multicollinearity Test Results.

		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	ETR	.978	1.022
	DER	.981	1.020
	FS	.996	1.004

Source: SPSS 26 Data Processing Results

Based on Table 2, Detection of multicollinearity symptoms in the regression model can be identified by obtaining the Tolerance and Variance Inflation Factor (VIF) figures for each variable ETR, DER, and FS. Referring to the empirical findings above, the Tolerance indicator for the ETR, DER, and FS variables has overall exceeded 0.10. Consistently, the VIF values for all independent variables have also been shown to be less than 10. It can be concluded that the regression model used is free from multicollinearity issues. This condition confirms that the relationships between the independent variables are mutually exclusive and valid for further testing.

Table 4. Heteroscedasticity Test Results.

	Model	Sig.
1	(Constant)	.572
	ETR	.217
	DER	.397
	FS	.178

Source: SPSS 26 Data Processing Results

Referring to Table 3, the results of the heteroscedasticity test show that in this study uses through the Glejser test. Results of heteroscedasticity test indicate that level of significance of the three variables ETR, DER, and FS surpass the 0.05 significance threshold. Therefore, it can be deduced that heteroscedasticity does not occur in tested data. These output indicate that this regression estimation model has passed, so that the data used is considered valid and free from statistical bias problems.

Table 5. Autocorrelation Test Results.

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.344 ^a	.121	.106	.1308947	2.182

a. Predictors: (Constant), FS, DER, ETR

b. Dependent Variable: DA

Source: SPSS 26 Data Processing Results

In table 4, this study uses the Durbin Watson test to test whether there is a correlation between the residual error in a particular period and the residual in the previous period in the regression model. Referring to the results of the statistical estimation that has been carried out, testing for autocorrelation symptoms using the Durbin-Watson indicator shows a figure of 2.182. Then $n = 115$ $k = 3$ obtained $DW = 2.182$, $dL = 1.6427$ and $dU = 1.7496$, $4 - dL = 2.3573$ and $4 - dU = 2.2504$. So, $1.7496 < 2.182 < 2.2504$ the data being tested does not experience autocorrelation. Based on these results, the estimated regression model is proven to be free from autocorrelation interference, so it has fulfilled the feasibility criteria of classical assumptions.

Table 6. F-Test Result

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.0413	3	.138	10.000	.000 ^b
	Residual	1.529	111	.00138		
	Total	1.942	114			

a. Dependent Variable: DA

b. Predictors: (Constant), FS, DER, ETR

Source: SPSS 26 Data Processing Results

Referring to the data presented in Table 5, the results of simultaneous testing show that testing through the F-test aims to determine the existence of a joint influence of independent variables on the dependent variable. Referring to the ANOVA table output, the results obtained show tax planning (ETR), leverage (DER), and company size (DER) have a significant value of $0.000 < 0.05$. This proves that there is an influence between tax planning, leverage, and company size on earnings management. These statistical evidence results signify that the ETR, DER, and FS variables collectively contribute to explaining variations in earnings management, although not all variables show a significant effect partially.

Table 7. T-Test Results.Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.117	0.088		1.333	0.185
	ETR	-0.009	0.011	-0.076	-0.805	0.422
	DER	-0.013	0.042	-0.030	-0.312	0.756
	FS	0.128	0.048	0.118	2.666	0.000

a. Dependent Variable: DA

Source: SPSS 26 Data Processing Results

Table 6, The (partial) t-test is applied to test and determine the level of influence of each independent variable individually (alone) on the dependent variable. The results of this partial test indicate that a significant value of the influence of tax planning (ETR) on earnings management (DA) is $0.422 > 0.05$, so H1 is rejected. Then, leverage variable (DER) on earnings management (DA), significance score shows a value of 0.756 which is above the threshold of 0.05 ($0.756 > 0.05$), which means that H2 is not accepted. On the other hand, in the last variable that tests impact of company size to earnings management (DA), is $0.000 < 0.05$, so H3 can be accepted. A positive coefficient value can indicate that the expansion of company size is directly proportional to the increase in the intensity of earnings management in financial reports.

Table 8. Output of the Determination Coefficient Test (Adjusted R2).Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.344 ^a	.121	.106	7.1308943896 15472E0

a. Predictors: (Constant), FS, DER, ETR

b. Dependent Variable: DA

Source: SPSS 26 Data Processing Results

Based on the statistical estimation results summarized in Table 7, it can be seen that the coefficient of determination test is applied to measure the extent to which the independent variables are able to explain variations in the dependent variable. Based on the test results, the Adjusted R² value is 0.106, which means the contribution of the independent variable's influence is 10.6%. These findings indicate that the variables of tax planning (ETR), leverage (DER), and firm size (FS) simultaneously only explain 10.6% of the earnings management (DA) phenomenon. This relatively low explanatory capacity strongly suggests that other external factors outside the estimation model exert a more dominant influence.

Table 9. Multiple Linear Regression Analysis.Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.117	0.088		1.333	0.185
	ETR	-0.009	0.011	-0.076	-0.805	0.422
	DER	-0.013	0.042	-0.030	-0.312	0.756
	FS	0.128	0.048	0.118	2.666	0.000

a. Dependent Variable: DA

Source: SPSS 26 Data Processing Results

Referring to the output of multiple linear regression analysis, the regression equation formulation produced in this study is:

$$DA = 0.117 - 0.009 \text{ ETR} - 0.013 \text{ DER} + 0.128 \text{ FS}$$

The constant of 0.117 is a constant when the earnings management variable is not influenced by other variables, namely tax planning (ETR), leverage (DER), and company size (FS). Based on the model estimation results, the regression coefficient for tax planning (ETR) is -0.009. This negative coefficient indicates that lower a company's tax planning ratio, the higher the managerial propensity to practice earnings management. The regression coefficient for leverage (DER) is -0.013, a negative regression value indicating that lower leverage ratio, the lower likelihood of a company engaging in earnings management. The coefficient for company size is 0.128, a positive regression coefficient indicating that the higher the company size, the more likely the company is to engage in earnings management. Based on these results, only company size (FS) significant partial effect to earnings management, while tax planning (ETR) and leverage (DER) do not.

Discussion

The Effect of Tax Planning on Earnings Management

Based on the results of the hypothesis test, it shows that the Tax Planning (ETR) variable has no impact on earnings management. This is indicated by with a significance level of $0.422 > 0.05$, so H1 is rejected. This shows that tax planning does not have a significant influence on earnings management. This result aligns with research findings from Agustin & Pratomo (2022), Zai & Masyitah (2023), Al-Faraby et al. (2023), Agurelia et al. (2023) and Natalie & Pratiwi (2023), but does not align with research by Wati & Sumaryati (2022), Martasari (2023), Christella & Santo (2024) and Yulianingtyas & Suryadi (2024) which states Tax Planning has a significant effect on Earnings Management. Lack of impact tax planning on earnings management could be due to several factors. First, companies in the healthcare sector tend to be under strict government oversight, particularly regarding financial reporting transparency and tax compliance, limiting the scope for profit manipulation. Second, companies are more cautious when implementing tax strategies due to the risk of tax audits and sanctions, which could harm their reputation.

This could mean that heavily taxed enterprises demonstrate a greater tendency to be transparent about their earnings and less likely to engage in earnings management. Conversely, companies with a low ETR are more likely to engage in earnings management (Zai & Masyitah, 2023). Therefore, this study shows that tax planning, as measured by ETR, does not influence earnings management in the healthcare sector and is not a primary factor.

In relation to agency theory, tax planning (ETR) can typically be a tool for managers to reduce their tax burden, potentially leading to earnings management. However, this finding contradicts the findings of this study, which found that taxes are not sufficiently powerful to induce management to carry out illegal tax manipulation or avoidance actions.

The Effect of Leverage on Earnings Management

Leverage (DER) variable is a significance value of $0.756 > 0.05$, so H2 is rejected. These findings indicate that the Debt to Equity Ratio (DER) does not have a significant influence on earnings management practices. These test results align with previous research conducted by Wati & Sumaryati (2022), Al-Faraby et al. (2023), Zai & Masyitah (2023), Yulianingtyas & Suryadi (2024) but does not align with research by Christian & Addy (2022), Martasari (2023), Oktaviana & Rivandi (2023), Natalie & Pratiwi (2023), Agurelia et al. (2023) which concluded that leverage influences earnings management. Insignificant results from this study could be due to several factors. First, healthcare companies' debt structure tends to be long-term and used for operational investments, thus not directly impacting profit performance. Second, the potential for stricter regulations and oversight in the healthcare sector is forcing companies to be more cautious in their financial reporting.

In the healthcare sector, Entities that have significant leverage or debt ratios have the potential to receive stricter attention and supervision from funding providers (creditors), severely limiting opportunities to earnings management practices. This oversight can limit management ability to engage in earnings management practices due to the obligation to maintain transparency and comply with debt covenants (Sadewa & Sopian, 2024).

Thus, although agency theory suggests that leverage can encourage managers for engaged earnings management to meet creditor expectations, The findings in this study demonstrate that leverage levels do not have sufficient driving force to trigger earnings management practices. This indicates that the debt ratio is not the primary determinant underlying managers' earnings manipulation policies in healthcare companies.

The Effect of Company Size on Earnings Management

According in light of hypothesis test output, significance level for the Company Size (FS) variable was 0.000 ($p < 0.05$). Thus, the decision for this test is to accept H3, so it can be interpreted that corporate scale (Company Size) contributes significantly in influencing earnings management actions. The results of this statistical test support and are consistent with previous research by Wati & Sumaryati (2022), Al-Faraby et al. (2023), Martasari (2023), Christella & Santo (2024) which indicates that company size contributes significantly in influencing earnings management policies. However, this result is inversely proportional to research by Christian & Addy (2022), Zai & Masyitah (2023), Oktaviana & Rivandi (2023), Natalie & Pratiwi (2023), Agurelia et al. (2023) which proves that company size does not have a significant effect on earnings management actions. This condition indicates that the increasing scale of a company is directly proportional to the tendency to manipulate earnings. The larger a company, the more complex its operational activities become, which in turn encourages management to engage in earnings management.

Consistent with agency theory, which suggests that large companies face more complex conflicts of interest between managers and owners. This is due to increased information asymmetry, where managers have access to broader and more in-depth information about the company's internal conditions than owners. This information gap opens up opportunities for management to act opportunistically for personal gain, engaging in earnings management for personal gain to obtain bonuses, maintain their positions, and strengthen the company's positive image and reputation in the eyes of the public (Leba et al., 2024).

Conclusion

The data analysis results indicate a significant influence of company size on earnings management. However, testing the tax planning and leverage variables showed not significant effect to earnings management. This study is not without limitations, one of which is indicated by the relatively low Adjusted R^2 value, which is only 10.6%. This suggests that many other variables were not included in the study and could potentially influence earnings management.

Therefore, recommendations for future research include adding other variables suspected of influencing earnings management to strengthen the ability to detect earnings management. Further research can expand the research scope to other sectors for more comprehensive and comparable results. Furthermore, the observation period can be extended to better reflect long-term conditions and improve analytical accuracy.

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