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EARNINGS MANIPULATION AND TAX AVOIDANCE: DOES POLITICAL CONNECTION MATTER?

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ABSTRACT

This study aims to analyze the effect of accrual earnings management on tax avoidance with political connection as a moderating variable in companies in the basic industry and chemical sectors listed on the indonesia stock exchange during the 2019–2023 period. this study uses a quantitative approach with secondary data obtained from annual reports. the population consists of companies in the basic industry and chemical sectors listed on the idx during 2019–2023, with a total of 475 observations. the sample was selected using a purposive sampling method, resulting in 205 observation data. the data analysis technique used is panel data regression with the Common Effect Model (CEM) approach, processed using STATA software. tax avoidance is measured using the effective tax rate, while accrual earnings management is measured using the modified jones model. the results show that accrual earnings management has a positive and significant effect on effective tax rate with a coefficient of 0.315815 and a significance value of 0.031. because effective tax rate is inversely related to tax avoidance, these results indicate that accrual earnings management has a negative and significant effect on tax avoidance. meanwhile, the interaction between accrual earnings management and political connection has a coefficient of 0.0478569 with a significance value of 0.922, indicating that political connection is unable to moderate the effect of accrual earnings management on tax avoidance. these findings indicate that accrual earnings management in basic industry and chemical companies is more oriented toward financial reporting objectives rather than tax avoidance, while political connection does not strengthen or weaken the relationship between accrual earnings management and tax avoidance.

Keywords: Discretionary Accruals; Effective Tax Rate; Political Connection; Tax Avoidance; Panel Data Regression

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh manajemen laba akrual terhadap penghindaran pajak dengan koneksi politik sebagai variabel moderasi pada perusahaan sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia selama periode 2019–2023. Penelitian ini menggunakan pendekatan kuantitatif dengan data sekunder yang diperoleh dari laporan tahunan. Populasi penelitian mencakup perusahaan sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia selama tahun 2019–2023, dengan total 475 observasi. Sampel dipilih menggunakan metode purposive sampling, yang menghasilkan 205 data observasi. Teknik analisis data yang digunakan adalah regresi data panel dengan pendekatan Common Effect Model (CEM) yang diolah menggunakan perangkat lunak STATA. Penghindaran pajak diukur menggunakan tarif pajak efektif, sedangkan manajemen laba akrual diukur menggunakan model Jones yang dimodifikasi. Hasil penelitian menunjukkan bahwa manajemen laba akrual berpengaruh positif dan signifikan terhadap tarif pajak efektif dengan koefisien sebesar 0,315815 dan nilai signifikansi 0,031. Karena tarif pajak efektif memiliki hubungan yang berlawanan arah dengan penghindaran pajak, hasil ini mengindikasikan bahwa manajemen laba akrual berpengaruh negatif dan signifikan terhadap penghindaran pajak. Sementara itu, interaksi antara manajemen laba akrual dan koneksi politik memiliki koefisien sebesar 0,0478569 dengan nilai signifikansi 0,922, yang menunjukkan bahwa koneksi politik tidak mampu memoderasi pengaruh manajemen laba akrual terhadap penghindaran pajak. Temuan ini mengindikasikan bahwa manajemen laba akrual pada perusahaan industri dasar dan kimia lebih berorientasi pada tujuan pelaporan keuangan dibandingkan penghindaran pajak, serta koneksi politik tidak memperkuat maupun memperlemah hubungan antara manajemen laba akrual dan penghindaran pajak.

Kata Kunci: *Discretionary Accrual*; *Effective Tax Rate*; Koneksi Politik; Penghindaran Pajak; Regresi Data Panel

INTRODUCTION

Tax revenue is the main source of state revenue and plays an important role in supporting national development and financing various government programs. Taxes are used to finance public services, infrastructure development, and community welfare programs (Aryani et al., 2024). During the 2019–2023 period, tax revenue remained the largest component of state revenue in the State Revenue and Expenditure Budget (APBN), demonstrating the important role of taxation in supporting national development (Notolegowo & Randita, 2025). Ministry of finance data also shows that the contribution of tax revenue to state revenue remained above 75% during this period. Through the self-assessment system, taxpayers are given the authority to calculate, pay, and report their own tax obligations (Kurniyawati et al., 2024). Although this system is intended to encourage taxpayer compliance, it also provides opportunities for companies to undertake tax planning strategies by utilizing gaps in tax regulations. One such strategy is tax avoidance, which refers to efforts to reduce tax obligations through arrangements that remain within the boundaries of applicable tax regulations (Mahmudi, 2023).

Tax avoidance remains an important issue in Indonesia because excessive tax avoidance practices may reduce potential state revenue. The State of Tax Justice 2020 estimated that Indonesia experienced potential tax revenue losses of approximately Rp68.7 trillion annually due to tax avoidance and tax evasion practices involving corporations and individuals (Fatimah, 2020). One example is the alleged tax avoidance practice involving PT Toba Pulp Lestari, which was suspected of transferring profits through affiliated companies in Macau, a jurisdiction with relatively low tax rates, as well as misclassifying export product harmonization codes (Rengganis, 2020). This case illustrates that companies may employ various strategies to manage their tax burden. The issue is particularly relevant to companies in the basic industry and chemical sectors because these companies are generally involved in asset intensive production activities and complex business transactions. Such characteristics may provide management with greater discretion in determining accounting estimates and recognizing revenues and expenses, which may subsequently affect reported accounting profits and tax related outcomes. Therefore, examining tax avoidance in the basic industry and chemical sectors is important to understand whether accounting based earnings management is associated with companies tax avoidance behavior.

One factor that may be associated with tax avoidance is accrual earnings management. Accrual earnings management refers to management's efforts to influence reported accounting earnings through the use of accrual components and accounting policies without directly changing the company's operating cash flows. Management may exercise discretion through accounting estimates, such as the allowance for doubtful accounts, depreciation methods, and the timing of revenue and expense recognition, to achieve particular reporting objectives (Mahmudi, 2023). From a tax perspective, changes in accrual components may influence accounting profit and potentially affect taxable income, thereby providing an opportunity for companies to manage their tax burden (Falbo & Amrie, 2021). Consequently, accrual earnings management may be considered one of the factors potentially associated with corporate tax avoidance (Rahmadani et al., 2020). However, the use of accrual earnings management is not necessarily intended to reduce tax obligations because management may also use accounting discretion to achieve financial reporting objectives, such as maintaining earnings stability, meeting performance targets, and maintaining the credibility of financial statements.

In addition to internal managerial factors, tax avoidance may also be influenced by external factors, including political connection. Political connection refers to a relationship between a company and individuals who have political influence or close relationships with government institutions. Companies with political connections may obtain access to government information, bureaucratic networks, and potentially favorable treatment (Maulina & Mu'arif, 2024). Political connections may also affect the level of external monitoring and the perceived risk associated with corporate tax strategies. Sahrir et al. (2021) and Zarli & Novius (2024) found that political

connections are associated with tax avoidance. In the context of accrual earnings management, political connections may potentially alter the relationship between accounting discretion and tax avoidance because companies with political connections may perceive lower regulatory or tax related risks. Therefore, political connection is considered a relevant factor to examine as a moderating variable in the relationship between accrual earnings management and tax avoidance.

Previous studies examining the relationship between earnings management and tax avoidance have produced inconsistent findings. Budiharto & Fuad (2024) and Falbo & Amrie (2021) found that earnings management has a positive effect on tax avoidance. In contrast, Hidayat & Wijaya (2021) and Rahmadani et al. (2020) found that earnings management does not have a significant effect on tax avoidance. Other research has reported a negative relationship between earnings management and tax avoidance, indicating that greater earnings management does not necessarily lead to greater tax avoidance. Differences in research findings indicate that the relationship between accrual earnings management and tax avoidance remains inconclusive. Furthermore, Thalita et al. (2022) found that political connections can strengthen the effect of earnings management on tax avoidance, while Utomo & Akhadi (2024) reported that political connection does not moderate the relationship. These inconsistent findings indicate a research gap regarding the role of political connection in the relationship between accrual earnings management and tax avoidance.

Based on this research gap, this study examines the effect of accrual earnings management on tax avoidance and investigates whether political connection moderates the relationship between the two variables. This study focuses on companies in the basic industry and chemical sectors listed on the indonesia stock exchange during the 2019–2023 period. The selection of this sector is intended to provide empirical evidence regarding the relationship between accrual based earnings management and tax avoidance in an industry characterized by substantial assets and complex operating activities. This study is expected to contribute to the literature on financial accounting and taxation by providing empirical evidence concerning the relationship between accrual earnings management, tax avoidance, and political connection. In practical terms, the findings are expected to provide insights for companies in evaluating their financial reporting and tax strategies, for tax authorities in identifying factors associated with corporate tax behavior, and for future researchers in developing research using different sectors, periods, and variables.

LITERATURE REVIEW

Agency Theory

According to Jensen & Meckling (1976), agency theory explains the contractual relationship between the principal (owner) and the agent (management), where the separation of ownership and management of the company can lead to conflicts of interest and information asymmetry. This condition provides an opportunity for management to act according to its own interests, including manipulating financial statements through accrual earnings management to achieve a specific goal (Kurniyawati et al., 2023).

This study uses agency theory as a theoretical foundation because it is able to explain the relationship between management as an agent with shareholders and the government as a principal in the context of taxation. The difference in interests between governments seeking to maximize tax revenues and management seeking to minimize tax burdens can drive practices accrual earnings management as a strategy to do tax avoidance (Rahmadani et al., 2020). In addition, the existence of political connection can weaken supervision so as to provide greater opportunities for management to carry out such practices (Thalita et al., 2022).

Tax Avoidance

Tax avoidance is an effort to avoid or save taxes that are still within the corridor of the provisions of laws and regulations (Gunadi, 2007). According to Sari & Kinasih (2021), tax avoidance is the action of the taxpayer to legally reduce the tax burden by taking advantage of

loopholes in the applicable tax regulations. Tax avoidance It can be understood as a legal strategy carried out by a company to minimize tax obligations without violating tax provisions.

The difference in interests between the government and the company is one of the factors that drives the occurrence tax avoidance. The government seeks to optimize tax revenue as the main source of state revenue, while companies view taxes as a burden that can reduce net profit so that they try to reduce their tax obligations through various strategies that are still in accordance with tax provisions (Rohmah & Romadhon, 2023). Therefore, tax avoidance it is one of the strategies that many companies use to increase the efficiency of the tax burden legally.

Accrual Earnings Management

Accrual earnings management is the practice of managing profits through changes in accrual components in financial statements by utilizing applicable accounting methods (Khanifah et al., 2020). According to Mahmudi (2023), states that accrual earnings management it is carried out using accounting policies, such as accelerating or delaying the recognition of income and expenses, without changing the company's operational activities or cash flow. Accrual earnings management can be interpreted as the management action of managing accounting profits through accrual policies to achieve certain goals.

Practice accrual earnings management it is based on the principle of accrual based accounting, which is that transaction recognition is carried out at the time of the transaction without paying attention to the time of receipt or cash expenditure (Mahmudi, 2023). The application of the accrual policy provides flexibility for management in determining accounting estimates, so that it has the potential to be used to influence reported profits in accordance with the company's interests.

Political Connection

Political connection refers to a relationship between a company and individuals or groups that have political influence or close relationships with government institutions. A company may be considered politically connected when members of its board of directors have relationships with government officials, political parties, or individuals with political influence (Zarli & Novius, 2024). Political connections may provide companies with access to government networks, strategic information, government contracts, and potentially favorable treatment in certain business or regulatory matters (Thalita et al., 2022).

In the context of taxation, political connection may influence the extent of external monitoring and the perceived risks associated with corporate tax strategies. Companies with political connections may potentially receive different levels of attention from tax authorities or have greater access to government-related information. Sahrir et al. (2021) and Zarli & Novius (2024) provide evidence concerning the relationship between political connection and tax avoidance. These conditions suggest that political connection may influence management's incentives and considerations when formulating tax strategies.

Political connection is particularly relevant as a moderating variable because its potential effect is not limited to directly influencing tax avoidance. Political connection may also alter the conditions under which management uses accounting discretion (Nurjanah & Sudaryati, 2019). When political connections reduce perceived regulatory risks, management may have greater flexibility to use accrual earnings management in support of tax avoidance strategies (Aprilianti & Sasana, 2026). Conversely, when politically connected companies receive greater attention from regulators, investors, and the public, management may become more cautious in using accounting discretion for aggressive tax purposes. Therefore, the effect of political connection on the relationship between accrual earnings management and tax avoidance may depend on the company's monitoring environment and management's assessment of the associated risks.

Conceptual Framework

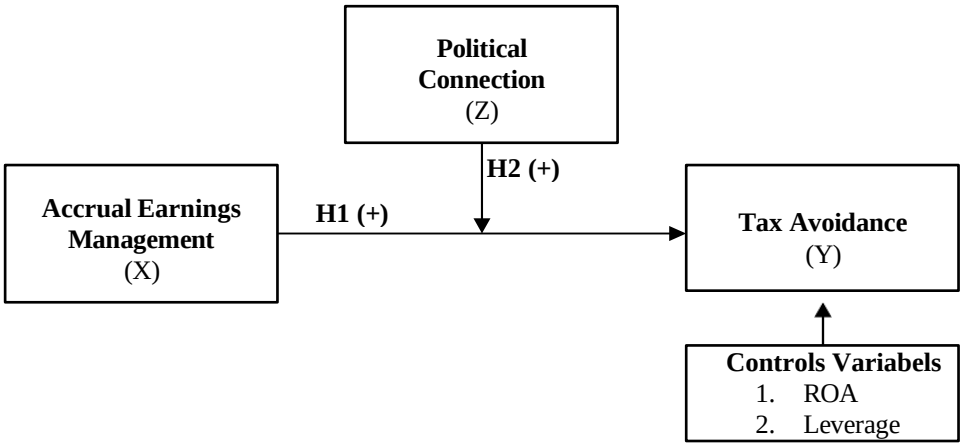


Figure 1. Conceptual Framework

Hypothesis Development

Based on the theoretical foundation and frame of thought, the hypothesis development is as follows:

Accrual Earnings Management to Tax Avoidance

Accrual earnings management It is the practice of management to regulate profits through accounting policies without changing the company's operational activities, such as accelerating revenue recognition or delaying expense recognition (Mahmudi, 2023). This practice leverages the flexibility of accounting policies to achieve specific goals, including reducing corporate tax burdens. According to Falbo & Amrie (2021), the company that implemented the accrual earnings management tend to have a tax avoidance higher than companies that do not implement it.

Based on agency theory, the difference in interests between the government and management encourages managers to take advantage of accrual earnings management as one of the strategies to minimize the tax burden (Rahmadani et al., 2020). Research results Rahmadani et al. (2020) shows that earnings management has no significant effect on tax avoidance, while Thalita et al. (2022);Ubaidillah (2022);Budiharto & Fuad (2024) found that earnings management has a positive effect on tax avoidance. Based on the results of the previous research, the higher the practice accrual earnings management, the greater the tendency of the company to do tax avoidance.

H1: Accrual earnings management is believed to have a positive effect on tax avoidance.

Political Connections Strengthen the Influence of Accrual Earnings Management on Tax Avoidance

Accrual earnings management is one of the profit management practices carried out through accounting policies by influencing the recognition of income and expenses without changing the company's operational activities (Mahmudi, 2023). This practice is used to reduce tax burden through flexibility in the application of accounting methods. According to Falbo & Amrie (2021), the company that implemented the accrual earnings management tend to have a tax avoidance higher. On the other hand, political connection is a relationship between a company and a party with political or government power that can provide various benefits, such as low audit risks and more favorable treatment from tax authorities (Thalita et al., 2022;Mahmudi, 2023).

Existence political connection allegedly strengthening influence accrual earnings management against tax avoidance because it provides flexibility for management in implementing tax avoidance strategies with lower risks (Thalita et al., 2022). Research results

Thalita et al. (2022);Ubaidillah (2022) shows that political connection able to strengthen influence earnings management against tax avoidance, while Utomo & Akhadi (2024) find different results, namely political connection does not moderate the relationship.

H2: It is suspected that political connections reinforce the influence of accrual earnings management on tax avoidance.

RESEARCH METHOD

This study uses a quantitative method with data in the form of numbers that are analyzed using statistical test tools to test the research hypothesis. The type of data used for this study is secondary data in the form of panel data, which is a combination of cross data and period data obtained from the financial statements of companies in the Basic Industry and Chemical sectors listed on the Indonesia Stock Exchange (IDX), for a five year period from 2019 to 2023.

The population of this study consists of 95 companies in the Basic Industry and Chemical sectors listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The sample was selected using a purposive sampling method based on predetermined criteria. From the initial population of 95 companies, 18 companies were excluded because they were not continuously listed on the IDX during the 2019–2023 observation period. Furthermore, 15 companies were excluded because they did not publish annual reports during the observation period. In addition, 4 companies were identified as having outlier observations, resulting in the exclusion of 21 firm year observations. After applying all sample selection criteria and eliminating the outlier observations, 41 companies remained as the final sample. Considering the five year observation period from 2019 to 2023, the final sample generated 205 firm year observations, calculated from 41 companies multiplied by five years of observation. Therefore, 205 observations were used in the subsequent data analysis.

The dependent variable in this study is tax avoidance. The independent variable is accrual earnings management and the moderation variable is political connection. This study also uses two control variables, namely Return on Assets (ROA) and Leverage (LEV).

Tax avoidance measured using Effective Tax Rate (ETR), which is the ratio of tax expense to profit before tax used as a proxy tax avoidance, where the lower the ETR value indicates the higher the tax avoidance rate (Octavia & Sari, 2022).

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Tax Expense}}{\text{Income Before Tax}}$$

Accrual Earnings Management (AEM) measured using Modified Jones Model to estimate discretionary accruals as a proxy for profit management practices (Octavia & Sari, 2022).

a. Calculating the total accrual

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

b. The total accrual value is estimated using multiple regression equations based on OLS (Ordinary Leat Square)

$$\frac{TA_{it}}{A_{it-1}} = \alpha 1 \left(\frac{1}{A_{it}}\right) + \alpha 2 \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + \alpha 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + e$$

c. Based on the equation above, NDA (non-discretionary accruals) can be calculated by reinserting that coefficient

$$NDA_{it} = \alpha 1 \left(\frac{1}{A_{it}}\right) + \alpha 2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \alpha 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + e$$

d. Based on the above equation, Accrual Earnings Management (AEM) can be formulated as follows:

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

Political connection measured using dummy variable (Thalita et al., 2022)

Category 1 = Companies that have a Political Connection.

Category 0 = Companies that do not have a Political Connection.

Return on Assets (ROA) describes the company's ability to generate profits from all assets owned (Delgado et al., 2023).

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

Leverage (LEV) describes the level of debt use in financing the company's assets (Delgado et al., 2023).

$$Lev = \frac{\text{Total Utang}}{\text{Total Aset}}$$

RESULT AND DISCUSSION

Result

Descriptive Statistics

In this study, the observation period covers 5 years, namely from 2019 to 2023. A total of 205 observation data used in this study were obtained based on predetermined sample selection criteria. The following are the results of descriptive statistics presented in the table below:

Table 1. Results of the Descriptive Statistical Analysis

Variable	Obs	Mean	Std. Dev.	Min	Max
TA	205	.2274478	.174109	-.4876207	.8392503
AEM	205	.0659407	.0839232	-.222237	.2773845
PC	205	.0926829	.2906975	0	1
ROA	205	.0422994	.0666902	-.187963	.3636199
LEV	205	.3626089	.1756629	.0326609	.7709758

Source: Results of STATA 14, 2026

Estimation Model Selection

There are three estimation models for panel data regression that can be used, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). In this study, the model selection test carried out included the Chow test and the Hausman test.

Chow Test

Table 2. Chow Test Results

Effect Test	Prob.
F (40,159)	1,36
Prob. > F	0,0973

Source: Results of STATA 14, 2026

Based on the results of the data processing, a probability value of 0.0973 was obtained, which was greater than the significance level of 0.05. From the Chow test conducted, it was obtained that the Common Effect Model (CEM) is the best model.

Lagrange Multiplier Test

Table 3. Lagrange Multiplier Test Result

Effect Test	Prob.
chibar^2(01)	1,35
Prob > chibar^2	0,1230

Source: Results of STATA 14, 2026

Based on the results of the data processing, a probability value of 0.1230 was obtained, which was greater than the significance level of 0.05. From the Lagrange Multiplier test carried out, it was found that the Common Effect Model (CEM) is the best model.

Based on the results of the model selection test, it can be concluded that the Common Effect Model (CEM) is the best model.

Classical Assumption Test

The classical assumption test is used to determine whether or not the regression model shows a significant and representative relationship. The classical assumption test used is the Multicollinearity Test and the Heteroscedasticity Test.

Multicollinearity Test

Table 4. Multicollinearity Test Results

Variable	VIF	1/VIF
AEM	1,02	0,981206
ROA	1,09	0,913638
LEV	1,09	0,918453
Mean VIF	**1,07**	

Source: Results of STATA 14, 2026

Based on the results of the Multicollinearity Test, the VIF was obtained, namely AEM of 1.02 ROA of 1.09 and LEV of 1.09. In addition, the value of the mean VIF is 1.07. With a VIF value below 10, it can be concluded that the research model does not show symptoms of multicollinearity.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Bruesch-Pagan / Cook-Weisberg test	Prob.
Chi2(1)	0,17
Prob > chi^2	0,6835

Source: Results of STATA 14, 2026

Based on the results of the Heteroscedasticity Test, the probability value > 0.05, so the regression model does not occur symptoms of heteroscedasticity, or variance from residual from one observation to another. The results of this test show that the regression model is free from the symptoms of heteroscedasticity.

Panel Data Regression Analysis

Table 6. Panel Data Regression Analysis Results

Variable	Coef.	Std. Err.	t	P>[t]
(Constanta)	.1518453	.0307044	4.95	0.000
AEM	.315815	.1456584	2.17	0.031
PC	.1714611	.0491889	3.49	0.001
AEM*PC	.0478569	.4897225	0.10	0.922
ROA	.2295577	.1847445	1.24	0.215
LEV	.0797882	.0687673	1.16	0.247
Adjust R^2			0.1076	
F-value			5.92	
Sig			0,0000	

Source: Results of STATA 14, 2026

Based on the results of the panel data regression analysis, the following management equations were obtained:

TA = 0,1518453 + 0,315815 AEM + 0,1714611 PC + 0,0478569 AEM*PC + 0,2295577 ROA + 0,0797882 LEV + e

The regression equation shows that a constant value of 0.1518453 indicates the value of the Effective Tax Rate (ETR) when all independent variables are considered constant. The Accrual Earnings Management (AEM) variable has a positive coefficient of 0.315815 and is significant, which indicates that any increase in AEM is likely to increase the ETR value by 0.315815. Since ETR is a proxy that is inversely related to tax avoidance, an increase in ETR indicates a decrease in tax avoidance rates. The Political Connection (PC) variable also has a positive coefficient of 0.1714611 and is significant, which shows that an increase in political connection tends to increase the ETR value, indicating a decrease in tax avoidance. Meanwhile, the interaction variable of Accrual Earnings Management (AEM) with Political Connection (PC) has a positive coefficient of 0.0478569, but it is not significant, thus showing that Political Connection (PC) is not able to moderate the influence of Accrual Earnings Management (AEM) on tax avoidance. In addition, the Return on Assets (ROA) and Leverage (LEV) control variables had positive coefficients of 0.2295577 and 0.0797882, respectively, but neither had a significant effect on tax avoidance.

T Test (Partial)

The t test was carried out by comparing the probability value (p-value) with a significance level of 0.05. Based on the results of the estimate using the Common Effect Model (CEM), the Accrual Earnings Management (AEM) variable has a coefficient of 0.315815 with a probability value of 0.031 (<0.05), so that it has a significant effect on the Effective Tax Rate (ETR). Because Effective Tax Rate (ETR) is a proxy that is inversely related to tax avoidance, these results show that Accrual Earnings Management (AEM) has a negative and significant effect on tax avoidance. The Political Connection (PC) variable has a coefficient of 0.1714611 with a probability value of 0.001 (<0.05), so that it has a significant effect on the Effective Tax Rate (ETR), which indicates that the Political Connection (PC) has a negative and significant effect on tax avoidance. In contrast, the interaction variable between Accrual Earnings Management (AEM) and Political Connection (PC) had a coefficient of 0.0478569 with a probability value of 0.922 (>0.05), thus showing that Political Connection (PC) was unable to moderate the influence of Accrual Earnings Management (AEM) on tax avoidance. Furthermore, the Return on Assets (ROA) control variable has a probability value of 0.215 (>0.05) and Leverage (LEV) of 0.247 (>0.05), so that the two variables do not have a significant effect on tax avoidance.

R^2 Determination Test

In the Common Effect Model (CEM) model, the determination coefficient test uses the Adjusted R-square value. Based on the results of the analysis processed using the Common Effect Model (CEM), the Adjusted R-square value of 0.1076 was obtained. This shows that the variables Accrual Earnings Management (AEM), Political Connection (PC), interaction between Accrual Earnings Management (AEM) and Political Connection (PC), Return on Assets (ROA), and Leverage (LEV) are able to explain the tax avoidance variables of 10.76%, while the remaining 89.24% was explained by other variables outside the research model.

Discussion

The Effect of Accrual Earnings Management (AEM) on Tax Avoidance

Based on the test results processed using the Common Effect Model (CEM), the Accrual Earnings Management (AEM) variable showed a coefficient value of 0.315815 with a probability value of 0.031. The probability value is smaller than the significance level of 0.05 so that Accrual Earnings Management (AEM) has a significant effect on the Effective Tax Rate (ETR). Because Effective Tax Rate (ETR) is a proxy that is inversely related to tax avoidance, these results show that Accrual Earnings Management (AEM) has a negative and significant effect on tax avoidance. This indicates that the higher the practice of Accrual Earnings Management (AEM), the lower the tendency of companies to practice tax avoidance. Thus, the first hypothesis (H1) that states that Accrual Earnings Management has a positive effect on tax avoidance is not proven.

The results of this study can be explained using agency theory submitted by Jensen & Meckling (1976), which explains the difference in interests between the principal and the agent. Although management has the flexibility to use accounting policies through Accrual Earnings Management (AEM) such practices are not always directed at reducing the tax burden. In companies in the basic industry and chemical sectors for the 2019–2023 period, Accrual Earnings Management (AEM) is more likely to be used to meet financial reporting objectives, such as maintaining profit stability, meeting performance targets, and maintaining the company's credibility in the eyes of investors and creditors (Rahmadani et al., 2020). In addition, the high level of supervision from auditors, tax regulators, and stakeholders causes companies to be more cautious in implementing aggressive tax strategies because the risks of audits, tax sanctions, and reputational decline are considered to be greater than the benefits obtained.

The results of this study are in line with the research Rahmadani et al. (2020) which states that Accrual Earnings Management (AEM) is not used as a means to improve tax avoidance, but is more focused on financial reporting objectives. These findings are also in line with Kaldonski & Jewartowski (2020) who found that earnings management have a negative relationship with tax avoidance, and Delgado et al. (2023) which shows that discretionary accrual has a positive effect on Effective Tax Rate (ETR), thus indicating the tendency of the company to do tax avoidance lower.

The Effect of Accrual Earnings Management (AEM) on Tax Avoidance with the Political Connection Moderation Variable

Based on the test results processed using the Common Effect Model (CEM), the interaction variables of Accrual Earnings Management (AEM) and Political Connection (PC) have a coefficient of 0.0478569 with a probability value of 0.922. The probability value is greater than the significance level of 0.05, indicating that Political Connection (PC) is unable to moderate the influence of Accrual Earnings Management (AEM) on tax avoidance. Thus, the second hypothesis (H2) that states that Political Connection (PC) strengthens the influence

of Accrual Earnings Management (AEM) on tax avoidance is not proven. These results indicate that the existence of Political Connection (PC) does not change the relationship between Accrual Earnings Management (AEM) and tax avoidance in companies in the basic industry and chemical sectors for the 2019–2023 period.

This research is in accordance with agency theory submitted by Jensen & Meckling (1976), which states that management as an agent will choose the policy that provides the greatest benefit to the company while still considering the risks posed. Although Political Connection (PC) can provide various benefits, such as easy access to the government and strategic information, these conditions do not encourage management to use Accrual Earnings Management (AEM) as a means to improve Tax avoidance. Companies that have political connections tend to be under greater scrutiny from regulators, investors, and the public, so management is more careful in taking tax policies that have the potential to increase the risk of sanctions, tax audits, and a decline in the company's reputation.

The results of this study are in line with the research Utomo & Akhadi (2024);(Hariyanto & Santioso, 2025);(Bulutoding et al., 2025) which states that Political Connection (PC) incapable of moderating influence earnings management against tax avoidance. The findings show that political relationships are not always used by companies to support their practices tax avoidance through accrual earnings management. On the other hand, companies that have political connection tend to maintain tax compliance and corporate reputation so that political relations do not strengthen influence accrual earnings management against tax avoidance.

CONCLUSION

This study examines the effect of Accrual Earnings Management on Tax Avoidance with Political Connection as a moderating variable in Basic Industry and Chemical sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Based on the analysis of 205 firm year observations, the results show that Accrual Earnings Management has a positive and significant effect on the Effective Tax Rate (ETR). Since ETR is inversely related to Tax Avoidance, this finding indicates that Accrual Earnings Management has a negative and significant effect on Tax Avoidance. These results suggest that an increase in Accrual Earnings Management is associated with a higher ETR and, consequently, a lower level of Tax Avoidance. Therefore, the hypothesis predicting a positive effect of Accrual Earnings Management on Tax Avoidance is not supported.

Furthermore, the interaction between Accrual Earnings Management and Political Connection is not statistically significant. This finding indicates that Political Connection does not moderate the relationship between Accrual Earnings Management and Tax Avoidance. In other words, the presence of Political Connection does not strengthen or weaken the effect of Accrual Earnings Management on Tax Avoidance. Therefore, the hypothesis proposing that Political Connection strengthens the positive effect of Accrual Earnings Management on Tax Avoidance is not supported.

The findings contribute to the literature by providing evidence that Accrual Earnings Management does not necessarily serve as a mechanism to increase corporate Tax Avoidance. Instead, the results indicate that accrual-based accounting discretion may be associated with financial reporting objectives that do not lead to lower tax payments. The findings also suggest that Political Connection does not necessarily alter the relationship between Accrual Earnings Management and Tax Avoidance in the Basic Industry and Chemical sectors. From a practical perspective, the results imply that tax authorities should not rely solely on Accrual Earnings Management as an indicator of potential Tax Avoidance

but should consider other factors that may influence corporate tax behavior. For companies, the findings emphasize the importance of maintaining transparent financial reporting and ensuring that accounting practices and tax strategies remain consistent with applicable regulations.

LIMITATION AND SUGGESTION

This study has several limitations that should be considered when interpreting the findings. First, the observation period is limited to 2019–2023, which includes the COVID-19 pandemic and the early recovery period. The economic conditions and government policies during this period may have influenced companies' financial reporting decisions and tax strategies, so the findings may contain period specific effects. Second, the sample is restricted to companies in the Basic Industry and Chemical sectors listed on the Indonesia Stock Exchange. Therefore, the findings may not be fully generalizable to companies in other sectors with different operational characteristics, regulatory environments, and tax planning strategies. Third, Tax Avoidance is measured using the Effective Tax Rate (ETR). Although ETR is commonly used to measure corporate tax avoidance, it may not capture all dimensions of tax avoidance because differences in tax rates can also arise from factors unrelated to tax avoidance practices. Fourth, the Adjusted R-square of the research model is relatively low, indicating that the variables examined in this study explain only a limited proportion of the variation in Tax Avoidance. This suggests that other factors outside the research model may play an important role in explaining corporate Tax Avoidance.

Based on these limitations, future research is encouraged to extend the observation period to obtain more comprehensive evidence across different economic conditions and reduce the influence of period specific effects. Future studies may also expand the research sample to other sectors or conduct comparative analyses across industries to improve the generalizability of the findings. In addition, future researchers are encouraged to use alternative measures of Tax Avoidance, such as Cash Effective Tax Rate (Cash ETR) and Book-Tax Differences (BTD), to provide a broader measurement of corporate Tax Avoidance. Future research may also incorporate additional explanatory variables, such as audit quality, institutional ownership, capital intensity, financial distress, transfer pricing, and corporate governance mechanisms. Considering these additional variables may improve the explanatory power of the research model and provide a more comprehensive understanding of the factors influencing corporate Tax Avoidance.

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