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Earnings Management As A Pathway Between Rpt, Capital Intensity, And Tax Aggressiveness: Audit Quality Perspective

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ABSTRACT

This study examines the effect of Related Party Transactions (RPT) and Capital Intensity (CI) on Tax Aggressiveness, with Earnings Management serving as an intervening variable and Audit Quality as a moderating variable. The study employs a quantitative approach using industrial sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The final sample consists of 12 companies, resulting in 60 firm-year observations. Panel data regression analysis is employed to test the proposed hypotheses. The results indicate that Related Party Transactions do not affect Earnings Management but have a positive effect on Tax Aggressiveness, and this relationship is not mediated by Earnings Management. In contrast, Capital Intensity positively affects Earnings Management but does not significantly affect Tax Aggressiveness, although its effect on Tax Aggressiveness is mediated by Earnings Management. Furthermore, Earnings Management has a significant negative effect on Tax Aggressiveness, while Audit Quality does not moderate the relationship between Earnings Management and Tax Aggressiveness.

INTRODUCTION

Indonesia is a developing country with a large population. It is the world's largest archipelagic nation, endowed with abundant natural resources and a strategically important geographic location. Indonesia is also a hub for global trade and transportation. Moreover, the country is open to both domestic and foreign companies conducting business, which in turn helps increase tax revenue (Karlina, 2021).

Tax aggressiveness refers to strategies undertaken to reduce taxable income, either through legal or illegal tax planning, with the primary objective of lowering the tax burden (Atika, 2023). One major case related to tax aggressiveness is PT Toyota Motor Manufacturing Indonesia (TMMIN), a subsidiary of Astra International Tbk (ASII). In 2013, TMMIN engaged in Related Party Transactions with an affiliated company in Singapore, shifting profits that should have been taxed in Indonesia to a lower-tax jurisdiction (tax haven). This practice, known as transfer pricing, was proven to have reduced potential state tax revenue by trillions of rupiah (Idris, 2013). This phenomenon clearly illustrates how related party transactions can be used for tax avoidance purposes.

In addition, earnings management practices are also widespread in Indonesia. A prominent example is PT Tiga Pilar Sejahtera Food Tbk (AISA), which in 2017 manipulated its financial statements, inflating its value by up to IDR 4 trillion. This was revealed after an audit conducted by Ernst & Young Indonesia, which led to the restatement of the 2017 financial statements in 2020. As a result, the company's net loss surged drastically from IDR 551.9 billion to IDR 5.23 trillion (Abidin, 2019). This phenomenon demonstrates that earnings management can significantly alter investor perceptions and also potentially affect the amount of corporate tax burden.

Tax aggressiveness can be influenced by various factors, as shown in prior studies. Among the key influencing factors are Related Party Transactions (RPT), Capital Intensity, and Earnings Management. RPT refers to relationships between companies and individuals closely connected to the firm, such as managers, directors, affiliates, and major shareholders. These transactions may include sales, purchases, leases, or loans involving related parties (Perwita & Harymawan, 2021). Previous studies have produced mixed findings. Research by Rachmawati et al. (2023), Ellyani (2018), and Fadhali & Laksito (2023) found that RPT affects tax aggressiveness, while Nindita et al. (2021) and Darma (2022) found no such effect. Efficient RPT practices can involve shifting assets or liabilities among entities to engage in earnings management, manipulating reported profits either upward or downward. Prior studies also show contrasting findings: Jao et al. (2023), Saleh et al. (2023), and Ellyani (2018) reported that RPT affects earnings management, while Suprihatin & Mahardini (2022) and Teguh & Eriandani (2021) concluded otherwise.

Capital Intensity refers to investment activities in fixed and current assets. The ratio of fixed asset investment reflects a company's decision to minimize corporate income tax, since almost all fixed assets—except land—are subject to depreciation. Depreciation expenses reduce profits and, consequently, the tax burden. Thus, the more fixed assets a company owns, the greater the depreciation expense that can be deducted for tax savings (Halawa, 2022). However, prior studies also show differing results. Gea & Sembiring (2024), Pratiningsih & Fajriana (2023), and Monica et al. (2024) found that Capital Intensity affects tax aggressiveness, whereas Panjaitan & Haq (2023), Ramdani & Ardiansyah (2023), Cahyo & Napisah (2023), and Sihombing et al. (2021) found no such effect.

Capital Intensity may also compel managers to engage in earnings management. Specifically, high capital intensity refers to a greater proportion of fixed capital. Firms with higher capital intensity may find it easier to generate profits, as they have more resources to finance production (Zhafirah et al., 2022). Again, prior research shows mixed results. Studies by Suprihatin & Mahardini (2022), Zhafirah et al. (2022), and Sugiarto & Damayanti (2023) found that Capital Intensity affects earnings management, while Methasari (2021) and Dewi & Susilowati (2022) reported no such effect.

Earnings management refers to decision-making activities that involve altering financial reporting and transaction structures in ways that may mislead stakeholders about a company's financial performance or influence contractual outcomes based on reported accounting information (Nurhasan et al., 2023). Profit-oriented companies continuously seek to maximize income through cost efficiencies, including tax efficiency via tax planning. Previous studies also provide mixed evidence. Wesly & Kuntadi (2024), Leonardo et al. (2023), and Rifai & Atiningsih (2019) reported that earnings management affects tax aggressiveness, while Suprihatin & Mahardini (2022), Nurhasan et al. (2023), and Dewi & Susilowati (2022) found no such effect.

Earnings management is also indicated as a potential intervening variable linking RPT and tax aggressiveness. This is consistent with Suprihatin & Mahardini (2022), who noted that increases in earnings from RPT may reduce earnings management activities, thereby lowering corporate tax aggressiveness. Similarly, earnings management may serve as an intervening variable between Capital Intensity and tax aggressiveness. However, this contrasts with Dewi & Susilowati (2022), who argued that higher Capital Intensity may drive managers to accelerate sales, lowering capital intensity ratios but increasing annual profits, which could in turn lead companies to engage in aggressive tax behavior.

Several prior studies have highlighted the role of earnings management as an intervening variable in the relationship between RPT, Capital Intensity, and tax aggressiveness. However, studies that incorporate external factors such as audit quality remain limited. Audit quality is believed to play a crucial role as a governance mechanism to restrain managerial opportunism. In line with this, Sihono & Munandar (2023) found that high-quality audits can weaken the relationship between executive compensation and tax aggressiveness. Similarly, Subekti & Ompusunggu (2023) showed that audit quality can moderate the relationship between corporate governance, earnings management, and tax aggressiveness. Therefore, this study provides novelty by testing audit quality as a moderating variable in the mediating role of earnings management between RPT, Capital Intensity, and tax aggressiveness.

RESEARCH METHODS

This study employs a quantitative approach to examine the effects of Related Party Transactions (RPT) and Capital Intensity on Tax Aggressiveness, with Earnings Management serving as the intervening variable and Audit Quality as the moderating variable. A quantitative approach was selected because it enables objective measurement and statistical testing of the proposed relationships. The hypotheses are tested using the t-test to evaluate the partial effect of each independent variable and the F-test to assess the overall significance of the regression model. Furthermore, the Sobel test is employed to examine the mediating role of Earnings Management, while the interaction term is used to assess the moderating effect of

Audit Quality. The study utilizes balanced panel data, combining cross-sectional observations of industrial sector companies with time-series data covering the period from 2019 to 2023. Based on the theoretical framework and previous empirical findings, eight research hypotheses are proposed to explain the relationships among the study variables.

The Effect of Related Party Transactions on Earnings Management

Related Party Transactions (RPTs) may provide managers with greater flexibility to manipulate financial reporting because transactions with affiliated parties are subject to lower external scrutiny. Agency Theory explains that information asymmetry between managers and shareholders creates opportunities for managers to engage in opportunistic behavior (Jensen & Meckling, 1976). Previous studies by Ellyani (2018), Jao et al. (2023), and Saleh et al. (2023) found that RPTs significantly increase earnings management practices. Accordingly, the following hypothesis is proposed:

H1: Related Party Transactions positively affect Earnings Management.

The Effect of Capital Intensity on Earnings Management

Capital intensity reflects the proportion of investment in fixed assets, which generates depreciation expenses that may be used to adjust reported earnings. Agency Theory suggests that managers may exploit accounting discretion to achieve desired financial performance. Empirical evidence from Suprihatin and Mahardini (2022), Zhafirah et al. (2022), and Sugiarto and Damayanti (2023) indicates that capital intensity significantly influences earnings management. Therefore, the following hypothesis is proposed:

H2: Capital Intensity positively affects Earnings Management.

The Effect of Related Party Transactions on Tax Aggressiveness

Related Party Transactions may facilitate tax planning through transfer pricing and other affiliated transactions, thereby reducing taxable income. Agency Theory argues that managers may pursue aggressive tax strategies to maximize corporate benefits under conditions of information asymmetry. Prior studies by Ellyani (2018), Darma (2022), Rachmawati et al. (2023), and Fadhali and Laksito (2023) consistently found that RPTs increase tax aggressiveness. Accordingly, the following hypothesis is proposed:

H3: Related Party Transactions positively affect Tax Aggressiveness.

The Effect of Capital Intensity on Tax Aggressiveness

Companies with high capital intensity incur larger depreciation expenses, which may reduce taxable income and encourage tax-saving strategies. Agency Theory explains that managers may utilize investment decisions to minimize tax payments while improving firm performance. Previous studies by Gea and Sembiring (2024), Pratiningsih and Fajriana (2023), and Monica et al. (2024) reported a positive relationship between capital intensity and tax aggressiveness. Therefore, the following hypothesis is proposed:

H4: Capital Intensity positively affects Tax Aggressiveness.

The Effect of Earnings Management on Tax Aggressiveness

Earnings management enables managers to adjust accounting figures in ways that may reduce taxable income and corporate tax obligations. Agency Theory suggests that managers have incentives to manipulate reported earnings to achieve financial and tax-related objectives. Empirical studies by Alam and Fidiana (2019), Leonardo et al. (2023), Nurhasan et al. (2023), and Wesly and Kuntadi (2024) demonstrated that earnings management significantly increases tax aggressiveness. Therefore, the following hypothesis is proposed:
H5: Earnings Management positively affects Tax Aggressiveness.

The Mediating Role of Earnings Management in the Relationship between Related Party Transactions and Tax Aggressiveness

Related Party Transactions may encourage managers to manipulate reported earnings, which subsequently facilitates aggressive tax strategies. Agency Theory explains that information asymmetry allows managers to utilize RPTs to influence both financial reporting and tax planning. Previous evidence by Ellyani (2018) supports the mediating role of earnings management in this relationship. Accordingly, the following hypothesis is proposed:
H6: Earnings Management mediates the relationship between Related Party Transactions and Tax Aggressiveness.

The Mediating Role of Earnings Management in the Relationship between Capital Intensity and Tax Aggressiveness

High capital intensity provides managers with greater accounting discretion through depreciation policies, which may encourage earnings management and ultimately increase tax aggressiveness. Previous studies by Dewi and Susilowati (2022) indicate that earnings management acts as a mediator between capital intensity and tax aggressiveness. Therefore, the following hypothesis is proposed:
H7: Earnings Management mediates the relationship between Capital Intensity and Tax Aggressiveness.

The Moderating Role of Audit Quality in the Relationship between Earnings Management and Tax Aggressiveness

Audit quality serves as an important corporate governance mechanism that limits managers' opportunistic behavior. High-quality auditors are more likely to detect earnings management practices, thereby reducing the extent to which earnings management leads to aggressive tax behavior. Consistent with Agency Theory and supported by Sihono and Munandar (2023) as well as Subekti and Ompusunggu (2023), audit quality is expected to weaken this relationship. Accordingly, the following hypothesis is proposed:
H8: Audit Quality weakens the positive effect of Earnings Management on Tax Aggressiveness.

Based on the theoretical arguments and empirical evidence discussed above, the proposed relationships among the study variables are summarized in the conceptual framework presented in Figure 1.

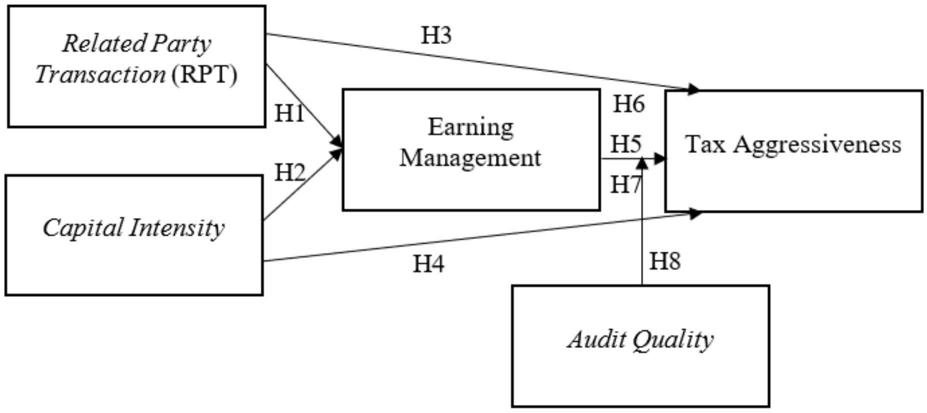


Figure 1. Conceptual Framework

The operational definitions and measurements of the variables used in this study are presented in Table 1.

Tabel 1. Operationalization of Research Variables

No	Variabel	Rumus
1	Tax Aggressiveness	$\frac{Income\ Tax\ Expense}{EBIT}$ Source: (Putri et al., 2024)
2	*Related Party Transaction*	$\frac{RPT\ Rec}{Total\ Assets}$ Source: (Darma, 2022)
3	*Capital intensity*	$\frac{Fixed\ Assets}{Total\ Assets}$ Source: (Cahyo & Napisah, 2023)
4	Earnings Management	*Discretionary Accrual* *1. Total Accrual* *2. Estimate Non-Discretionary Accruals (NDA) using cross-sectional regression.* 3. *Compute Expected (Non-Discretionary) Total Accruals (NDA).* 4. *Determine Discretionary Accruals (DA) as the proxy for earnings management*

RESULT AND DISCUSSION

This study employed purposive sampling to obtain companies that met the research criteria. The sample selection process is summarized in Table 2.

Table 2. Criteria for Sample Selection

No.	Criteria	Excluded	Included
1.	Industrial sector companies listed on the Indonesia Stock Exchange (IDX) 2023.	-	63
2.	Industrial sector companies listed on the IDX during 2019–2023.	(15)	48
3.	Industrial sector companies that provide and publish financial statements on the IDX for 5 consecutive years from 2019–2023.	(7)	41
4.	Industrial sector companies that reported profits for 5 consecutive years from 2019–2023.	(26)	15
5.	Industrial sector companies that conducted related party transactions for 5 consecutive years from 2019–2023.	(3)	12
	Total Sample Companies		12
	Observation Years 2019 - 2023		5
	Total Observations		60

The selected sample consists of 12 companies, yielding 60 firm-year observations over the 2019–2023 period. Sub-Structure 1 estimates the effects of Related Party Transactions and Capital Intensity on Earnings Management. The regression results are presented in Table 3.

Sub-Structure 1

Table 3. Multiple Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.284579	0.092061	-3.091189	0.0034
LOGRPT	-0.025101	0.014463	-1.735522	0.0893
LOGCI	-0.147741	0.054655	-2.703155	0.0096

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.406929	Mean dependent var	-0.000260
Adjusted R-squared	0.239323	S.D. dependent var	0.074163
S.E. of regression	0.064683	Akaike info criterion	-2.437679
Sum squared resid	0.192458	Schwarz criterion	-1.948999
Log likelihood	87.13037	Hannan-Quinn criter.	-2.246529
F-statistic	2.427880	Durbin-Watson stat	1.914922
Prob(F-statistic)	0.013624		

$$MLit = -0{,}284579 - 0{,}0{,}025101\ LOGRPTit - 0{,}147741\ LOG\mathrm{CI}it + \varepsilon it.$$

The model can be interpreted as follows:

1. The coefficient of the Related Party Transaction variable is -0.284579 with a negative direction. This indicates that each one-unit increase in Related Party Transactions can reduce Earnings Management by -0.284579 or 28.46%.

2. The coefficient of the Capital Intensity variable is -0.147741 with a negative direction. This indicates that each one-unit increase in Capital Intensity can reduce Earnings Management by -0.147741 or 14.77%.

Test -t

Based on Table 3, the results of the first hypothesis testing show that Related Party Transactions do not affect Earnings Management. This is indicated by the t-statistic value of 0.678, which is smaller than the t-table value of 1.672, and a significance level of 0.501, which is greater than the significance threshold of 0.05. Thus, the first hypothesis is rejected because the RPT variable has no effect on Earnings Management. The results of the second hypothesis testing show that Capital Intensity affects Earnings Management. The t-statistic value of 2.470 is greater than the t-table value of 1.672, and the significance level of 0.017 is smaller than 0.05. Therefore, the second hypothesis is accepted because the CI variable has an effect on Earnings Management.

F-Test (Simultaneous)

Based on Table 3, the results of the F-test show that the variables Related Party Transaction and Capital Intensity influence Earnings Management, with an F-statistic value of 3.729673 and an F-table value of 3.15, so F-statistic > F-table. Meanwhile, the probability value (F-statistic) is 0.000455 < 0.05. Since the probability value is smaller than the significance level of 0.05, it can be concluded that the variables simultaneously have a significant effect on Earnings Management.

Determination Coefficient

Based on Table 3, the results of the coefficient of determination show that the Adjusted R-squared value is 0.375567 or 37.5567%. This means that Earnings Management can be explained by 37.5567%, while the remaining 62.4433% is explained by other variables outside this study.

Substructure 2

Table 4. Multiple Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.894851	0.281439	-3.179557	0.0024
LOGRPT	0.088754	0.036371	2.440205	0.0180
LOGCI	0.165484	0.153620	1.077227	0.2862
EM	-1.535598	0.601018	-2.554993	0.0135
AQ	-0.025556	0.198899	-0.128485	0.8982
EM*AQ	1.722553	1.111236	1.550122	0.1270
	Effects Specification			
			S.D.	Rho
Cross-section random			0.277285	0.5842
Idiosyncratic random			0.233950	0.4158
	Weighted Statistics			
R-squared	0.269450	Mean dependent var		-0.537104
Adjusted R-squared	0.201807	S.D. dependent var		0.259203
S.E. of regression	0.231576	Sum squared resid		2.895884
F-statistic	3.983384	Durbin-Watson stat		1.961968
Prob(F-statistic)	0.003789			

$$ETRit = -0,894851 + 0,088754\ LOGRPTit + 0,165484\ LOGCIit - 1,535598EM - 0,025556AQ + 1.722553EM*AQ + \varepsilon it.$$

The model can be interpreted as follows:

1. The coefficient of the Related Party Transaction variable is 0.088754 with a positive direction. This indicates that each one-unit increase in Related Party Transactions can raise Tax Aggressiveness by 0.088754 or 8.87%.
2. The coefficient of the Capital Intensity variable is 0.165484 with a positive direction. This indicates that each one-unit increase in Capital Intensity can raise Tax Aggressiveness by 0. 165484 or 16.54%.
3. The coefficient of the Earnings Management variable is -1.535598 with a negative direction. This indicates that each one-unit increase in Earnings Management can reduce Tax Aggressiveness by -1.535598 or 153.55%.

Test- t

The results of the third hypothesis testing show that Related Party Transactions have an effect on Tax Aggressiveness. The t-statistic value of 2.860 is greater than the t-table value of 1.672, with a significance level of 0.006, which is smaller than 0.05. This proves that the higher the related party transactions, the greater the company's tendency to engage in tax aggressiveness. Thus, the third hypothesis is accepted.

The results of the fourth hypothesis testing show that Capital Intensity has no effect on Tax Aggressiveness. Although the t-statistic value of 1.812 is greater than the t-table value of 1.672, the significance level of 0.075 is greater than 0.05. This means that statistically, Capital Intensity does not have a significant effect on Tax Aggressiveness, so the fourth hypothesis is rejected.

The results of the fifth hypothesis testing also show that Earnings Management has no effect on Tax Aggressiveness. The t-statistic value of 1.963 is greater than the t-table value of 1.672, but the significance level of 0.055 is greater than 0.05. This condition indicates that statistically, Earnings Management does not significantly affect Tax Aggressiveness, so the fifth hypothesis is rejected.

F-Test (Simultaneous)

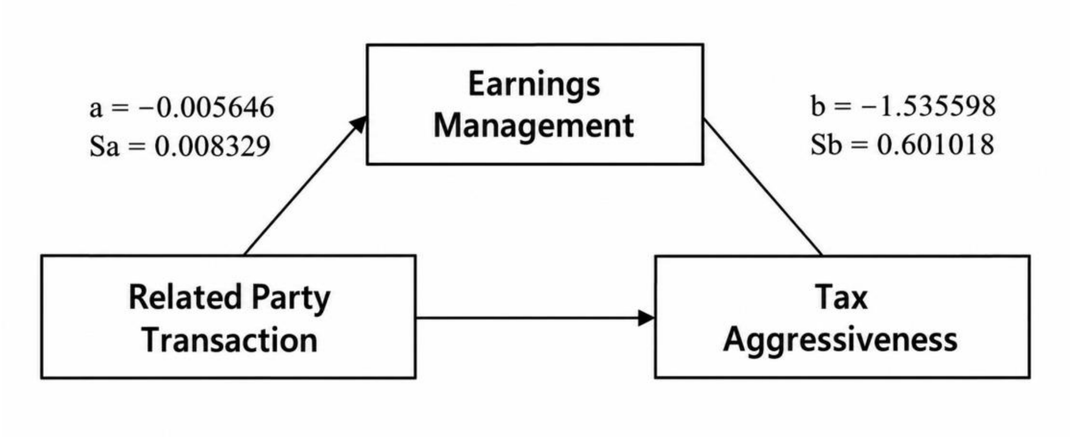
Based on the results of the F-test, the variables Related Party Transactions, Capital Intensity, Earnings Management, Audit Quality, and the interaction between Earnings Management and Audit Quality (EM × AQ) simultaneously affect Tax Aggressiveness. The regression model produces an F-statistic value of 3.983384, which is greater than the F-table value of 3.15 (F-statistic > F-table). In addition, the probability value of the F-statistic is 0.003789, which is lower than the 0.05 significance level ($p < 0.05$). These results indicate that the regression model is statistically significant, implying that the independent, intervening, moderating, and interaction variables jointly explain variations in Tax Aggressiveness. Therefore, the proposed regression model is considered appropriate for hypothesis testing.

Determination Coefficient

Based on the coefficient of determination, the Adjusted R-squared value is 0.201807 (20.18%). This indicates that 20.18% of the variation in Tax Aggressiveness is explained by Related Party Transactions, Capital Intensity, Earnings Management, Audit Quality, and the interaction between Earnings Management and Audit Quality, while the remaining 79.82% is explained by other factors not included in this research model.

Sobel Test

Mediation Test of the Effect of Related Party Transactions on Tax Aggressiveness through Earnings Management as an Intervening Variable



$$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$Sab = \sqrt{-1.535598^2\ x\ 0{,}008329^2 + -0{,}005646^2\ x\ \ 0.601018^2 +\ 0{,}008329^2\ x\ \ 0.601018^2}$$

$$Sab = \sqrt{2.358061\ x\ 0.000069 + 0.000032\ x\ 0.361222 +\ 0{,}000069\ x\ 0.361222}$$

$$Sab = \sqrt{0{,}000162 + 0.000011 +\ 0.000024}$$

$$Sab = \sqrt{0{,}000197}$$

$$Sab = 0.014035$$

$$t = \frac{ab}{Sab}$$

$$t = \frac{-0{,}005646\ x - 1.535598}{0.014035}$$

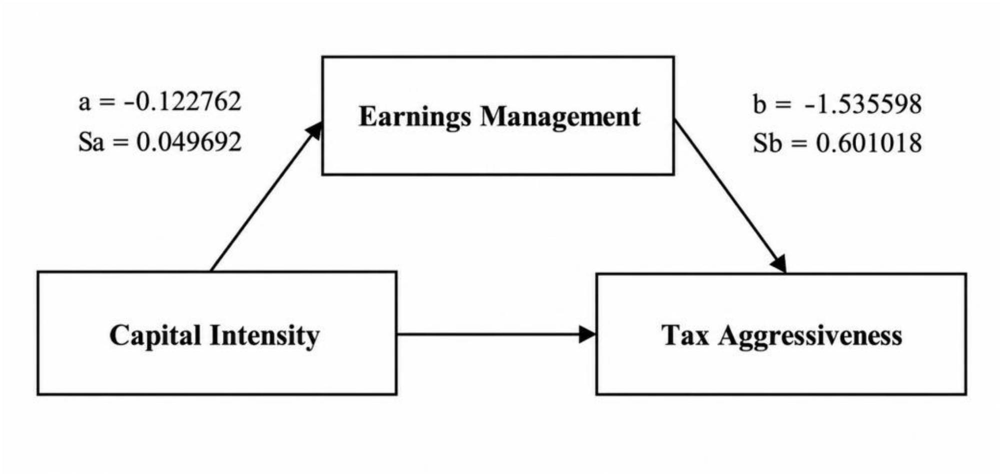
$$t = \frac{0{,}008669}{0.014035}$$

$$t = 0.61767$$

Based on the manual Sobel Test calculation conducted by the researcher, the t-value is 0.61767, which is less than the t-table value of 1.67203 at a 0.05 (5%) significance level.

Thus, it can be concluded that Earnings Management as an intervening variable cannot mediate the effect of Related Party Transactions on Tax Aggressiveness. This means that although there is a relationship between RPT and Tax Aggressiveness, Earnings Management does not serve as a bridge or intermediary in this relationship. Practically, this indicates that related party transactions do not influence corporate tax aggressiveness through earnings management practices.

Mediation Test of the Effect of Capital Intensity on Tax Aggressiveness through Earnings Management as an Intervening Variable



$$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$Sab = \sqrt{-1{,}535598^2 \; x \; 0{,}049692^2 + -0{,}122762^2 \; x \; 0{,}601018^2 + 0{,}049692^2 \; x \; 0{,}601018^2}$$

$$Sab = \sqrt{2.358061 \; x \; 0{,}002469 + 0{,}015071 \; x \; 0.361222 + 0{,}002469 \; x \; 0.361222}$$

$$Sab = \sqrt{0{,}005822 + 0{,}0054439 + 0{,}000891}$$

$$Sab = \sqrt{0{,}0121569}$$

$$Sab = 0{,}110258$$

$$t = \frac{ab}{Sab}$$

$$t = \frac{-0{,}122762 \; x - 1{,}535598}{0{,}110258}$$

$$t = \frac{0{,}188513}{0{,}110258}$$

$$t = 1{,}70974$$

Based on the manual Sobel Test calculation conducted by the researcher, the t-value is 1.70974, which is greater than the t-table value of 1.67203 at a 0.05 (5%) significance level. Thus, it can be concluded that Earnings Management as an intervening variable can mediate the effect of Capital Intensity on Tax Aggressiveness. This means that the influence of Capital Intensity on Tax Aggressiveness is not only direct but also indirect through Earnings Management practices. Practically, this indicates that the higher the capital intensity owned by a company, the more it may encourage earnings management practices, which in turn increase tax aggressiveness.

CONCLUSION

The Effect of Related Party Transactions on Earnings Management

Related Party Transactions (RPT) have a t-statistic value of 0.677861 < 1.67155 and a significance value of 0.5013, where 0.5013 > 0.05. This means that, partially, RPT has no effect on Earnings Management; therefore, H0 is accepted and Ha is rejected. This finding is consistent with El-Helaly et al. (2018), who argued that there is a significant relationship between RPT and REM. However, the insignificant relationship in this study suggests that companies conduct RPT not for earnings management purposes but as part of real business activities. The insignificant link between RPT and Earnings Management indicates that RPT is not necessarily carried out to manage earnings (Gordon & Henry, 2004). Thus, it can be concluded that corporate involvement in RPT does not automatically drive management to engage in earnings management practices.

The Effect of Capital Intensity on Earnings Management

Capital Intensity (CI) has a t-statistic value of 2.470450 > 1.67155 and a significance value of 0.0173, where 0.0173 < 0.05. This means that, partially, CI has an effect on Earnings Management; therefore, H0 is rejected and Ha is accepted. This result is consistent with Gea & Sembiring (2024), Pratiningsih & Fajriana (2023), and Monica et al. (2024), who stated that Capital Intensity influences tax aggressiveness. The greater the value of fixed assets owned by a company, the larger the depreciation expenses that can be deducted to reduce taxable income (Halawa, 2022). It can be concluded that the higher the company's investment in fixed assets, the greater the depreciation burden that reduces taxable income. This lowers the amount of tax payable, making companies less likely to engage in tax aggressiveness.

The Effect of Related Party Transactions on Tax Aggressiveness

Related Party Transactions (RPT) have a t-statistic value of 2.440205, which exceeds the critical value of 1.67203, with a significance value of 0.0180 ($p < 0.05$). These results indicate that Related Party Transactions have a positive and statistically significant effect on Tax Aggressiveness. The positive coefficient ($\beta = 0.088754$) suggests that an increase in Related Party Transactions is associated with a higher level of Tax Aggressiveness. This finding is consistent with previous studies by Rachmawati et al. (2023), Ellyani (2018), and Fadhali and Laksito (2023), which reported that companies engaging in higher levels of related party transactions tend to adopt more aggressive tax strategies. From the perspective of Agency Theory, information asymmetry enables managers to utilize related party transactions as a mechanism to reduce tax liabilities through tax planning strategies. Therefore, H3 is supported, indicating that Related Party Transactions positively affect Tax Aggressiveness.

The Effect of Capital Intensity on Tax Aggressiveness

Capital Intensity (CI) has a t-statistic value of 1.077227, which is lower than the critical t-value of 1.67203, with a significance value of 0.2862 ($p > 0.05$). These results indicate that Capital Intensity does not have a statistically significant effect on Tax Aggressiveness. Although the estimated coefficient is positive ($\beta = 0.165484$), the relationship is not statistically significant, indicating that variations in Capital Intensity do not meaningfully explain changes in Tax Aggressiveness among the sampled companies. This finding is consistent with Methasari (2021), Dewi and Susilowati (2022), and Ramdani and Ardiansyah (2023), who argued that investment in fixed assets is primarily intended to support operational activities and long-term business growth rather than to facilitate aggressive tax planning. Furthermore, depreciation expenses arising from fixed assets do not necessarily provide sufficient incentives for managers to engage in tax aggressiveness. Therefore, H4 is not supported, indicating that Capital Intensity does not significantly affect Tax Aggressiveness.

The Effect of Earnings Management on Tax Aggressiveness

Earnings Management (EM) has a t-statistic value of −2.554993, which exceeds the critical t-value of 1.67203 in absolute terms, with a significance value of 0.0135 ($p < 0.05$). These results indicate that Earnings Management has a negative and statistically significant effect on Tax Aggressiveness. The negative regression coefficient ($\beta = -1.535598$) suggests that an increase in Earnings Management is associated with a lower level of Tax Aggressiveness. This finding indicates that managers may use earnings management primarily to achieve financial reporting objectives rather than to minimize tax obligations. Although previous studies by Wesly and Kuntadi (2024), Leonardo et al. (2023), and Rifai and Atiningsih (2019) reported that Earnings Management influences Tax Aggressiveness, the present study reveals that the relationship is significant with a negative direction. This result suggests that companies engaging in earnings management may avoid aggressive tax practices to reduce regulatory scrutiny and maintain the credibility of their financial statements. Therefore, H5 is supported in terms of the existence of an effect; however, the direction of the relationship is negative.

The Effect of Related Party Transactions on Tax Aggressiveness with Earnings Management as an Intervening Variable

Based on the manual Sobel Test calculation, the t-value is 0.61767, which is lower than the critical t-value of 1.67203 at the 0.05 (5%) significance level. This indicates that

Earnings Management cannot mediate the effect of Related Party Transactions on Tax Aggressiveness. This finding is consistent with Suprihatin and Mahardini (2022), who reported that although Related Party Transactions influence Tax Aggressiveness, the relationship is not mediated by Earnings Management. These results suggest that companies do not use Earnings Management as an intermediary mechanism through which Related Party Transactions affect Tax Aggressiveness. Instead, Related Party Transactions appear to influence Tax Aggressiveness directly rather than indirectly through Earnings Management.

The Effect of Capital Intensity on Tax Aggressiveness with Earnings Management as an Intervening Variable

Based on the manual Sobel Test calculation conducted by the researcher, the t-value is 1.70974, which is greater than the t-table value of 1.67203 at a 0.05 (5%) significance level. Thus, it can be concluded that Earnings Management as an intervening variable can mediate the effect of Capital Intensity on Tax Aggressiveness. This means that the influence of Capital Intensity on Tax Aggressiveness is not only direct but also indirect through Earnings Management practices. Practically, this indicates that the higher the capital intensity owned by a company, the more it may encourage earnings management practices, which in turn increase tax aggressiveness.

Audit Quality Moderates the Effect of Earnings Management on Tax Aggressiveness

Based on the results of the moderation regression in the table above, the interaction coefficient EM*AQ is 1.722553 with a probability value of 0.1270 > 0.05. This indicates that audit quality does not moderate the relationship between earnings management (EM) and tax aggressiveness. Theoretically, this result suggests that the role of auditors as a governance mechanism has not been effective in limiting managers' opportunistic behavior in using earnings management for tax aggressiveness purposes. Thus, although audit quality is often assumed to enhance the credibility of financial reporting and reduce agency problems, in this study its moderating effect is not proven to be significant. This reinforces the view that audit quality does not always succeed in constraining earnings manipulation or aggressive tax strategies (Hassoun & Hadrich, 2023).

Based on the study's findings, firms are advised to maintain transparency and thorough documentation of related party transactions (RPT) to ensure that such transactions constitute legitimate business activities rather than mechanisms for earnings manipulation. In addition, the planning of fixed asset structures (Capital Intensity/CI) should be optimized to minimize incentives for earnings management and tax aggressiveness through depreciation. Earnings management (EM) practices should be curtailed by strengthening internal control systems and corporate governance, thereby enhancing financial reporting credibility and reducing the risk of tax aggressiveness. Although audit quality (AQ) is often assumed to constrain managerial opportunism, this study indicates that firms need to engage competent auditors and reinforce internal oversight to ensure effective control. Overall, integrating tax risk management with robust corporate governance, including an active audit committee, is recommended to ensure that RPT, CI, and EM remain in compliance with regulatory standards and ethical business practices.

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