

THE ROLE OF TAX MANAGEMENT AS A MODERATOR IN THE EFFECT OF TAX RETENTION RATE AND GOOD CORPORATE GOVERNANCE ON EARNING QUALITY

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Abstract: The industrial sector plays a very important role in people's lives, as it is the part of the economy that is responsible for the production of goods and services. The primary objective of this research is to empirically explore the dynamic between Tax Retention Rate and Good Corporate Governance concerning Earning Quality, while simultaneously investigating the potential moderating role of Tax Management. Meanwhile, Good Corporate Governance is a critical factor that can affect the integrity and transparency of the company in carrying out its operations. Earning Quality, as a measure of the quality of a company's earnings, is the main parameter in measuring the company's financial performance. The study's research design follows quantitative and associative methodologies. The research population encompasses companies within the industrial sector, as listed on the Indonesia Stock Exchange during the temporal span from 2017 to 2021. Employing a purposive sampling technique, a sample comprising 15 companies, leading to a dataset of 75 observed data points, was selected. To conduct the analysis and hypothesis testing, panel data regression analysis was employed, utilizing Eviews version 12 as the analytical tool. The outcomes of the T-test analyses are noteworthy, as they reveal that both the tax retention rate variable and the good corporate governance variable distinctly influence earning quality. However, the importance of tax management as a mediator in the correlation between tax retention rate and earning quality is insignificant. The findings of this study are expected to provide new insights for stakeholders, regulators, and business practitioners in optimizing tax management and maintaining the quality of corporate profits in the Indonesian capital market environment.

Keywords: Earning Quality, Good Corporate Governance, Tax Management, Tax Retention Rate.

INTRODUCTION

Financial reports are outputs or outputs presented by companies that structurally present information about the company's financial condition. Financial reports are a communication tool used to connect interested parties to the company and are a form of management accountability for the use of resources entrusted to them. The financial statements also aim to provide information about the entity's financial position, financial performance and flows that are useful for most users of financial statements in making economic decisions (PSAK 1, 2014).

Companies are expected to thrive in the global market, especially in Indonesia's industrial sector, amidst increasingly fierce market competition. Nowadays, companies are striving to become more competitive by not only producing quality products for

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consumers and developing new strategies but also managing their finances effectively. Financial governance strategies must secure the perpetuation of the firm's operational continuance. The commendable organizational accomplishment is demonstrated by the quantum of accrued profit, a pivotal metric offering consequential insights for decision-formulation. It assumes paramount importance for prospective investors while discerning the advisability of capital allocation into the enterprise. (Noviyani & Mu'id, 2019)

Investing decisions made by investors or external parties are made by assessing companies using financial information by paying attention to the quality of reports and earnings quality. The quality of earnings generated by the company can be described by the high and low quality of the financial information produced, so that it can reflect the good or bad allocation of funds generated by the company. Low earnings quality can lead to wrong decision making. (Priskanodi et al., 2022).

Investors and external parties make investment decisions based on financial information, paying attention to both the quality of financial reports and earning quality. The quality of earnings reflects the accuracy of the financial information provided, which in turn indicates the company's allocation of funds. Low-quality earnings can lead to incorrect decisions. Manipulation of financial reports has become a real phenomenon that raises concerns. Such manipulations have attracted attention and resulted in losses for investors who have invested in these companies. According to a survey conducted by the Association of Certified Fraud Examiners (ACFE) in the Asia-Pacific region, financial statement fraud caused losses of US\$700,000 in 2018 and increased to US\$3,000,000 in 2020. Such manipulation indicates that management is not providing genuine earnings information to principals. In line with the signaling theory, weak performance signals will not be trusted by principals, leading to a decline in the reported earnings' quality. Providing inaccurate earnings information misleads stakeholders in making business decisions for the company.

Earnings reporting is closely related to tax payments, which are a major source of government revenue for development (Citra et al., 2021). Companies still view tax payments as a burden that reduces their net income. As a result, companies may use various methods, legal or illegal, to minimize tax payments to improve their earnings' quality. Tax planning is often chosen as a process to achieve tax payment efficiency and minimize the tax burden, ultimately enhancing the company's earnings quality. The tax retention rate is a metric gauging the effectiveness of tax planning, bearing relevance to a company's disclosure of earnings. Prior scholarly investigation conducted by Katuruni (2018) reveals that the tax retention rate exerts a marked and unfavorable influence on the quality of earnings. Notably, a heightened tax retention rate correlates with a diminished quality of earnings. In parallel, the concept of good corporate governance (GCG) also interlinks with the realm of earnings quality.

When implementing tax planning, company management requires a tool that is considered accurate to observe the effectiveness of tax management carried out in the current year (Giacosa et al., 2018). The measuring tool that can be used is the company's tax retention rate (TRR). With TRR analysis, companies can analyze tax management methods that help manage the company's tax burden legally in accordance with tax regulations and more accurately. There is a theory that states that tax planning aims to provide results for shareholders obtained from the welfare of the state, so that it can reduce the costs used and will increase the value of the company (Kovermann & Velte, 2019).

The Tax Retention Rate serves as a tool for assessing the efficacy of tax management within a company's financial statements for the present fiscal year. In pursuit of tax advantages, corporations endeavor to employ a tax retention rate that yields favorable outcomes. Among the indicators of tax management activities are variations between financial accounting income and taxable income, commonly referred to as book-tax differences, as elucidated by Katuruni's work (2018).

In the investigation carried out by Katuruni (2018), it was ascertained that the Tax Retention Rate manifests a deleterious impact on earnings quality. Correspondingly, the research conducted by Arizona et al. (2017) underscores the negative influence of tax management on earnings quality. Consistent with the findings articulated in the study by Marques de Freitas et al. (2021), the adeptness or deficiency in tax management can trigger either a constructive or adverse consequence on equity cost. This dynamic stems from the potential emergence of agency costs linked to the evaluation of activities involving tax retention rate.

To improve earnings quality, companies can efficiently manage tax burdens by employing tax management strategies to avoid potential risks. The main objective of tax management is to apply tax regulations correctly, achieve appropriate earnings, make lawful tax payments according to the applicable regulations, and avoid unforeseen events. Explorations within the domain of tax management have yielded a spectrum of outcomes. A study conducted by Arizona et al. (2017) unveiled that book-tax disparities, employed as an approximation for tax management, engender an adverse impact on earnings quality. This manifests as companies tending to exhibit elevated pre-tax profits relative to taxable profits. Noteworthy findings from Katuruni's (2018) study extend to the realm of the interaction between tax retention rate and tax management. The research demonstrates a marked and positive effect on earnings quality arising from this interaction. In simpler terms, a heightened degree of interaction between the tax retention rate and tax management corresponds to an elevated quality of earnings generated by the company.

Research conducted by Suryati and Setiawati (2020) suggests that robust good corporate governance engenders a favorable impact on earnings quality. This stems from the premise that a well-governed company, equipped with effective corporate governance, elevates its operational performance, thereby contributing to the elevation of earnings quality. Furthermore, same findings emerge from the study by Sari et al. (2022), which underscores the positive yet non-significant effect of good corporate governance on earnings quality. Enterprises that meticulously implement sound corporate governance principles establish investor confidence and curtail the manipulation of financial statements. This is reinforced by research conducted by Dang et al. (2020) which states that earnings quality and corporate governance practices have a constructive influence on company valuation in the Vietnamese context.

To maximize earnings quality reflected in financial statements, good Corporate Governance (CG) mechanisms are needed. According to the Signaling theory, with good corporate governance, the company signals to shareholders that the earnings to be generated are good and of high quality. Research by (Ilham et al., 2022; Obaid & Amrah, 2020; Suryani & Pariani, 2018) shows that good corporate governance affects earnings quality. However, (Aritonang, 2018) states that good corporate governance does not

affect earnings quality, and (Benarda & Desmita, 2022) mention that GCG, proxied by the audit committee, does not affect earnings quality. Research by Shahzad et al., (2020) shows that companies with strong corporate governance structures will improve revenue quality and firm value and control real earnings management.

Aligned with the research by Kongsasone et al., (2019) a convergence of findings is observed, showcasing the affirmative influence of effective corporate governance on tax planning evasion. This is realized through the reduction of net accounting income, net taxable income, and the tax-to-cash flow from operations (CFO) ratio. An alternative perspective is presented by Arizona et al. (2017), unveiling that institutional ownership assumes a moderating role in the interplay between tax management and earnings quality.

Tax management or tax management is one of the strategies carried out by companies legally to carry out planning, implementation, and control of taxes paid in the form of implementing several strategies that are useful for the company. Tax management itself is part of financial management. Financial management is all activities related to the acquisition, funding, and management of assets with several overall objectives. Therefore, the decision-making function of financial management can be divided into three, namely decisions related to investment, funding, and assets. Efficient financial management requires goals and objectives that will be used as a benchmark in assessing the efficiency of financial decisions. Thus, tax management objectives must be in line with financial management objectives, namely obtaining adequate liquidity and profit (Suandy, 2017).

Some previous studies prove that tax management is a form of activity that can provide benefits to shareholders and can increase firm value (Chi et al., 2017). From the acquisition of the actual amount of profit, the company can show good earnings quality so as to provide benefits to investors. Tax management activities are shown based on the difference between financial accounting income and taxable income or better known as book-tax differences (Pietoyo et al., 2022).

Aligned with the tenets of the Signaling theory, the quality of decisions made by investors is influenced by the caliber of financial information disclosed by the company. This information aims to mitigate information asymmetry arising from the differential access managers possess to internal insights and the future prospects of the company, in contrast to external stakeholders. As substantiated by Katuruni (2018), the tax retention rate engenders a constructive effect on quality. Furthermore, the research conducted by Sudaryo et al., (2020) demonstrates the affirmative impact of tax retention rate, book-tax differences, and effective tax rate on financial performance. The findings from Mariana et al., (2021) are in agreement, affirming the constructive influence of tax planning on earnings management. However, a differing stance is presented by Arizona et al. (2017), asserting that tax management, approximated through book-tax differences, elicits a detrimental impact on earnings quality.

This research brings novelty through by examining the association between Tax Retention Rate (TRR), Good Corporate Governance (GCG), and Tax Management in shaping Earning Quality within the Indonesian industrial sector from 2017 to 2021. One notable aspect of this study is the exploration of Tax Management's moderating role,

which provides information of how tax strategies influence the relationship between TRR and Earning Quality. Situated in the Indonesian context, this research not only fills previous gaps but also offers practical implications for stakeholders, regulators, and business practitioners in optimizing tax management and ensuring the quality of corporate profits in the Indonesian capital market environment. The study's theoretical foundation in Agency Theory and Signaling Theory further enriches its depth and significance in advancing knowledge in the field of financial decision-making and corporate governance.

METHODS

The current study employs a quantitative research approach, which involves systematically collecting and analyzing numerical data to address the research objectives. The data utilized in this study are derived from secondary sources, particularly the annual reports of companies operating within the industrial sector and listed on the Indonesia Stock Exchange. The study encompasses a defined time span, specifically from 2017 to 2021.

The selection of the sample for this study is accomplished using a purposive sampling technique, a method that intentionally selects specific cases meeting predetermined criteria. These criteria are as follows:

Table 1. Total Population and Research Sample

Criteria	Number of companies
Companies with a fiscal year concluding on December 31.	134
Companies in the industrial sector that have not listed their shares from 2017 to 2021.	(65)
Companies in the industrial sector that do not report their financial information in rupiah currency.	(23)
Companies within the industrial sector providing comprehensive and complete annual reports within the research period from 2017 to 2021.	(17)
Companies in industry sectors that are not financially viable, showing positive earnings and no losses.	(14)
Research Sample (n)	15
Total sample (n x research period) = 15 x 5	75

Source: Processed by Researcher (2023)

Applying these criteria, a sample of 15 companies is selected, leading to a dataset encompassing 75 observations over the course of five years. The analytical techniques applied in this study encompass a range of approaches to comprehensively explore the research's dimensions. These techniques encompass, descriptive statistical tests, panel data regression model tests, model tests, classic assumption tests, panel data regression analysis, hypothesis tests, and moderation regression analysis.

The study incorporates five research variables, including one dependent variable, two independent variables, one moderation variable, and one control variable. The dependent variable of interest is earning quality, which denotes the capacity of financial performance data to guide decision-making and predict future earnings. Earning quality, in this context, is gauged by earning persistence, a measure of a company's ability to generate sustainable earnings in subsequent periods.

$$\Delta Nlit = \frac{EAT - EATn - 1}{\text{Total asset value}}$$

Description:

$\Delta Nlit$ = Change in net profit

EAT = Net profit after tax

EATn-1 = Net profit after tax one year earlier.

The independent variable include Tax Retention Rate and Good Corporate Governance. Tax Retention Rate (TRR) is a tool used to assess the effectiveness of tax management in a company's financial statements for the current year (Robinson, 2020). This study focuses on measuring the effectiveness of tax planning.

$$TRR = \frac{\text{Net Income } it}{\text{Pretax Income (EBIT)}it}$$

Description:

TRR = Tax Rentention Rate

Net Income it = Net income of company i in year t

Pretax Income (EBIT) it = Profit before tax of company i in year t .

The study measures the disclosure of Good Corporate Governance using Content Analysis of the Financial Services Authority (OJK) sections A-F. This analysis is based on the Indonesian Corporate Governance Roadmap (OJK, 2014) developed by the Organization for Economic Cooperation and Development (OCED). The company's annual report is analyzed to address the 25 recommendations proposed in the Circular Letter of the Financial Services Authority Number 32/SEOJK.04/2015.

As a moderating variable, tax management is a method used by taxpayers to effectively handle all tax-related matters in a cost-efficient manner, following the rules and regulations of tax laws. Its ultimate goal is to maximize profits. The calculation of Book-Tax Differences (BTD) serves as an indicator for tax management and is derived from the difference between pre-tax profit and taxable profit:

$$BTD = PTI - TI$$

Description:

BTD = Book-tax differences

PTI = Pre-tax income as stated in the financial statements

TI = Taxable income.

The research includes a control variable called Company size, which refers to the description of a company's size. The size of a company can be determined by the type of business it operates. In this particular study, the company's size will be measured based on its total assets. This is because the company's wealth and resources are reflected in the magnitude of its assets.

$$\text{Size} = \text{Log (Total assets)}$$

In essence, the research employs a quantitative methodology, employing a sample selection process and a series of analytical techniques to delve into the intricacies of earning quality within the industrial sector of the Indonesian Stock Exchange. Through a

systematic approach, the study seeks to uncover insights into the relationships between various financial variables and their implications for the companies under investigation.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Statistical Test

	EQ	TRR	GCG	TM	SIZE
Mean	0.041474	0.595909	1.262681	0.151677	1.461705
Median	0.007910	0.673060	1.278750	0.000172	1.455570
Maximum	0.253460	1.135080	1.397940	7.087000	1.525520
Minimum	-0.337870	0.022940	1.079180	-6.099493	1.417480
Std. Dev.	0.064913	0.253505	0.088511	1.928457	0.031142
Skewness	-0.859947	-0.616769	-0.315312	1.543137	0.553138
Kurtosis	16.33709	2.931486	2.307260	10.03294	2.258744
Jarque-Bera	565.1129	4.769721	2.742426	184.3353	5.541588
Probability	0.000000	0.092102	0.253799	0.000000	0.062612
Sum	0.860574	44.69318	94.70109	11.37575	109.6279
Sum Sq. Dev.	0.311813	4.755595	0.579737	275.2019	0.071769
Observations	75	75	75	75	75

Source: Processed by Researcher (2023)

Table 2 shows that the total sample (n) consists of 75 observational sample data with the following results:

1. The research results for the variable earning quality (EQ) have a minimum value of -0.337870, the negative minimum value suggests that there was a decrease in earning quality. This suggests that there are companies within the dataset where the quality of their earnings has declined. Such a decrease could be due to various factors such as a decrease in profitability, increased expenses, or changes in accounting practices that might have affected the reliability or transparency of reported earnings. The maximum value is 0.253460, the positive maximum value indicates an increase. This indicates that there are companies within the dataset whose earnings quality has improved over the period under study. An increase in earning quality could result from factors such as improved profitability, better cost management, or enhanced transparency in financial reporting practices. The mean value is 0.041474, Since this value is positive, it suggests that, on average, the companies exhibit a slight increase in earning quality. This means that, overall, the dataset leans towards companies with improved earning quality, although the extent of improvement may be relatively modest. and the standard deviation is 0.034913 this implies that the earning quality across companies is relatively consistent, with low deviation from the average. A smaller standard deviation signifies that most companies in the dataset exhibit earning quality close to the mean, resulting in a more evenly distributed dataset.
2. The research results for the variable Tax Retention Rate (TRR) have a minimum value of 0.022940, and the maximum value is 1.135080. The mean value of the tax retention rate variable is 0.595909, with a standard deviation of 0.253505. Most of the companies analyzed have a positive TRR, and the mean value greater than the standard deviation indicates good data quality for the tax retention rate variable. Overall, the majority of companies analyzed have a positive TRR, suggesting that they retain at least some portion of their taxes rather than receiving refunds or credits. The mean value being greater than the standard deviation indicates that the

data is relatively consistent and reliable, providing a good representation of tax retention practices among the companies studied.

3. The research results for the variable Good Corporate Governance (GCG) have a minimum value of 1.079180, and the maximum value is 1.397940. The mean value is 1.262681, with a standard deviation of 0.088511. The mean value is greater than the standard deviation, indicating good results for the Good Corporate Governance variable. Overall, the fact that the mean value is greater than the standard deviation further supports the notion that the companies in the study generally have good results for the Good Corporate Governance variable. This implies that, while there may be some variation in the level of governance practices among the companies, the majority demonstrate positive governance attributes.
4. The research results for the variable tax management (TM) have a minimum value of -6.099493, and the maximum value is 7.087000. The mean value is 0.151677, with a standard deviation of 1.928457. The mean value is smaller than the standard deviation. Based on the analysis of tax management data, it can be interpreted that some companies in the industrial sector have good tax management. The wide range between the minimum and maximum values indicates significant variation in tax management practices across companies. The mean being smaller than the standard deviation suggests that there are companies with both positive and negative tax management values, but, on average, companies exhibit good tax management.
5. The research results for the variable firm size (Size) have a minimum value of 1.417480, and the maximum value is 1.525520. The mean value is 1.461705, with a standard deviation of 0.031142. The positive mean value greater than the standard deviation suggests good data quality for firm size, as it indicates a consistent and relatively stable distribution without significant outliers or inconsistencies. Additionally, the fact that the mean value is greater than the standard deviation implies that the variation in size among companies is relatively low. The positive influence mentioned indicates that, on average, larger firms are present in the sample. This means that the dataset is likely representative of the broader population of firms, as larger firms are typically more influential and commonly represented in research samples. Overall, these statistics provide a comprehensive overview of the firm size data and indicate a relatively stable and representative distribution among the companies surveyed.

Panel Data Regression Model Test

In the context of the panel data regression analysis, an examination is carried out to determine the effectiveness of three distinct equation models, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The objective of this assessment is to identify the model that best aligns with the characteristics of the dataset. This process involves conducting three pivotal tests: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test.

The outcomes of the panel data regression model selection procedure are as follows: Upon conducting the Chow test, a cross-section chi-square probability value of 0.0047 is obtained, which is notably lower than the predetermined significance level of 0.05. Similarly, the Hausman test furnishes a chi-squared probability value of 0.0310, once again descending below the threshold of 0.05. It is noteworthy that both the Chow test and the Hausman test culminate in a consistent verdict, reinforcing the same

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conclusion. Specifically, the outcome of these tests points to the Fixed Effect Model (FEM) as the most suitable panel data regression estimation model for this particular study. Given this clear determination from the Chow and Hausman tests, the need for further validation through the Lagrange Multiplier (LM) test is rendered unnecessary.

Table 3. Conclusion of Panel Data Regression Model Testing

	Method	Testing	Result
1.	<i>Chow-Test</i>	<i>Common effect vs fixed effect</i>	<i>Fixed effect</i>
2.	<i>Hausman-Test</i>	<i>Fixed effect vs random effect</i>	<i>Fixed effect</i>

Source: Processed by Researcher, 2023

Classical Assumption Test

1) Normality Test

The outcomes of the normality test, both prior to and following data transformation, reveal a J-B statistic probability value of 0.000000. Given that this p-value of 0.000000 is smaller than the designated significance level of 0.05, it indicates that the distribution of all variables within the dataset is not in line with a normal distribution. In light of the model selection tests conducted, the Fixed Effect Model (FEM) is chosen, employing the Ordinary Least Squares (OLS) approach for its estimation technique (Wang et al., 2019).

It is worth noting that an advantage of utilizing panel data is the potential exemption from adhering to the testing of classical assumptions, a point highlighted in the aforementioned sources. This is particularly pertinent due to the unique nature of the dataset, which encompasses a diverse range of variations across 15 companies spanning 5 years, yielding a total of 75 observations. This variance underscores the plausibility of encountering abnormal distribution patterns. This perspective is further reinforced by the Central Limit Theorem, which posits that when the volume of research data is sufficiently large ($n > 30$), the normality assumption can be safely disregarded, as emphasized by (Gujarati, 2021).

2) Multicollinearity Test

Table 4. Multicollinearity Test Results

	TRR	GCG	MP	SIZE
TRR	1.000000	0.212075	0.166584	-0.107231
GCG	0.212075	1.000000	0.126256	0.296402
MP	0.166584	0.126256	1.000000	0.219142
SIZE	-0.107231	0.296402	0.219142	1.000000

Source: Processed by Researcher, 2023

Table 4 illustrates that the correlation coefficient values among the independent variables considered in this study are all below the threshold of 0.8. This observation leads to the conclusion that the dataset utilized in this study does not suffer from issues related to multicollinearity. In essence, the evidence suggests the absence of substantial multicollinearity among the independent variables under investigation.

3) Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

F-statistic	0.699785	Prob. F (17,57)	0.7898
Obs*R-Squared	12.95026	Prob. Chi-Square (17)	0.7395
Scaled explained SS	26.18491	Prob. Chi-Square (17)	0.0712

Source: Processed by Researcher, 2023

The findings presented in Table 5 indicate that the Heteroscedasticity test, specifically the White test with an Obs*R-squared probability value of 0.7395, exceeds

the established significance level of 0.05. This outcome leads to the conclusion that the data does not exhibit signs of heteroscedasticity, confirming the presence of homoscedasticity instead. In simpler terms, the data's variability is relatively uniform and consistent, as opposed to showing irregular patterns associated with heteroscedasticity.

4) Autocorrelation Test

Table 6. Result of Autocorrelation Test

Root MSE	0.050895
Mean dependent var	0.011474
S.D. dependent var	0.064913
Akaike info criterion	-2.611423
Schwarz criterion	-2.024326
Hannan-Quinn criter.	-2.377002
Durbin-Watson stat	2.203641

Source: Processed by Researcher, 2023

Table 6 shows the Durbin-Watson (DW) of 2.203641. By comparing the value of the Durbin Watson table at a significance of 5% (0.05), independent variables ($k = 2$), and the number of samples ($n = 75$), it is obtained a dL value of 1.5709 and a dU value of 1.6802. So that the DW value of 2.203641 is greater than dL, namely 1.5709 and less than $(4 - dU) 4 - 1.6802 = 2.3198$, namely $dU < DW < (4 - dU)$, it can be concluded that there is no autocorrelation.

Hypothesis Test

1) Regression Model Feasibility Test (F Test)

The F test is done by comparing the F-statistic value with F-table with an error rate of $\alpha = 0.05$ (5%). As for knowing the F-table value, it can be done with the following calculation:

$$\begin{aligned} \text{F-table} &= \alpha; \text{df} = (n-k), (k-1) \\ &= 5\%; \text{df} = (75-2), (2-1) \\ &= 0.05; \text{df} (73,1) = 3.97 \end{aligned}$$

Table 7. F Test Results

R-squared	0.376950
Adjusted R-squared	0.176684
S.E. of regression	0.058900
Sum squared resid	0.194275
Log likelihood	116.9284
F-statistic	3.982244
Prob(F-statistic)	0.037133

Source: Processed by Researcher, 2023

Table 7 shows that the F-statistic value is 3.982244 where $F\text{-value} > F\text{-table}$, namely $3.982244 > 3.97$ and the probability value or significance level is $0.037133 < 0.05$, means the independent variables, namely tax retention rate and good corporate governance, jointly affect earning quality.

2) Individual Parameter Significance Test (t test)

Decision making on the rejection or acceptance of the hypothesis with the amount of data 75 and with a significance level of 0.05, the t table value is:

$$\begin{aligned} \text{T-table} &= \alpha; \text{df} = (n-k) \\ &= 5\%; \text{df} = (75-2) \\ &= 0.05; \text{df} (73) = 1.666 \end{aligned}$$

Table 8. Result of T-test

Variable	Coefficient	Std. Error	t-value	Prob.
C	-9.413165	4.308763	-2.184656	0.0331
TRR	0.171241	0.053739	3.186542	0.0024
GCG	-0.261888	0.129249	-2.026223	0.0475
TM	0.008858	0.012607	0.702600	0.4852
SIZE	6.603200	3.013457	2.191237	0.0326

Source: Processed by Researcher, 2023

Based on the results of the t-test from table 8 as follows:

- The analysis indicates a discernible influence of the TRR variable on earning quality. This is deduced from the t-value (3.186542) surpassing the t-table value (1.666), alongside the probability value of 0.0024 being less than the threshold of 0.05. Consequently, it can be concluded that a significant relationship exists between the TRR variable and earning quality. In simpler terms, the null hypothesis (Ho) is rejected in favor of the alternative hypothesis (Ha), affirming the impact of the TRR variable on earning quality.
- Similarly, the examination establishes an influential connection between the GCG variable and earning quality. This conclusion is derived from the t-value (-2.026223), which is less than the t-table value (1.666), in conjunction with a probability value of 0.0207, which is below the significance level of 0.05. Therefore, it can be inferred that the GCG variable significantly impacts earning quality. Put differently, the null hypothesis (Ho) is refuted in favor of the alternative hypothesis (Ha), underscoring the role of the GCG variable in shaping earning quality.

Coefficient of Determination Test (R²)

Table 9. Coefficient of Determination Test Results

R-squared	0.376950
Adjusted R-squared	0.176684
S.E. of regression	0.058900
Sum squared resid	0.194275
Log likelihood	116.9284
F-statistic	3.982244
Prob(F-statistic)	0.037133

Source: Processed by Researcher, 2023

Table 9 displays an Adjusted R-squared value of 0.176684, equating to approximately 17.6684%. This signifies that the combined impact of the independent variables TRR and GCG accounts for 17.6684% of the variance, while the remaining 82.3316% is attributed to unexplored factors beyond the scope of this investigation.

Moderating Regression Analysis (MRA) Test

Table 10. MRA Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.069762	0.404189	0.172597	0.8635
TRR	0.058245	0.032003	1.819976	0.0731
GCG	-0.018857	0.093736	-0.201170	0.8412
TM1	-0.008699	0.038901	-0.223606	0.8237
TM2	0.003903	0.022902	0.170400	0.8652
SIZE	-0.046884	0.290529	-0.161376	0.8723

Source: Processed by Researcher, 2023

Table 10 shows, the MRA test value of the calculation results using Eviews ver-12 as follows:

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- a. The interaction between the variable representing tax management role and the tax retention rate reveals that the role of tax management does not possess the capacity to moderate the influence of the tax retention rate on earning quality. This assertion is supported by the t-value of -0.223606 , accompanied by a probability value of 0.8237 . Notably, the probability value exceeds the predefined significance level of 0.05 , reinforcing the conclusion that the role of tax management does not exert a moderating effect on the relationship between the tax retention rate and earning quality.
- b. In a similar vein, the cross-product of the tax management role variable and good corporate governance demonstrates that the influence of tax management cannot serve as a moderator for the impact of good corporate governance on earning quality. This interpretation is substantiated by the t-value of 0.170400 , coupled with a probability value of 0.8652 . Notably, the probability value surpasses the stipulated significance level of 0.05 , underscoring the assertion that the role of tax management does not introduce a moderating element to the connection between good corporate governance and earning quality.

Discussion

The Influence of Tax Retention Rate on Earning Quality

The Tax Retention Rate (TRR) shows significant variations from minimum to maximum values. The minimum TRR value of 0.022940 occurred at PT MNC Investama, Tbk in 2018, while the maximum value reached 1.135080 at PT Cahayaputra Asa Keramik, Tbk in 2021. With an average TRR of 0.595909 and a standard deviation of 0.253505 , it can be concluded that most of the companies analysed have a positive TRR. In addition, the significant difference between the mean and standard deviation indicates good data quality for this TRR variable. This indicates that the majority of companies in the sample have a tendency to retain taxes, which can be considered as a positive indicator of their financial stability and sustainability.

Borne out of the conducted data analysis, the outcomes of the t-test underscore the significance of the results. With a probability value of 0.0024 , which is less than the established threshold of 0.05 , and a regression coefficient of 0.171241 for the TRR variable, a positive influence of Tax Retention Rate (TRR) on earning quality is evident. This implies that higher values of TRR correspond to enhanced earning quality, while lower values of TRR correspond to diminished earning quality. Consequently, it can be deduced that the TRR variable exerts a constructive impact on earning quality, thereby corroborating the premise of the first hypothesis.

Notably, these findings align with earlier research by Sudaryo et al. (2020) which similarly emphasized the affirmative influence of tax retention rate on financial performance. According to the signaling theory, when a company employs a tax planning strategy incorporating TRR as a metric, it can potentially enhance the divergence between accounting and taxable income. This signaling mechanism communicates to shareholders that the generated earnings are both robust and sustainable. The successful implementation of such a strategy hinges upon the constructive contributions of the involved parties.

The Influence of Good Corporate Governance on Earning Quality

The results showed that the range of values for the GCG variable ranged from 1.079180 to 1.397940 , with PT Cahayaputra Asa Keramik, Tbk in 2017 having the minimum value and PT Impack Pratama Industri, Tbk in 2019 having the maximum value. The average

value of the GCG variable is 1.262681, with a standard deviation of 0.088511. The average value that is greater than the standard deviation indicates that the results for the Good Corporate Governance variable can be considered good. This indicates that the companies studied have consistent performance in implementing good corporate governance practices. Although there is variation in individual values, the overall average shows a positive trend, which can be interpreted as an awareness and commitment to effective and sustainable governance principles.

The outcomes of the t-test are indicative of the statistical significance of the results. With a probability value of 0.0475, falling below the established threshold of 0.05, and a regression coefficient of -0.261888 for the GCG variable, a negative influence of Good Corporate Governance (GCG) on earning quality becomes evident. This signifies that elevated GCG values correspond to diminished earning quality, while reduced GCG values correspond to elevated earning quality. As a result, it can be inferred that the GCG variable wields an adverse impact on earning quality, thereby lending support to the second hypothesis.

This finding is supported by previous research by Obaid and Amrah (2020), Ilham et al. (2022), Benarda and Desmita, (2022), and Suryati (2020), showing that good corporate governance influences earnings quality positively. According to the signaling theory, good corporate governance signals to shareholders that the earnings to be generated are of high quality. It motivates and controls management in conducting operational activities effectively. However, it should be emphasized that the negative coefficient of GCG suggests that during the last three years (2019-2021), companies faced challenges in maintaining good financial performance amid the ongoing economic crisis due to the pandemic. Moreover, certain companies might adopt Good Corporate Governance (GCG) practices primarily to comply with regulations and cultivate investor confidence, rather than fully harnessing its potential to mitigate information asymmetry between ownership and management.

The Role of Tax Management in Moderating the Influence of Tax Retention Rate on Earning Quality

Based on the research results regarding the tax management variable (MP), there is a significant variation between companies in the industrial sector. The range of minimum and maximum values observed, namely -6.099493 to 7.087000, indicates a considerable difference in tax management practices among these companies. Nonetheless, the mean value of 0.151677 indicates that overall, tax management practices tend to be stable across most industrial companies. The standard deviation of 1.928457 indicates a fairly high level of variation in these practices. However, as the mean is smaller than the standard deviation, it signifies that some companies may have better tax management performance than others. Overall, the analysis of the tax management data indicates that some companies in the industrial sector have good tax management.

The examination through Moderated Regression Analysis (MRA) demonstrates that the regression coefficient for the interaction model involving TRR and tax management (TRR*MP) stands at -0.008699. This negative coefficient indicates that the impact of the interaction between TRR and tax management is unfavorable, implying that heightened interaction between these variables corresponds to reduced earning quality, and conversely, decreased interaction leads to elevated earning quality. Nevertheless, the results of the MRA test present a probability value of 0.8237, which exceeds the

designated significance level of 0.05. Consequently, the conclusion can be drawn that the third hypothesis is invalidated, and tax management is unable to exert a moderating influence on the relationship between TRR and earning quality.

This finding is supported by Arizona et al.'s (2017) research, which showed that tax management, measured by the book-tax differences, has a negative effect on earnings quality. According to the signaling theory, the quality of information disclosed in financial statements affects investors' decision-making quality. Although tax planning is a powerful strategy, its successful implementation depends on the positive contributions of involved parties.

The Role of Tax Management in Moderating the Influence of Good Corporate Governance on Earning Quality

The examination through Moderated Regression Analysis (MRA) reveals that the regression coefficient for the interaction model involving GCG and tax management (GCG*MP) stands at 0.003903. This positive coefficient implies that the impact of the interaction between GCG and tax management is affirmative, indicating that heightened interaction between these variables corresponds to elevated earning quality, and conversely, reduced interaction leads to diminished earning quality. However, the outcomes of the MRA test generate a probability value of 0.8652, exceeding the stipulated significance level of 0.05. As a result, the conclusion can be drawn that the fourth hypothesis is not supported, and tax management is incapable of moderating the influence of GCG on earning quality.

These findings align with previous research conducted by Suryati (2020), which similarly underscored the positive effect of good corporate governance on earnings quality. Companies that uphold robust GCG practices ensure the quality of their earnings by minimizing the manipulation of financial statements. While prior studies did not delve into the examination of the interplay between good corporate governance and tax management in shaping earnings, it is imperative to emphasize that the efficacy of tax planning hinges on the constructive contributions of the relevant stakeholders.

Based on the application of agency theory, implementing adequate information systems can minimize agency problems and enhance earning quality. Good corporate governance mechanisms serve as boundaries to personal interests, ensuring sound decision-making and compliance with tax regulations, thereby minimizing agency problems.

From the research results, it can be seen that the company PT Multifiling Mitra Indonesia, Tbk has a striking difference in its earnings quality from 2019 to 2020. The minimum value of EQ that reached -0.337870 in 2020 showed a significant decline in the quality of earnings compared to the previous year, where the maximum value of EQ that reached 0.253460 in 2019 showed better performance. Nonetheless, the average value of EQ over the period is 0.041474, with a standard deviation of 0.034913, indicating that the variation in earnings quality data is relatively low. This indicates that the data distribution tends to be homogeneous and has a low deviation, which in turn can be taken as an indication of good data quality overall. Despite fluctuations in the company's performance from year to year, the consistency in the data distribution indicates stability in the company's earnings quality.

CONCLUSION

The study's outcomes clearly reveal that the tax retention rate exerts a positive influence on earning quality, while good corporate governance bears a negative impact on earning quality. Nonetheless, the analysis underscores that the role of tax management as a moderator in the association between tax retention rate and earning quality holds no substantial significance. This implies that tax management does not notably modify the effect of the tax retention rate on earning quality. Furthermore, a similar observation is made regarding tax management's role in moderating the connection between good corporate governance and earning quality.

Despite the insightful conclusions, the study has some limitations, including the limited scope of the population and the short research period. Future research should explore additional variables and extend the study period to gain a more comprehensive understanding of the factors influencing earning quality. These findings have important implications for companies, emphasizing the significance of good corporate governance practices in enhancing earning quality and reducing information asymmetry. Investors and stakeholders can use this information to incentivize and reward management for improved performance, ultimately benefiting the overall earning quality of the company.

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