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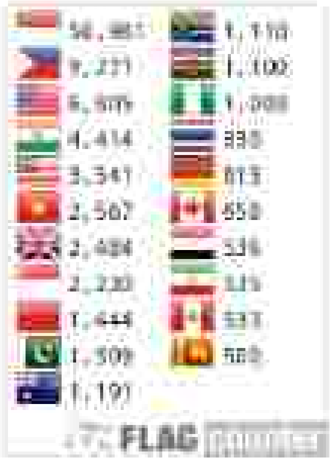

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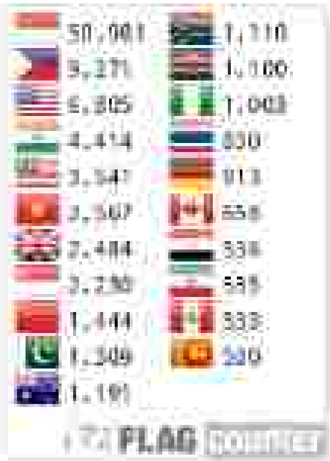


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# The Effect of Employee Benefit Obligations and Earnings Management on Tax Avoidance Moderated by Firm Size

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**Abstract**

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

**Keywords**

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

## 1. Introduction

Tax avoidance is a crucial issue in the context of accounting and taxation, particularly for public companies. While tax avoidance is not necessarily illegal, the practice often raises ethical and fiscal policy debates (De Colle & Bennett, 2014; Christensen et al., 2015; Bird & Davis-Nozemack, 2018; Tamam & Tarmidi, 2023). Companies attempt to minimize their tax burden through various means, both through legitimate tax planning and more aggressive strategies such as earnings management. Earnings management and employee benefit obligations are two factors that can influence tax avoidance (Payne & Raiborn, 2018). Earnings management is often carried out to adjust financial statements to suit managerial interests, one of which is by lowering profits to reduce the tax burden. Meanwhile, employee benefit obligations, as regulated in Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan*/PSAK) Number 24, also have implications for a company's financial statements and tax liabilities.

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

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

One important element in financial statements that can impact tax burdens is employee benefit obligations. PSAK Number 24 regulates the recognition and measurement of employee benefit obligations, including short-term, post-employment, and severance benefits. Companies can utilize estimates of these obligations to reduce taxable income, thereby lowering their tax burden (Chen et al., 2021). A Milliman survey indicates that, at the end of a typical year, the total employee benefit obligations reported by LQ45 companies amounted to benefits as a strategic tax-planning tool, particularly in large-cap firms (Wahab & Holland, 2015; Kovermann & Velte, 2021). Additionally, the moderating role of firm size in the relationship between earnings management, employee benefits, and tax avoidance remains unclear (Taufiq & Tertiarto, 2020). This study fills this gap by empirically examining these interactions within Indonesia's LQ45 companies. This study aims to analyze the effect of employee benefit obligations and earnings management on tax avoidance, as well as the moderating role of firm size, in LQ45 companies listed on the Indonesia Stock Exchange during the 2022–2024 period. This study contributes to the literature by providing empirical evidence on the determinants of tax avoidance among large and liquid companies in the Indonesian capital market.

## 2. Literature Review and Hypothesis Development

### 2.1. Employee Benefit Liabilities and Tax Avoidance

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

Employee benefit liabilities are long-term company obligations arising from compensation to employees after their employment, such as severance pay, pensions, and other post-employment benefits (Jayanti et al., 2022). From a tax perspective, these liabilities have important implications because they can affect taxable income by increasing the recognition of employee benefit expenses in the income statement. The greater the employee benefit liability recognized by a company, the greater the deductible expense from pre-tax profit, potentially lowering both the Effective Tax Rate (ETR) and the Cash Effective Tax Rate (CETR) (Kroesevic et al., 2024; Obalemi & Nandak, 2023). This situation opens opportunities for companies to legally avoid taxes through accounting policies related to actuarial estimates and the timing of employee benefit expense recognition.

In the context of LQ45 companies with large organizational structures and significant workforces, employee benefit liabilities are often managed strategically as part of long-term tax planning. While still within accounting standards and tax regulations, this practice can raise ethical questions if the primary objective is to reduce the company's tax contribution. Therefore, based on agency theory and previous empirical findings, employee benefit obligations are expected to have a significant effect on tax avoidance, both measured by accounting and cash measures et al., 2023). Since accounting profit is the primary factor used to determine corporate income tax, profit management techniques are relevant to tax avoidance. Businesses can indirectly lower their tax burden without overtly breaking tax laws by using discretionary accruals to minimize profits.

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

*H3*: Earnings management has a significant effect on tax avoidance.

### 4.4. Firm Size on Tax Avoidance

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

However, the relationship between firm size and tax avoidance is not unidirectional. Large companies possess greater flexibility in conducting tax planning through lawful accounting practices, such as the strategic use of depreciation and amortization arising from capital expenditures, which can reduce taxable income and lower effective tax burdens. Moreover, access to professional tax consultants and a comprehensive understanding of tax regulations enable large firms to engage in efficient tax planning without breaching legal boundaries. Despite this

### 2.4. Firm Size as a Moderating Effect

Firm size is expected to moderate the relationship between employee benefit obligations and tax avoidance, as larger firms have greater capacity to strategically manage long-term liabilities (Kovermann & Velte, 2019). In large firms, employee benefit obligations are material and involve complex actuarial assumptions, providing managerial flexibility to influence profits and tax burdens. Consequently, their impact on ETR and CETR tends to be stronger because substantial liabilities can significantly reduce taxable income (Gaaya et al., 2021). In contrast, smaller firms have relatively limited employee benefit obligations, resulting in a weaker effect on tax avoidance. Prior evidence shows that firm size strengthens the relationship between financial reporting components and long-term tax strategies (Afifah, 2021; Supriyatna & Akbar, 2015). Therefore, this study expects a significant interaction between employee benefit obligations and firm size on tax avoidance.

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

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

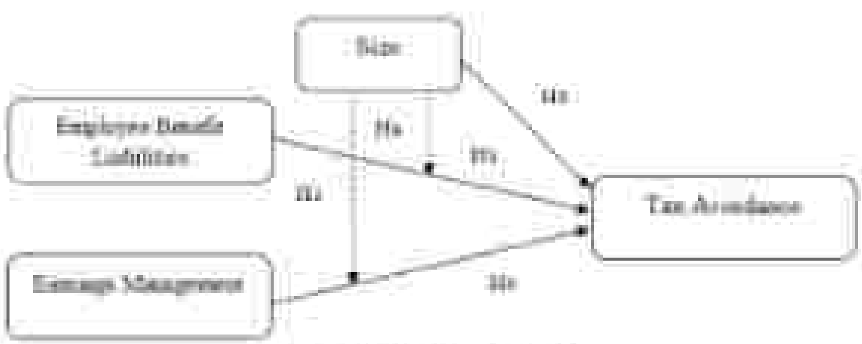


**Figure 1.** *Research Model*

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

The population of this study comprises all companies listed on the Indonesia Stock Exchange that were included in the LQ45 index during the 2022–2024 period. Purposive sampling was employed to obtain firms with comparable characteristics and complete data, using the following criteria: (1) companies consistently listed in the LQ45 index throughout 2022–2024, (2) companies publishing complete annual financial reports, and (3) availability of data on employee benefit obligations, earnings management, and firm size. Of the initial 45 LQ45 firms, 11 were excluded due to inconsistent index membership, 6 due to incomplete financial disclosures, and 8 due to reported losses during the observation period. Consequently, the final sample consisted of 20 companies, yielding 75 firm-year observations over three years for panel data analysis.

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

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

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

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

Discretionary Accruals ($DA = X_2$)

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

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

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

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

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

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

## 4. Results

The explanatory variables and the descriptive statistics for the tax avoidance proxies (ETR and CETR) are shown in Table 1. With a mean of 0.23393 and a standard deviation of 0.06193, the Effective Tax Rate for the ETR proxy falls between 0.03533 and 0.34733, suggesting comparatively little variation among businesses. Employee Benefit Liabilities (EBL) indicate a steady level of employee benefit responsibilities, with a minimum of 23.01020 and a maximum of 30.07064, a mean of 27.63285, and a low standard deviation of 1.51029. Earnings Management (EM) ranges from −0.17210 to 0.06772, with a mean close to zero (0.01109) and a standard deviation of 0.06558, reflecting higher variability. Firm size (SIZE) exceeds

**Table 1.** Descriptive Statistics (ETR and Cash ETR)

| Variable | Minimum | Maximum | Effective Tax Rate | | Cash Effective Tax Rate | |
|---|---|---|---|---|---|---|
| | | | Mean | Std. Dev | Mean | Std. Dev |
| EBL | 23.91926 | 30.07894 | 27.82293 | 1.01920 | 27.80293 | 1.01920 |
| EM | -0.17714 | 0.98779 | 0.01120 | 0.09444 | 0.01120 | 0.09444 |
| SIZE | 29.96961 | 34.90898 | 31.80340 | 1.24236 | 31.80340 | 1.24236 |
| EBL x SIZE | 694.05176 | 1041.87875 | 880.88481 | 77.80330 | 880.88481 | 77.80330 |
| Discretionary Accruals x SIZE | -3.30479 | 4.77154 | -0.31402 | 2.19306 | 0.55555 | 2.19306 |
| ETR | 0.00833 | 0.34723 | 0.15580 | 0.09103 | 0.40078 | 0.30108 |
| Cash ETR | 0.01718 | 4.87632 | | | | |

**Table 2.** Normality Test

| Parameter | Effective Tax Rate | Cash Effective Tax Rate |
|---|---|---|
| N | 78 | 78 |
| Mean | -0.0000011 | 0.0000001 |
| Std. Deviation | 0.02738035 | 0.22894099 |
| Absolute | 0.063 | 0.081 |
| Positive | 0.063 | 0.081 |
| Negative | -0.040 | -0.081 |
| Test Statistic | 0.063 | 0.081 |
| Asymp. Sig. (2-tailed) | 0.200 | 0.200 |

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

**Table 3.** Multicollinearity Test

| Variable | Effective Tax Rate | | Cash Effective Tax Rate | |
|---|---|---|---|---|
| | Tolerance | VIF | Tolerance | VIF |
| Employee Benefit Liabilities | 0.390 | 2.566 | 0.390 | 2.566 |
| Earnings Management | 0.988 | 1.022 | 0.985 | 1.015 |
| Firm Size | 0.394 | 2.534 | 0.394 | 2.316 |

equal, thus preventing heteroscedasticity. The significance values for all variables, including employee benefit obligations, earnings management, firm size, and the interaction between employee benefit obligations and earnings management moderated by firm size, are above 0.05, ranging from 0.077 to 0.480. These results indicate that the multiple linear regression model meets the assumption of homoscedasticity.

**Table 5.** Autocorrelation Test

| Dependent Variable | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| Effective Tax Rate | 0.467 | 0.218 | 0.164 | 0.07444428 | 1.443 |
| Cash Effective Tax Rate | 0.460 | 0.211 | 0.156 | 0.66685 | 1.659 |
| Predictors (Constant): Emb Size Earnings Emb×Size Earnings ×Size | | | | | |

Based on the autocorrelation test using Durbin-Watson in Table 5, the D-W values of 1.443 and 1.659 are between -2 and +2. This indicates that there is no autocorrelation in the regression model, so that residual errors between periods are uncorrelated, ensuring the validity of the regression estimates used in the study. This study demonstrates that the independent variables employee benefit obligations, earnings management, and firm size have an impact on tax avoidance by 21.8% (ETR) and 21.1% (Cash ETR), according to the coefficient of determination (R Square) test displayed in Table 5. Other factors that were not evaluated also affect the remaining 78%–79%. These findings suggest that the regression model's capacity to explain changes in the dependent variable is moderate.

**Table 6.** ANOVA test

| Dependent Variable | Parameters | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| Effective Tax Rate | Regression | 0.113 | 5 | 0.023 | 4.017 | 0.003 |
| | Residual | 0.404 | 72 | 0.006 | | |
| | Total | 0.517 | 77 | | | |
| Cash Effective Tax Rate | Regression | 8.573 | 5 | 1.714 | 3.856 | 0.004 |
| | Residual | 32.018 | 72 | 0.445 | | |
| | Total | 40.590 | 77 | | | |
| Predictors: (Constant), EMB, SIZE, EM, EMB×SIZE, EARNINGS×SIZE | | | | | | |

Based on the model feasibility test in Table 6, this study indicates that the regression model is suitable for use. The F-test results for n = 78 and K = 5 show F-counts of 4.012 and 3.856, both greater than the F-table of 2.3415. This indicates that the independent variables simultaneously have a significant effect on the dependent variable. Thus, it can be concluded that the regression model is fit and valid

Table 7. Hypothesis Test (ETR)

| Variable | B | Std. Error | Std. Beta | T-Statistic | Sig. |
|---|---|---|---|---|---|
| Constant | -9.871 | 3.095 | – | -2.945 | 0.004 |
| Employee Benefit Liabilities (EBL) | 0.365 | 0.133 | 3.617 | 2.733 | 0.007 |
| Earnings Management (ETR) | 10.049 | 4.771 | 3.613 | 2.166 | 0.033 |
| Firm Size | 0.317 | 0.099 | 4.728 | 3.149 | 0.002 |
| Employee Benefit Liabilities x Firm Size | -0.016 | 0.004 | -3.870 | -2.900 | 0.005 |
| Earnings Management x Firm Size | -0.937 | 0.130 | -4.747 | -2.190 | 0.032 |

The results of the partial hypothesis test utilizing the ETR proxy in Table 7 demonstrate that each independent variable has a significant impact on the dependent variable. First, employee benefit liabilities significantly increased ETR with a t-statistic of 2.733 and a significance value of 0.007, which was higher than the t-table of 1.9818. This indicates that the greater the employee benefit liabilities, the higher the ETR, thus decreasing the level of tax avoidance. Second, earnings management had a t-statistic of 2.166 with a Sig. of 0.033, indicating a significant positive effect on ETR, indicating that earnings management practices are not used to reduce taxes.

Third, firm size showed a t-statistic of 3.149 with a Sig. of 0.002, greater than the t-table, indicating that firms with larger assets tend to have higher ETRs and are less aggressive in tax avoidance. Furthermore, the interaction between employee benefit obligations and firm size (EBL x Size) had a t-statistic of -2.900 and a Sig. 0.005, indicating a significant negative effect. This indicates that in larger firms, the effect of employee benefit obligations on ETR weakens or reverses, allowing larger firms to be more flexible in managing employee benefit obligations to regulate ETR.

Finally, the interaction between earnings management and firm size (Earnings x Size) showed a t-statistic of -2.190 with a Sig. 0.032, indicating that the effect of earnings management on ETR decreases or reverses in large firms. In other words, firm size modifies the Earnings Management–ETR relationship, making earnings management less able to increase ETR, and firms can manage their taxes using other strategies. These results confirm the importance of firm size as a moderating variable in influencing the effectiveness of employee benefit obligations and earnings management on tax avoidance levels.

Table 8. Hypothesis Test (CETR)

| Variable | B | Std. Error | Std. Beta | T-Statistic | Sig. |
|---|---|---|---|---|---|
| Constant | -97.940 | 27.406 | – | -3.346 | 0.001 |
| Employee Benefit Liabilities | | | | | |

Second, earnings management showed a calculated t-statistic of 1.930 with a Sig 0.055, smaller than the t-table, so its effect on CETR was insignificant, indicating that earnings management practices do not affect the amount of cash taxes. Third, firm size had a calculated t-statistic of 3.575 with a Sig. 0.001, indicating a significant positive effect, indicating that large companies pay higher cash taxes than small companies, resulting in lower cash tax avoidance. Furthermore, the interaction between EBL and firm size (EBL x Size) showed a t-statistic of -3.439 and a Sig 0.001, indicating a significant negative effect. This indicates that in large firms, an increase in EBL is not always accompanied by a comparable increase in CETR, thus providing scope for managing employee benefit obligations for tax purposes.

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

## 5. Discussion

The empirical results show that employee benefit obligations significantly affect tax avoidance, with t-statistic of 2.437 for CETR and 2.719 for ETR, both exceeding the t-table value of 1.9818. This indicates that higher employee benefit obligations are associated with higher tax payments, implying that firms with substantial commitments to employee benefits tend to be less aggressive in tax avoidance. This finding is consistent with agency theory and political cost theory, which suggest that firms with long-term employee obligations maintain tax compliance to mitigate legal, political, and reputational risks. The results support the findings of Marfiana and Putra (2021), who documented a negative relationship between employee benefit obligations and tax avoidance in Indonesian manufacturing firms. However, they contrast with Schacher et al. (2022), who found that tax-avoiding firms tend to increase employee benefits by redistributing tax savings. These differences can be attributed to institutional factors in Indonesia, particularly the application of PSAK 24 and stricter labor protection regulations that limit managerial discretion in recognizing employee benefits for tax purposes.

The partial test results indicate that earnings management has a significant positive effect on accounting-based tax avoidance, with a t-statistic of 2.146. In contrast, its effect on cash-based tax avoidance is insignificant, with a t-statistic of 1.930. This suggests that earnings management practices in LQ45 companies are more oriented toward meeting financial reporting objectives rather than minimizing is insignificant. These findings suggest that large firms can manage employee benefit obligations to prevent sharp increases in tax burdens, whereas earnings management remains irrelevant primarily to cash tax payments. This pattern is consistent with the findings of Ayem and Titania (2024). However, it differs from their results in the property sector and supports the argument of Firmansah and Marsoem (2023) that the moderating role of firm size depends on industry characteristics.

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

## 6. Conclusion

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

This study has three limitations. First, the use of ETR and CETR proxies, the period, and the focus on the LQ45 sector limit the generalizability of the results to other industries or periods. Second, for business practitioners, the findings assess only employee benefit obligations and earnings management, without considering operational factors or corporate culture. Third, for regulators, the results apply only to the tax policies in effect during the study and require adjustments if regulations change. For future researchers, it is recommended to use other tax-avoidance

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