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Effects of Tax Planning and Profitability on Earnings Management in Indonesian Food and Beverage Firms

Merintan Putri Aulia Simbolon[1*]

Faculty of Economics and Business, Universitas Lampung, Indonesia[1]

***Corresponding author:** merintansmbln24@gmail.com

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Abstract

Purpose: This study examines whether tax planning and profitability influence earnings management among food and beverage manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024.

Research Methodology: Using purposive sampling, 70 firms were selected, giving 210 firm year observations from annual financial statements. Earnings management was measured by discretionary accruals from the Modified Jones Model, tax planning by Book Tax Differences (BTD), and profitability by Return on Assets (ROA). Panel regressions were estimated in EViews 13, and model selection tests supported the Common Effect Model (CEM).

Results: Tax planning had a positive and significant effect on earnings management (coefficient 0.508559, p=0.0036), whereas profitability had no significant effect (coefficient −0.158098, p=0.1084). The two variables were jointly significant (p=0.013941), but the adjusted R^2 of 0.031172 shows limited explanatory power.

Conclusions: The gap between accounting profit and taxable profit is linked to how firms manage reported earnings, while profitability alone does not explain this behavior.

Limitations: The study covers one subsector over three years, and BTD cannot fully separate ordinary rule differences from managerial discretion.

Contributions: The study adds emerging market evidence on earnings quality from an agency theory perspective and encourages users of financial statements to read book tax differences alongside accrual quality, cash flows, and tax disclosures.

Keywords: *Book Tax Differences, Discretionary Accruals, Earnings Management, Profitability, Tax Planning*

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1. Introduction

Investors, creditors, and other stakeholders rely on financial statements to understand a company's financial position, operating results, and cash flows. Of all the figures a company reports, earnings get the most attention. People use them to judge how well management has done, to weigh the risk of an investment, and to estimate whether the company can keep making money in the years ahead (Lesmono, & Siregar, 2021; Mahendra, & Jati, 2020). The trouble is that managers have their own interests and incentives, and these can seep into the way reports are prepared, making the numbers

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less neutral and less reliable (Habib, Ranasinghe, Wu, Biswas, & Ahmad, 2022). One well known form of this problem is earnings management, which can be described as a purposeful intervention in external financial reporting with the intent of obtaining some private gain (Algrady & Xie, 2022).

Agency theory explains why this happens. The interests of owners and managers do not always line up (Lesmono & Siregar, 2021). When ownership is separated from control, managers know far more about the firm's internal affairs than outsiders do. This gap creates information asymmetry (Scott, 2015) and leaves managers room to steer reported earnings toward their own goals. Earnings management has surfaced in many countries, most famously in the Enron and WorldCom cases (Habib et al., 2022). Indonesia has its own examples. At the end of 2002, PT Bank Lippo Tbk published two different versions of its financial statements, and recent Indonesian evidence shows that earnings management remains a real concern among public companies (Wati & Gultom, 2022). More recent cases at PT Garuda Indonesia and PT Tiga Pilar Sejahtera remind us that the quality of financial reporting still needs watching. Research across emerging markets points the same way, finding that firm characteristics, ownership, and audit quality all shape how much discretion managers use (Algrady & Xie, 2022).

Two factors are thought to be connected with earnings management, namely tax planning and profitability. Suandy (2016) describes tax planning as the arrangement of a taxpayer's activities so that tax obligations can be lowered legally within the limits of the law. Doing this well means that managers must think about the tax effect of every transaction and every accounting choice. Because accounting standards and tax rules differ, accounting profit and taxable profit often diverge, and the gap between them is known as Book Tax Differences (BTD) (Morais & Macedo, 2021). When a firm wants to show high accounting profit while keeping its tax bill under control, this gap can shape its reporting decisions. Rachmawati, Utama, Martani, and Wardhani (2020) document the link between tax reporting and financial reporting, and other work shows that tax pressures and capital market pressures can push in different directions (Wilde & Wilson, 2018). Yet the evidence on tax planning and earnings management is still mixed. Assidi and Albitar (2022) and Christella and Santo (2024) find a positive and significant effect, and Fauziah, Yahya, Andiyani, and Sulistyani (2026) also find an effect. On the other hand, Setyawan, Wulandari, and Widyaningrum (2021), Mohamad and Idayu (2022), and Jesika (2022) find no significant effect.

Profitability reflects how well a firm turns its resources into profit. Since profitability ratios are widely used to evaluate performance, hitting or missing them can influence how managers present earnings. Sustaining profitability is also regarded as a sign that a business can keep going. When profits fall, managers' bonuses may fall with them, and this can create pressure to adjust earnings so that performance looks better (Akbar, Ridarmelli, Wijayanti, Pramesworo, & Esti, 2024). Here too, earlier studies disagree. Khoerunnisa and Apriliawati (2021) find a positive and significant effect on earnings management, and Setyawan et al. (2021) and Mohamad Mohamad and Idayu (2022) also find an effect. In contrast, Hardiyanti, Kartika, and Sudarsi (2022), Akbar et al. (2024), Christella and Santo (2024), Primacintya and Kusuma (2025), and Sagita, Meutia, and Yusrianti (2026) find no significant effect. Studies outside Indonesia show a similarly uneven picture (Khuong, Anh, & Van, 2022).

These inconsistent findings show that the link between each factor and earnings management still needs to be examined. This study therefore tests the effect of tax planning and profitability on earnings management among food and beverage firms listed on the IDX. The food and beverage subsector is a good setting for this question. It is large, it includes many listed firms with very different sizes and margins, and its products face shifting input costs and tax treatments, which gives managers both reasons and room to make reporting choices. The study is expected to add to the empirical evidence on the factors related to earnings quality.

2. Literature Review and Hypothesis/es Development

2.1 Agency Theory

An agency relationship is formed when owners, as principals, hand decision making authority to managers, as agents (Lesmono & Siregar, 2021). In a public company, shareholders cannot watch every decision managers make, while managers know much more about operations and prospects (Scott, 2015). According to Algrady and Xie (2022), information asymmetry, conflicting interests, and different attitudes toward risk can all give rise to agency problems. These conditions give managers a chance to act in their own interest, including by managing the earnings they report. In this study, agency theory is used to explain how accrual choices may be tied to two managerial motives. The first is concern about the tax effects of transactions and profits. The second is pressure to deliver the profitability that shareholders expect. Reviews of the earnings management literature confirm that both tax and performance motives appear repeatedly as drivers of managerial discretion (Habib, Ranasinghe, Wu, Biswas, & Ahmad, 2022; Sundvik, 2017b).

2.2 Earnings Management

Scott (2015) sees earnings management as managers' use of accounting policy choices to raise their own utility or the market value of the firm. Sutopo, Adiati, and Siddi (2021) link it to managerial judgment in shaping accounting earnings through accounting decisions and operating cash flows. Managers can use two broad routes. Accrual based earnings management changes the timing of revenue and expense recognition, while real earnings management changes actual operating decisions such as sales discounts, production levels, or discretionary spending (Kothari, Mizik, & Roychowdhury, 2016). Firms often trade one route off against the other depending on cost and scrutiny (Gao, Gao, & Wang, 2017; Khunkaew, & Qingxiang, 2019).

This study limits its measurement to accrual based earnings management. Accruals are the part of earnings that comes from accounting adjustments and need not be matched by cash in the same period (Trung, Liem, Thuy, Elgammal, & Elgammal, 2020). They can be split into accruals that arise from normal business activity and accruals that are expected to reflect management discretion. To estimate the discretionary part, the Modified Jones Model accounts for changes in revenue after adjusting for changes in receivables (Nuhu, Ahmad, & Lim, 2024). The resulting Discretionary Accruals (DA) serve as the proxy for earnings management. A positive DA means that earnings were pushed up relative to their normal level, and a negative DA means they were pushed down. Interpreting this measure still requires attention to business characteristics and performance that the model may not fully capture, a concern that has been raised in studies of accrual models in emerging markets (Trung et al., 2020).

2.3 Tax Planning

Through tax planning, a company arranges its business activities to manage its tax obligations while still following the rules (Suandy, 2016). In this study, tax planning is represented by Book Tax Differences (BTD), measured as the difference between accounting profit before tax and estimated taxable profit, divided by total assets at the end of the previous year. The concept rests on the difference between income measured for financial reporting and income measured for tax purposes (Al, & Martani, 2024; Morais, & Macedo, 2021). Both accounting choices and tax treatments can create this gap. Rachmawati, Utama, Martani, and Wardhani (2020) find that aggressive tax reporting and aggressive financial reporting tend to occur together, and studies in other countries show that abnormal BTD is associated with earnings management (Morais and Macedo, 2021; Sundvik, 2017b). Evidence from Indonesia also suggests that firms use BTD in both earnings management and tax minimization (Al & Martani, 2024).

At the same time, the gap between book and taxable income can come from ordinary differences between the two sets of rules. BTD therefore cannot be treated directly as proof of tax avoidance or

earnings manipulation (Wang, Xu, Sun, & Cullinan, 2020). Reviews of tax research stress that measures of tax planning capture a mix of legitimate planning, aggressive avoidance, and simple rule differences (Wilde & Wilson, 2018), and the balance between them depends on book tax conformity and enforcement in each country (Taha, 2021). Viewed through agency theory, incentives tied to taxes and reporting provide the basis for expecting tax planning to affect earnings management. Based on this reasoning, the first hypothesis is stated as follows.

H₁: Tax planning affects earnings management.

2.4 Profitability

A firm's ability to generate profit over a period is reflected in its profitability, which is one of the main measures of financial performance. Profitability ratios also show how effectively management uses the firm's assets. This study measures profitability with Return on Assets (ROA), which compares net income with total assets. A higher ROA indicates that the firm's assets are producing more profit. From an agency perspective, strong results may push managers to keep performance in line with what owners and the market expect, while weak results may create pressure to show improvement (Akbar, Ridarmelli, Wijayanti, Pramesworo, & Esti, 2024; Khuong, Anh, & Van, 2022). Both situations underlie the expectation that profitability is related to earnings management. Research on earnings and firm value in Indonesia also shows that large accruals and deferred taxes change how investors read reported profit (Sutopo, Adiati, & Siddi, 2021). The second hypothesis is therefore stated as follows.

H₂: Profitability affects earnings management.

The research framework is shown in Figure 1.

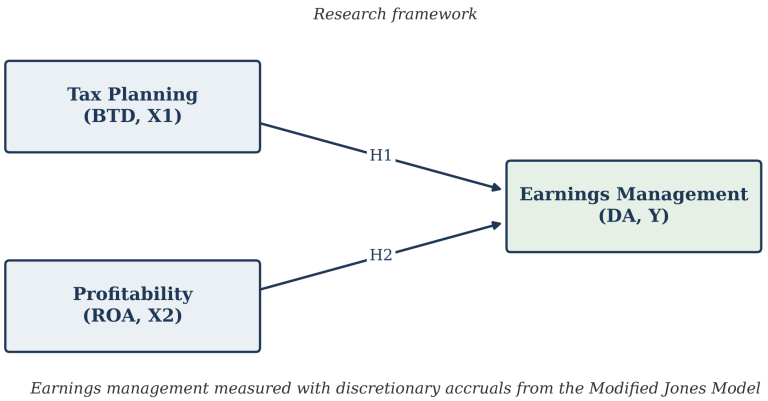


Figure 1. Research framework

Figure 1 shows the two relationships tested in this study. Tax planning, measured by book tax differences, is expected to affect earnings management (H_1), because a larger gap between accounting and taxable profit may reflect accounting choices that also shape discretionary accruals. Profitability, measured by return on assets, is expected to affect earnings management (H_2), because pressure to meet or maintain performance targets may lead managers to adjust reported earnings. Earnings management, the dependent variable, is measured with discretionary accruals estimated from the Modified Jones Model, as noted at the bottom of the figure. Both hypotheses are stated without a predicted direction, which reflects the mixed findings in prior research.

3. Research Methodology

3.1 Data and Sample

The data consist of annual financial statements of food and beverage manufacturing firms listed on the IDX from 2022 to 2024. These secondary data were analyzed with a quantitative approach. The

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sample was chosen by purposive sampling based on the availability of complete financial statements throughout the observation period. Of the 83 firms in the population, 13 did not meet the completeness criterion, leaving 70 firms in the sample. Three years of observation produced 210 firm year observations. The sample selection is shown in Table 1.

Table 1. Sample selection

No.	Criterion	Number
1	Food and beverage manufacturing firms listed on the IDX in 2022 to 2024	83
2	Firms that did not publish complete financial statements during 2022 to 2024	(13)
	Number of sample firms	70
	Number of observations over three years (2022 to 2024)	210

Table 1 shows how the final sample was obtained. The subsector contained 83 listed firms during 2022 to 2024. Thirteen of them did not publish complete financial statements for every year of the period and were therefore excluded, which left 70 firms. Because each firm was observed for three years, the analysis rests on 210 firm year observations. Excluding firms with incomplete reports keeps the panel balanced, although it may leave out firms that listed or delisted during the period. The data were obtained from www.idx.co.id and processed in 2025.

3.2 Variable Measurement

Earnings management was measured with thFormula 1e Modified Jones Model, which is widely used in earnings management research because it controls for changes in credit sales and reduces bias in estimating discretionary accruals (Khuong, Anh, & Van, 2022; Trung, Liem, Thuy, Elgammal, & Elgammal, 2020). The calculation follows four steps. First, Total Accruals (TAC) are computed as net income in year t minus operating cash flow in year t, as shown in Formula 1.

$$TAC_{it} = NI_{it} - CFO_{it} \tag{1}$$

Second, total accruals are estimated with Ordinary Least Squares (OLS) to obtain the regression coefficients, as shown in Formula 2.

$$\frac{TAC_{it}}{A_{it-1}} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{\Delta Rev_{it}}{A_{it-1}} + \beta_3 \frac{PPE_{it}}{A_{it-1}} + \epsilon \tag{2}$$

Third, the coefficients are used to compute Non-Discretionary Accruals (NDA), as shown in Formula 3.

$$NDA_{it} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{\Delta Rev_{it} - \Delta Rec_{it}}{A_{it-1}} + \beta_3 \frac{PPE_{it}}{A_{it-1}} \tag{3}$$

Finally, Discretionary Accruals (DA) are calculated as the measure of earnings management, as shown in Formula 4.

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it} \tag{4}$$

In these equations, DA_{it} is the discretionary accruals of firm i in year t, NDA_{it} is nondiscretionary accruals, TAC_{it} is total accruals, NI_{it} is net income, CFO_{it} is cash flow from operating activities, A_{it-1} is total assets at the end of year $t-1$, ΔRev_{it} is revenue in year t minus revenue in year $t-1$, PPE_{it} is property, plant, and equipment, ΔRec_{it} is accounts receivable in year t minus accounts receivable in year $t-1$, β_1, β_2, and β_3 are regression coefficients, and ε is the error term.

Tax planning is proxied by BTD, the difference between accounting profit before tax and estimated taxable profit, scaled by total assets at the end of the previous year, following the concept used by Al and Martani (2024). Taxable profit is estimated by dividing current income tax expense by the corporate income tax rate of 22%, as shown in Formula 5 and Formula 6 .

$$BTD_{it} = \frac{Profitbeforetax_{it} - Taxableprofit_{it}}{Totalassets_{it-1}} \tag{5}$$

$$Taxableprofit_{it} = \frac{Currenttaxexpense_{it}}{Taxrate} \tag{6}$$

Profitability is measured with Return on Assets (ROA), which divides net income by total assets, as shown in Formula 7.

$$ROA_{it} = \frac{Netincome_{it}}{Totalassets_{it}} \tag{7}$$

3.3 Data Analysis

The study uses panel data regression in EViews 13 to test the effect of tax planning and profitability on earnings management. The analysis proceeds through descriptive statistics, model selection with the Chow, Hausman, and Lagrange Multiplier tests, and classical assumption checks for normality, multicollinearity, heteroscedasticity, and autocorrelation (Ghozali, 2017). Hypotheses are tested with the t test for partial effects and the F test for joint effects at the 5% significance level, and the adjusted R^2 shows how much of the variation in earnings management the model explains (Ghozali, 2017). The estimated regression model is given in Formula 8.

$$DAC_{it} = \alpha + \beta_1 BTD_{it} + \beta_2 ROA_{it} + \epsilon_{it} \tag{8}$$

4. Results and Discussions

4.1 Descriptive Statistics

Table 2. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Earnings management	210	−0.2788	0.4333	−0.0280	0.0997
Tax planning (BTD)	210	−0.1846	0.2009	−0.0072	0.0454
Profitability (ROA)	210	−0.1999	0.3319	0.0561	0.0799

Source: EViews 13, 2026

Based on Table 2, earnings management has a mean of −0.0280, a minimum of −0.2788, a maximum of 0.4333, and a standard deviation of 0.0997. The negative mean shows that the sample firms tend to

manage earnings by pushing reported profit below its actual level (income minimization). BTD has a mean of −0.0072 and a standard deviation of 0.0454, with a minimum of −0.1846 and a maximum of 0.2009. This mean indicates that, on average, taxable profit is higher than accounting profit in scaled terms. ROA has a mean of 0.0561 and a standard deviation of 0.0799, with a minimum of −0.1999 and a maximum of 0.3319. The ranges of the three variables reflect the diversity of firm conditions during the observation period.

4.2 Panel Data Model Selection

Table 3. Model selection results

Test	Probability	Criterion	Selected Model
Chow test	0.5389	> 0.05	Common Effect Model (CEM)
Hausman test	0.1100	> 0.05	Random Effect Model (REM)
Lagrange Multiplier test	0.6360	> 0.05	Common Effect Model (CEM)

Table 3 summarizes the three tests used to choose the most suitable panel data model. The Chow test produced a probability of 0.5389 > 0.05, so the Common Effect Model (CEM) was preferred over the Fixed Effect Model (FEM). The Hausman test then produced a probability of 0.1100 > 0.05, so the REM was preferred over the FEM. To choose between the CEM and the Random Effect Model (REM), the Lagrange Multiplier test was run and produced a probability of 0.6360 > 0.05. This result shows that the CEM was preferred over the REM, and the study therefore uses the Common CEM.

4.3 Classical Assumption Tests

The normality test in this study is based on the Central Limit Theorem, which holds that when the number of observations (N) exceeds 30, the data can be assumed to be normally distributed (Pranadipta & Natsir, 2023). This study has 210 observations, which is more than 30, so the residuals can be assumed to be normally distributed. The multicollinearity test checks whether the independent variables in the regression model are correlated with each other. The criterion is a Variance Inflation Factor (VIF) below 10, which indicates no multicollinearity (Ghozali, 2017).

Table 4. Multicollinearity test

Variable	Centered VIF	Remark
Tax planning (BTD)	1.331372	No multicollinearity
Profitability (ROA)	1.331372	No multicollinearity

Based on Table 4, the centered VIF for both BTD and ROA is 1.331372. This value is below 10, so there is no indication of high multicollinearity between the independent variables in the model.

The heteroscedasticity test checks whether the variance of the residuals differs from one observation to another. The test was carried out with the Glejser test, which regresses the absolute value of the residuals on the independent variables. If the probability is above 0.05, there is no heteroscedasticity (Ghozali, 2017).

Table 5. Heteroscedasticity test (Glejser test, null hypothesis of homoscedasticity)

Statistic	Value	Probability Test	Probability
F statistic	0.598594	Prob. *F*(2,207)	0.5505
Obs*R squared	1.207554	Prob. Chi square(2)	0.5467
Scaled explained SS	1.696914	Prob. Chi square(2)	0.4281

Table 5 presents the results of the Glejser test, which regresses the absolute value of the residuals on the two independent variables to check whether the residual variance is constant. All three statistics lead to the same conclusion. The *F* statistic of 0.598594 has a probability of 0.5505, the Obs*R squared of 1.207554 has a probability of 0.5467, and the scaled explained sum of squares of 1.696914 has a probability of 0.4281. Because every probability is well above 0.05, the null hypothesis of

homoscedasticity cannot be rejected, which means that the size of the residuals does not depend on the level of tax planning or profitability. The table therefore indicates that the standard errors of the regression coefficients are not distorted by heteroscedasticity.

The autocorrelation test checks whether the error in one period is correlated with the error in the previous period (Ghozali, 2017). The test was carried out with the Durbin Watson (DW) test.

Table 6. Autocorrelation test results

N	k	DW	dL	dU	4 − dL	4 − dU	Remark
210	2	1.940424	1.7548	1.7933	2.2452	2.2067	No autocorrelation

Table 6 reports the Durbin Watson test used to check whether the residuals in one period are correlated with those in the previous period. With 210 observations and two independent variables, the lower bound (dL) is 1.7548 and the upper bound (dU) is 1.7933, which give a no autocorrelation region between 1.7933 and 2.2067. The Durbin Watson statistic of 1.940424 falls inside this region and is close to the ideal value of 2. The table therefore shows that the residuals are free from autocorrelation, so the regression estimates are not biased by serial dependence across the observation years.

4.4 Hypothesis Testing

Table 7. Hypothesis test results (Common Effect Model)

Variable	Coefficient	Std. error	*t* statistic	Prob.
C	−0.015469	0.009199	−1.681479	0.0942
BTD	0.508559	0.172436	2.949258	0.0036
ROA	−0.158098	0.098041	−1.612563	0.1084
F statistic	4.362332			
Prob(*F* statistic)	0.013941			
R squared	0.040444			
Adjusted *R* squared	0.031172			

Based on Table 7, the estimated regression equation is as follows Formula 9.

$$DAC_{it} = -0.015469 + 0.508559\, BTD_{it} - 0.158098\, ROA_{it} + \epsilon_{it} \quad (9)$$

Tax planning, proxied by BTD, has a coefficient of 0.508559 and a probability of 0.0036, which is smaller than 0.05, while its *t* statistic of 2.949258 exceeds the *t* table value of 1.9715, so *Ha* is accepted. BTD therefore has a positive and significant effect on earnings management in the sample firms. Profitability, proxied by ROA, has a coefficient of −0.158098 and a probability of 0.1084, which is above 0.05, and the absolute value of its t statistic, 1.612563, is smaller than the *t* table value of 1.9715. Profitability therefore has no significant partial effect on earnings management, and the second hypothesis (H_2) is rejected.

The *F* test shows that tax planning and profitability jointly have a significant effect on earnings management, with a probability of 0.013941 < 0.05 and an *F* statistic of 4.362332 > the *F* table value of 3.0395. Tax planning and profitability therefore affect earnings management together. This result also shows that the regression model is adequate for explaining earnings management in the sample firms.

Table 7 also reports an adjusted *R* squared of 0.031172. This means that tax planning and profitability explain only 3.12% of the variation in earnings management, while the remaining 96.88% is explained by other variables outside this model. According to Ghozali (2017), an R^2 close to one shows that the independent variables explain most of the variation in the dependent variable, while a

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low value reflects limited explanatory power. According to Wooldridge (2020), a low R^2 does not by itself mean that the estimated effects of the independent variables are useless.

4.5 Discussion

The results show that tax planning, proxied by BTD, has a positive and significant effect on earnings management. This is shown by a regression coefficient of 0.508559 and a probability of 0.0036 < 0.05, so the first hypothesis (H_1) is accepted. In other words, the higher the BTD, the higher the discretionary accruals, assuming the other variable stays constant. The difference between accounting profit and taxable profit is therefore related to the way firms manage the earnings they report.

This relationship can arise because financial statements and tax calculations follow different rules. Certain accounting policies can change commercial profit without changing taxable profit by the same amount. This difference in treatment can show up in BTD and, at the same time, be related to discretionary accruals. In agency theory, management holds more internal information than shareholders and therefore has room to choose reporting policies (Lesmono & Siregar, 2021). Management may face pressure to show good earnings to investors while also managing the firm's tax burden. Both interests can influence the choice of accounting and tax policies. Tax planning is therefore potentially related to earnings management practices.

This finding is in line with Assidi et al. (2022) and Christella and Santo (2024), who find that tax planning affects earnings management. The result is also consistent with Rachmawati et al. (2020), who show that aggressive tax reporting and aggressive financial reporting tend to occur together. The results of this study therefore point to a relationship between BTD and discretionary accruals.

The results show that profitability, proxied by ROA, has no significant effect on earnings management. This is shown by a regression coefficient of −0.158098 and a probability of 0.1084 > 0.05, so the second hypothesis (H_2) is rejected. Although the coefficient is negative, this result is not enough to conclude that higher profitability reduces earnings management. The level of ROA has therefore not been shown to explain changes in discretionary accruals among the sample firms after taking tax planning into account.

This result can be understood because profitability does not create the same pressure in every firm. Firms with low profitability may face pressure to show improved performance, while firms with high profitability may try to maintain their results. This explanation is a possible reason behind the result, since these factors were not tested directly in the model. From the perspective of agency theory, conflicts of interest between owners and managers can still occur, but management's actions are not determined by profitability alone (Lesmono & Siregar, 2021). Compensation incentives, contract terms, and monitoring can also affect reporting decisions. A firm with a high ROA is therefore not necessarily managing earnings, and the same is true of a firm with a low ROA. The lack of significance shows that profitability is not yet a strong explanation of earnings management in this sample and period.

This finding is in line with Hardiyanti et al. (2022), Akbar et al. (2024), and Christella and Santo (2024), who find no significant effect of profitability on earnings management. In contrast, Khoerunnisa and Apriliawati (2021) find a positive and significant effect. These differences suggest that the relationship between profitability and earnings management may vary with firm characteristics, the observation period, and the measures used.

5. Conclusions

This study of 70 food and beverage manufacturing firms listed on the IDX from 2022 to 2024, with 210 observations, leads to two conclusions. First, tax planning, proxied by BTD, has a positive and significant effect on earnings management (coefficient 0.508559, p=0.0036), so H_1 is accepted. Second, profitability, proxied by ROA, has no significant effect on earnings management (coefficient −0.158098, p=0.1084), so H_2 is rejected. The CEM model is jointly significant (p=0.013941) but has

limited explanatory power, with an adjusted R^2 of 3.12%. In practical terms, the gap between book and taxable income carries information about how firms in this subsector shape their reported earnings, while profitability on its own does not.

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Author Contributions

MPAS was solely responsible for the conceptualization of the study, data collection, data analysis, interpretation of the results, and the writing, review, and revision of the manuscript, and approved the final manuscript.

Conflict of Interest

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