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The Effect of Company Size on Tax Avoidance with Income Smoothing as a Moderation Variable

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Abstract

This study aims to examine the influence of company size on tax avoidance and analyze the role of income smoothing as a moderation variable in the relationship. The novelty of this study lies in the examination of income smoothing as a moderation variable in the relationship between company size and tax avoidance, which is still relatively limited in previous research, especially in companies listed on the Indonesia Stock Exchange. This study uses a quantitative approach with an explanatory research design. The research population is a company listed on the Indonesia Stock Exchange for the period 2020–2024 with a sample of 72 observations selected using purposive sampling techniques. Secondary data was obtained from the company's financial statements and annual reports, then analyzed using descriptive statistics, classical assumption tests, multiple linear regression, and Moderated Regression Analysis (MRA). The results of the study show that the size of the company has a significant effect on tax avoidance. In addition, income smoothing has been shown to moderate the relationship between company size and tax avoidance, thereby strengthening the influence of company size on tax avoidance practices. These findings contribute to the development of the tax accounting literature on the factors that affect tax avoidance and serve as an input for company management in developing tax strategies and for regulators in formulating policies to minimize tax avoidance practices. Further research is suggested to add other variables and expand the object and period of the study to obtain more comprehensive results.

INTRODUCTION

Taxes are one of the main sources of state revenue that plays an important role in financing national development (Firman et al., 2025). In Indonesia, tax revenue is the dominant component in the State Revenue and Expenditure Budget (APBN), so that taxpayer compliance, including companies, greatly determines the optimization of state revenue. However, in practice, companies often carry out various strategies to reduce tax burden, one of which is through tax avoidance practices. Although carried out in a legal corridor, this practice can reduce the potential for state revenue and become a concern for governments and regulators. One of the factors that is suspected to affect tax avoidance is the size of the company (firm size). Companies with large assets have better resources and capabilities in conducting tax planning, but on the other hand also face supervisory pressures and higher reputational risks.

Various previous studies have examined the effect of firm size on tax avoidance, but have shown different results. Dyreng et al., (2007) stating that larger companies tend to have better

ability to do tax planning so that they have the potential to do tax avoidance. Instead, (Patricia & Limajatini, 2025) It found that large companies tend to avoid tax avoidance practices due to political pressure, regulatory oversight, and efforts to maintain the company's reputation. These differences in results show that the relationship between company size and tax avoidance is still inconsistent.

In addition to the size of the company, the practice of income smoothing is also suspected to affect the company's tax policy. Income smoothing is a form of profit management that is carried out to reduce reported profit fluctuations so that the company's performance looks more stable (Widyantoro et al., 2023). A number of studies have shown that this practice can affect the amount of taxable profits and is related to corporate tax avoidance strategies (Aristyatama & Bandiyono, 2021; Rustandi & Herawaty, 2024). However, studies examining the role of income smoothing as a moderation variable in the relationship between company size and tax avoidance, especially in companies in Indonesia, are still relatively limited. Therefore, this research is expected to contribute to enriching the literature on the role of income smoothing in strengthening or weakening the influence of company size on tax avoidance.

Based on this description, there is a research gap in the form of inconsistencies in the results of previous research regarding the influence of company size on tax avoidance and there is still limited research that includes income smoothing as a moderation variable. Therefore, this study aims to answer the question of whether company size affects tax avoidance and whether income smoothing is able to strengthen or weaken the relationship. The novelty of this study lies in testing the role of income smoothing as a moderation variable in the relationship between company size and tax avoidance in companies in Indonesia, so that it is expected to contribute to the development of tax accounting literature and become an input for companies and regulators in understanding the factors that affect tax avoidance practices.

METHODS

This study uses a quantitative approach with the type of associative research and explanatory research design to test the influence of company size on tax avoidance with income smoothing as a moderation variable. The research population is companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. The sample was selected using purposive sampling techniques based on the criteria of companies that are consistently registered, publish complete annual financial statements, have data that is in accordance with the needs of the research, and do not suffer losses during the observation period. The data used is secondary data in the form of financial statements and annual reports obtained from the IDX's official website and the company's website, then collected through the documentation method.

The dependent variable in this study is tax avoidance which is proxied by the Effective Tax Rate (ETR), the independent variable is the size of the company measured using the natural logarithm of total assets, while the moderation variable is income smoothing which is measured using the Eckel index. Data analysis was carried out through descriptive statistics, classical assumption tests, and hypothesis testing using Moderated Regression Analysis (MRA) to test the role of income smoothing in moderating the influence of company size on tax avoidance. All data processing is carried out with the help of SPSS statistical software.

RESULTS AND DISCUSSION

Results Research

Descriptive Statistical Analysis

Table 1
Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
X1	72	14,97039	29,87677	23,7548533	4,90677790
Y	72	0,01950	0,79276	0,2640088	0,12767110
Z	72	0	1	0,71	0,458
Valid N (listwise)	72				

The results of the descriptive analysis show that the company size variable (X1) proxied using total assets has a minimum value of 14.97039 and a maximum of 29.87677, with an average value of 23.7548533 and a standard deviation of 4.90677790. This indicates that the size of the companies in the study sample varies considerably, which shows that there are differences in the scale of the company from relatively small to large.

Furthermore, the tax avoidance variable (Y) proxied with the Effective Tax Rate (ETR) has a minimum value of 0.01950 and a maximum of 0.79276, with an average of 0.2640088 and a standard deviation of 0.12767110. This relatively low average value shows that the rate of tax avoidance in the sample tends to be high, with the level of variation between companies still in the moderate category.

The income smoothing (Z) moderation variable has a minimum value of 0 and a maximum of 1, with an average of 0.71 and a standard deviation of 0.458. These results indicate that most of the companies in the sample identified are engaged in the practice of income smoothing, which is around 71%, while the rest do not practice it. The high spread of data shows that there is variation in the implementation of income smoothing among companies.

Classical Assumption Tests

Normality Test

Normality testing is intended to check whether a regression equation is normally or abnormally distributed. One of the normality tests that can be used is the Kolmogorov Smirnov Normality Test. The requirement in the normality test is if the Asymp value. Sig (2-tailed) > 0.05.

Table 2
One-Sample Kolmogorov-Smirnov Test

		Unstandardiz ed Residual
N		72
Normal Parametersa,b	Mean	0,0000000
	Std. Deviation	0,08901069
Most Extreme Differences	Absolute	0,069
	Positive	0,069
	Negative	-0,049
Test Statistic		0,069
Asymp. Sig. (2-tailed)		.200c,d

Based on the results listed in table 4, the Asym value. The sig. (2-tailed) of each regression equation shows a value of > 0.05 and means that the data is normally distributed.

Multicollinearity Test

Multicollinearity testing intends to check whether independent variables in the regression equation are found to correlate. The requirements for the multicollinearity test can be seen in the VIF value and tolerance value, where if the VIF value is < 10.00 and the tolerance value is > 0.100, then there is no multicollinearity.

Table 3
Multicollinearity Test Results

Coefficientsa			
		Collinearity Statistics	
Model		Tolerance	LIVE
1	X	0,993	1,007
	Z	0,993	1,007
a. Dependent Variable: SQY			

Based on the results listed in the table, the multicollinearity test for each regression equation meets these criteria. Thus, it can be concluded that there is no multicollinearity. Based on the table, the results of the test of all independent variables have a tolerance value above 0.1 and a VIF value below 10. It can be concluded that the data meets the multicollinearity test.

Heteroscedasticity Test

Heteroscedasticity testing aims to check whether there is an inequality of variance and residue between observations of one another in the regression equation. In this study, the

heteroscedasticity test was carried out using the glycer test. Based on the table, the test results showed a significance value of > 0.05. The data shows that each regression equation has a significance value of > 0.05. Therefore, it can be concluded that heteroscedasticity does not occur.

Table 4
Heteroscedasticity Test Results

Coefficientsa

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Say.
1	(Constant)	0,020	0,209		0,098	0,922
	X	0,129	0,150	0,100	0,858	0,394
	Z	-0,067	0,036	-0,219	-1,869	0,066

Autocorrelation Test

An autocorrelation test was performed to find out if there was a correlation between the residual in the t period and the residual in the previous period in the regression model. In this study, the autocorrelation test used the Durbin-Watson method (DW test).

Table 5
Autocorrelation Test Results

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.273a	0,075	0,061	0,13123859	1,881

Based on the test results displayed in the Model Summary table, the Durbin-Watson value was obtained as 1.881. The value is between the 1.5 and 2.5 limits, so it can be concluded that the regression model does not experience autocorrelation.

Multiple Linear Regression Analysis

The regression analysis aims to identify the influence of company size as an independent variable on tax avoidance proxied with Effective Tax Rate (ETR) as a dependent variable. If the significance value < 0.05, then the independent variable affects the dependent variable. On the other hand, if the significance value is > 0.05, then the independent variable has no effect on the dependent variable.

Table 6
Multiple Linear Regression Analysis Results

Coefficientsa

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Say.
1 (Constant)	.927	.317		2.920	.005

X	-1.300	.228	-.533	-5.712	.000
Z	.176	.054	.303	3.249	.002

The results of regression analysis showed that the company size variable (X1) proxied through (X) had a coefficient of B = −1.300 with values t = −5 712 and Sig. = 0.000. Thus, at a significance level of 5%, the company size variable is declared to have a significant negative effect on ETR.

Moderated Regression Analysis (MRA)

The Moderated Regression Analysis (MRA) test is a regression analysis technique used to test whether the moderation variable affects the strength of the relationship between independent variables and dependent variables through interaction.

Table 7
Moderated Regression Analysis (MRA) Results

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Say.
1	(Constant)	-0,840	0,055		-15,145	0,000
	X_M	0,121	0,048	0,286	2,496	0,015

Based on the results of MRA in the *Coefficients table*, the interaction variable between company size and income smoothing (XM) showed a coefficient B = 0.121 with a value of t = 2.496 and Sig. = 0.015.

Hypothesis Test

Coefficient of Determination Test

This test aims to explain how much the ability of independent variables to explain dependent variables in the regression model that has been built.

Table 8
Coefficient of Determination Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.559a	0,312	0,303	0,22174

Based on the table of the determination coefficient test results, the Adjusted R^2 value of 0.303 was obtained. This means that the variation in tax avoidance proxied by the Effective Tax Rate (ETR) in the study sample can be explained by 30.3% by the combination of company size (X1), income smoothing (Z), and the interaction between company size and income smoothing (X1×Z) as moderation variables.

Meanwhile, the remaining 69.7% of the variation in tax avoidance was influenced by other factors outside the study model that were not studied. These results show that the research model has sufficient explanatory capabilities, but there are still other variables that have the potential to affect the level of corporate tax avoidance.

F-Test (Simultaneous)

The accuracy of the sample regression function in estimating the actual value statistically can be measured from the goodness of fit. The Goodness of fit model can be measured through the Anova Significance Test (Statistical Test F). This test uses the criterion that if the probability value is 0.05, then the F test is not significant, meaning that this model test does not meet the fit criteria and is not suitable for use in the research. The results of the statistical test F are presented in the following table.

Table 9
F-Test (Simultaneous) Results

ANOVA

Model		Sum Squares	of df	Mean Square	F	Say.
1	Regression	2.021	2	1.010	23.353	.000b
	Residual	2.985	69	.043		
	Total	5.006	71			

a. Dependent Variable: Y

b. Predictors: (Constant), Z, X

DISCUSSION

THE EFFECT OF COMPANY SIZE ON TAX AVOIDANCE

The results of the study show that the size of the company has an effect on tax avoidance. Large companies tend to have better resources, transaction complexity, and fiscal planning capabilities, so they are more likely to implement tax avoidance strategies. From the point of view of agency theory, it can be explained through the relationship between principal and agent that causes conflicts of interest and agency costs. In large companies, operational complexity and managerial discretion tend to be higher, so management has a greater opportunity to carry out tax planning more systematically. This condition causes large companies to tend to be more able

to carry out tax avoidance strategies to reduce tax burdens and increase after-tax profits. Theoretically, these findings are in line with the theory of agency developed by Jensen and Meckling (1976).

Relevant empirical evidence supports this finding, (Nasution et al., 2026) It proves that the size of the company has a positive and significant effect on tax avoidance. These findings show that the larger the scale of the company, the greater the capacity of the company to utilize resources, information, and fiscal planning to carry out tax burden efficiency. Research by (Sandag et al., 2022) It shows that company size is the dominant factor in influencing tax avoidance, which means that company size has an important role in explaining the company's tendency to avoid tax avoidance. In addition, Paramita et al.. (2023) shows that the size of the company has a significant effect on the tax avoidance proxied by CETR in property and real estate companies. These findings confirm that company size is one of the relevant characteristics of companies in explaining variations in tax avoidance behavior. Prameswari et al. (2025) found that the size of the company has a significant effect on tax avoidance in a negative direction, which shows that in certain contexts large companies tend to be more cautious in tax avoidance

On the other hand, Firmansyah & Bahri. (2024); Kasrina. (2022); Mahdiana & Amen. (2026); Siregar. (2021) found that the size of the company had no effect on tax avoidance. The difference in results shows that the relationship between company size and tax avoidance still depends on the research context, such as the industrial sector, observation period, and tax avoidance proxy used.

Based on previous research, it still shows mixed results. Some studies have found that company size has an effect on tax avoidance, while other studies show that company size has no effect. These inconsistencies show that there is still room for research to re-examine the relationship between company size and tax avoidance, especially by including income smoothing as a moderation variable.

INCOME SMOOTHING MODERATES THE RELATIONSHIP BETWEEN COMPANY SIZE AND TAX AVOIDANCE

These results show that in companies with a high level of income smoothing, the influence of company size on the tendency to avoid taxes becomes stronger. In other words, large companies that practice profit equalization have a higher tendency to do tax avoidance than companies that do not practice income smoothing.

From a theoretical point of view, these findings are in line with the agency theory that managers as agents have a tendency to act opportunistic in taking advantage of accounting

flexibility to achieve certain goals. In a large company, operational complexity and the availability of resources provide a wider space for management to conduct tax planning. When the practice of income smoothing is carried out, the flexibility in profit management becomes higher, thus opening up greater opportunities for management to optimize tax avoidance strategies.

In this context, income smoothing not only serves as a mechanism to stabilize profits, but also as a means to support the effectiveness of tax avoidance strategies. Companies that do profit equalization tend to have the ability to regulate the distribution of profits between periods, so that the tax burden can be reduced more optimally. Serli et al. (2025) It also explains that income smoothing can open up space for management to utilize profit reporting discretion, including in the management of tax expenses. Thus, in large companies, the existence of income smoothing can strengthen the influence of company size on tax avoidance.

These findings are supported by several empirical studies that show that earnings management practices, including income smoothing, are related to tax avoidance. Cabello et al.. (2019) shows that earnings management has a close relationship with tax avoidance. Nguyen et al.. (2024) It also found that accounting flexibility in income smoothing can be leveraged to manage tax burdens. In addition, Aristyatama & Bandiyono. (2021) stating that income smoothing can be used as a means to reduce the tax burden indirectly.

However, the results of previous research are not entirely consistent. Rustandi & Herawaty. (2024) found that income smoothing had no effect on tax avoidance. These differences in results show that the role of income smoothing in the relationship between company size and tax avoidance is still conditional, depending on the characteristics of the company, industry sector, and accounting policies applied.

Thus, this study contributes by showing that income smoothing not only plays a role as an independent variable, but also as a moderation variable that strengthens the influence of company size on tax avoidance. This indicates that the combination of company characteristics and profit management practices is an important factor in explaining tax avoidance behavior.

CONCLUSION

This study aims to examine the influence of company size on tax avoidance with income smoothing as a moderation variable in companies listed on the Indonesia Stock Exchange. The results of the study show that the size of the company has a significant effect on tax avoidance, which indicates that the characteristics of the company are one of the factors that affect tax avoidance practices. In addition, income smoothing has been shown to moderate the relationship between company size and tax avoidance, suggesting that profit equalization practices can affect the strength of the relationship.

The findings of this study contribute to the development of the tax accounting literature by presenting empirical evidence on the role of income smoothing as a moderation variable in the relationship between company size and tax avoidance. Thus, this study expands the understanding of the factors that influence corporate tax avoidance behavior, especially in the context of companies in Indonesia.

This research has several limitations. First, the study only uses company size and income smoothing as research variables so that it does not include other factors that have the potential to affect tax avoidance. Second, the object of the research is limited to companies listed on the Indonesia Stock Exchange in a certain observation period so that the results of the research cannot be generalized to all types of companies or different periods. Based on these limitations, further research is recommended to add other variables that have the potential to affect tax avoidance, such as profitability, leverage, corporate governance, or capital intensity, so that the research model can provide better explanatory capabilities. In addition, subsequent research can expand the object and period of observation and use different tax avoidance and income smoothing proxies to obtain more comprehensive results and improve the generalization of research findings. The findings of this research are also expected to be a consideration for company management in formulating tax policies in accordance with applicable provisions and for regulators in formulating policies that can minimize tax avoidance practices.

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