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Analysis of the factors influence company income tax compliance with earning management as moderating variable

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Abstract
The purpose of this research is to find out whether Long Term Debt to Assets Ratio (LDAR), Debt to Equity (DER), Capital Intensity Ratio (CIR) and earning management as moderating variable have effect on corporate income tax. The population in this study are the manufacturing companies listed on the Indonesian Stock Exchange in 2016-2019 by using purposive sampling techniques and this is quantitative research. The results of research show that LDAR, DER, and CIR have significant effect on corporate income tax. Earning management as a moderating variable able to strengthen the relationship between LDAR, DER and CIR to corporate income tax. The contribution of this study are expected to provide additional deception for company management in making loan for optimal capital structure by considering the income tax perspective that must be paid, but not forgetting the ethical aspects and the risks elements in doing business.

Keywords: long term debt to asset ratio, debt to equity ratio, capital intensity ratio, earnings management, corporate income tax

Introduction

Taxes have a very important role in the life of the state, especially in the implementation of development because taxes are main source of state to finance all expenditures including development expenditures. Maximizing tax revenue is the goal of the government. However, this is contrary to the company's achievement as taxpayers, where they want maximum profit so that they can provide accountability to owners or shareholders and continue the survival of the company (Herawati & Ekawati, 2016; Pohan, 2019) [14, 23]. To get maximum profit, the company will try to minimize the costs incurred. The existence of a tax burden that burdens the company and its owners, so there are efforts to avoid paying taxes. However, because tax payment for the company is calculated as a burden that must be borne by the company and the main goal of the company is to maximize net income, the reduction in expenses will cause the company's net profit increase (Armstrong *et al*., 2019; Diamond & Mirrlees, 2018) [4, 10].

There are several common ways that companies take in order to minimize the legally permissible tax burden in accordance with applicable tax regulations. One way that can be used is to manage the leverage policy or the level of use of debt. Companies can work around this through financial techniques by utilizing the policy of using debt to fund their operational activities which is stated in the composition of the company's capital structure. The Directorate General of Taxes stated that many companies are manipulating debt to reduce the amount of their taxes. One of the methods used is to increase the debt so that the interest on the debt is large and the tax burden decreases. The use of debt by the company will cause interest costs that must be paid periodically to creditors or bond investors (Herawati & Ekawati, 2016; Pohan, 2019) [14, 23]. Tax regulations treat interest expenses as part of the cost of operations. Therefore, the greater the interest on the company's debt, the smaller the taxes income will be due to the increase in the business cost element. In addition to utilizing an interest policy on debt that can be used as a tax deduction. Another method that companies often take in order to get around a taxation regulation that feels less favorable to the company is to practice earnings management in order to manipulate profit figures which are used as the basis for imposition of taxable income (Aditama & Purwaningsih, 2016; Mangoting, 1999; Pohan, 2019) [1, 18, 23].

Moreover, funding of company comes from internal companies, namely equity, companies receive internal sources of capital in the form of share capital, reserves or profits, and retained earnings. This source of capital is limited in nature, making it difficult to use it for business expansion, therefore this internal capital is generally used to fund operational activities. When the company is unable to finance with internal funding, the company will try to obtain external funding to finance it so that it can be estimated that the company's debt will increase (Alamsyah, 2016; Asyiroh & Hartono, 2019) [3, 5]. Funding from external parties in the form of debt can make a company dependent on funds from these external parties. However funding with debt can actually improve the performance of a managers, so that managers will try to be even better in generating large profits that are used to fulfill the company's obligations in debt, namely paying interest (Herawati & Ekawati, 2016; Pohan, 2019) [14, 23]. The use of debt can be said to be optimal if the interest payments are not greater than the additional operating profit earned. The greater the amount of debt in the composition of the company's funding sources, the greater the company's interest expense. Therefore, most companies prefer financing with debt because interest

payments are a deduction allowed under tax regulations (Aditama & Purwaningsih, 2016; Mangoting, 1999; Pohan, 2019) [1, 18, 23].

Pervious research shows there are several ways that can be taken to minimize the tax paying burden, namely the capital structure or the level of debt utilization which is calculated from the ratio of long-term debt to total assets (LDAR) and the ratio of total debt to total equity owned by the company (DER) and the Capital Intensity Ratio (CIR). The first factor is the capital structure. Capital structure is the composition that a company has for debt and equity (Aditama & Purwaningsih, 2016) [1]. The capital structure describes permanent financing consisting of long-term debt and equity (equity), own capital (equity) includes internal funding while debt or creditors include external funding. The amount of funding composition from the two parties needs to be considered properly in fulfilling the company's business activities so that it can run optimally (Aditama & Purwaningsih, 2016; Mangoting, 1999; Pohan, 2019) [1, 18, 23].

There are several researchers who conducted research about the effect of capital structure on income tax such as by Herawati & Ekawati (2016) [14], Pohan, (2019) [23] and Rusydi (2013) [26]. From previous research, there are results from the inconsistent debt to equity ratio (DER) and long term debt asset ratio (LDAR) in influencing the income tax entities. Based on above explanation, this makes researchers interested in modifying research by testing and re-analyzing it in order to see if there some factors that affect the corporate income tax. Other difference in this research is that this research adds a moderating variable, namely earnings management (EM). Moderating variables are variables that can strengthen or weaken the direct relationship between the independent variable and the dependent variable (Martínez *et al*., 2017; Shackman, 2013) [19, 29]. Earnings management is an attempt to change, hide and manipulate the numbers in the financial statements by playing with the accounting methods and procedures used by the company. In disclosing company information, a manager can behave opportunistically.

Information that can provide benefits will of course be disclosed in detail by the manager, but if the information is not useful or information that can harm the company, the manager will manipulate the information by being hidden, postponed, or even modified (Clout & Willett, 2016; Khodaei Valahzaghard & Salehi, 2012) [8, 16].

By using earning management as moderating variables, it is expected that the results of the research will provide an overview that earnings management can affect the disclosure of corporate income tax to influence the amount of tax payable. Other research contribution is by examining the factors influence income tax can help companies when making decisions to provide optimal capital structure by considering the income tax perspective that must be paid but not forgetting the ethical and the risks elements in doing business.

Based on this background, the researcher found the research problem questions as follows:

1. Does the debt to equity ratio (DER) affect corporate income tax?
2. Does long debt to asset ratio (LDAR) affect corporate income tax?
3. Does the capital intensity ratio (CIR) affect corporate income tax?
4. Does the earning management can moderating the relationship of DER, LDAR and CIR to corporate income tax?

Literature Review

Tax has two important functions in the economy of a country. First, taxes are a source of government funds for development, both central and local governments. Both taxes function as tools that regulate government policies in the socio-economic field. Tax revenue has increased quite significantly both in nominal amount and in percentage of total state revenue. On the other hand, the percentage of taxpayers is still very small when compared to the total population in Indonesia. This shows that the awareness of the Indonesian people to pay taxes is still low. (CNN, 2018; Putri, 2019; Yenny, 1999) [9, 24, 32]. The various tax functions in the description below:

1. Budget Function (Budgetary). As a source of state revenue, taxes serve to finance state expenditures. To carry out routine state tasks and carry out development, the state needs money. This fee can be obtained from tax revenue. Nowadays, taxes are used for routine financing such as personnel expenses, goods purchases, maintenance, and so on. For development financing, money is issued from government savings, namely domestic revenue minus routine expenses. This government saving from year to year must be increased according to the increasing need for development financing and this is mainly expected from the tax sector.
2. Function Set (Regulated). The government can regulate economic growth through tax policies. With a regulating function, taxes can be used as a means to an end. For example, in order to drive investment, both domestically and abroad, various tax relief facilities are provided. In order to protect domestic production, the government sets high import duties for foreign products.
3. Stability function. With the existence of taxes, the government has the funds to carry out policies related to price stability so that inflation can be controlled. This can be done, among others, by regulating the circulation of money in the community, collecting taxes, using effective and efficient taxes.
4. Income Redistribution Function. Taxes that have been collected by the state will be used to finance all public interests, including to finance development so as to open up job opportunities, which in turn will increase people's income.

Tax Collection System

According to Herawati & Ekawati, (2016) [14] and Pohan, (2019) [23] the tax collection system is divided into three collection systems. The explanations for the three tax collection systems are:

1. Official Assessment. Prior to the renewal, tax collection was carried out using the official assessment system. Where this is a tax collection system that gives authority to tax collectors to determine the amount of tax to be paid (taxes owed) by someone.
2. Self-Assessment. From the official assessment system used since the Dutch colonial era, it is no longer suitable for the existence of tax reforms, so the tax collection system becomes a self-assessment system, which means to give trust

to the public, especially taxpayers, to calculate, calculate, pay / deposit, and report to the Service Office. Tax.
3. Withholding System. It is a tax collection system that authorizes third parties to cut / collect the amount of tax owed. The determined third party then deposits and reports it to the tax authorities. Thus, the system that has been in effect since the tax reformation is a self-assessment system and a withholding system.

Corporate Income Tax

Entity is a group of people and capital which is an entity either doing business or not doing business. Entities can be in the form of Limited Liability Companies (PT), Limited Liability Companies (CV), others companies, State-Owned Enterprises (BUMN) or Regional-Owned Enterprises (BUMD) with any name and in any form, firms, partnerships, cooperatives, pension funds, associations, associations, foundations, mass organizations, socio-political organizations, or similar organizations, institutions, permanent establishments, and other forms of bodies (Herawati & Ekawati, 2016; Pohan, 2019) [14, 23]. The object of Income Tax is income, which is any additional economic capability received or obtained by a Taxpayer, whether originating from Indonesia or outside Indonesia, which can be used for consumption or to increase the wealth of the Taxpayer concerned, under whatever name and form. Corporate Income Tax is a tax that is imposed on the income of a company in which the income in question is any increase in economic capacity received or obtained by a Corporate Taxpayer, both from within and outside the country, for any purpose including for example increasing wealth, consumption, investment (Aditama & Purwaningsih, 2016; Yenny, 1999) [1, 32].

Income tax is included in the category as subjective tax, meaning that tax is imposed because there are subjects, namely those who have met the criteria stipulated in the tax regulations. If there is no tax subject, it is clear that income tax cannot be imposed. Income tax is a tax imposed on income, which can be imposed periodically and repeatedly within a certain period of time, either the tax period or the tax year. Meanwhile, according to the official income tax is a tax imposed on a tax subject on income received or earned in a tax year. So, it can be concluded that Income Tax is a tax imposed on a tax subject on received income that can be imposed periodically and repeatedly within a certain period of time in a tax year (Herawati & Ekawati, 2016; Pohan, 2019) [14, 23]. And the above definition has changed after the issuance of Law No. 36 of 2008 which reads: Income tax is a tax imposed on individuals and entities, with respect to income received or earned during a tax year. In article 2 paragraph 1 of Law No.36 of 2008 (Pohan, 2019; Suyanto & Supramono, 2012) [23, 30].

Capital Structure

Capital structure is a balance or comparison of long-term debt with own capital. The capital structure is a reflection of the company's policy in determining the type of securities issued, because the problem of capital structure is closely related to the problem of capitalization, where it is composed of the types of funds that form the capitalization of the capital structure (Keasey *et al*., 2015; Pindado *et al*., 2006) [15, 22]. Capital structure decisions relating to the selection of sources of funds, both from within and from outside, greatly affect the value of the company. Internal sources of company funds come from retained earnings and depreciation. Funds obtained from external sources are funds that come from creditors and company owners. Fulfilling the need for funds originating from creditors is a debt for the company. Funds obtained from owners constitute their own capital (Cai & Zhang, 2006; Faulkender & Smith, 2016) [6, 11].

The capital structure policy involves a tradeoff between risk and rate of return. Additional debt will increase the risk of the company but also increase the expected rate of return. The risk that is higher due to enlarged debt tends to lower the stock price, but increasing the rate of return that is expected to increase the share price (Keasey *et al*., 2015; Pindado *et al*., 2006) [15, 22]. The optimal capital structure is a capital structure that optimizes the balance between risk and return so as to maximize share prices. The company's capital structure illustrates the comparison between long-term debt and equity used by the company. There are two types of capital, namely debt capital and equity capital. But in relation to the capital structure, only long-term debt is considered the type of debt capital. Basically, the use of debt can be said to be optimal if the interest payments are not greater than the additional operating profit earned (Alamsyah, 2016; Cai & Zhang, 2006) [3, 6]. The greater the amount of debt in the composition of the company's funding sources, the greater the company's interest expense. Most companies prefer financing with debt because interest payments are a deduction allowed under tax regulations. Debt Ratio is the ratio used to measure how much a company relies on debt to finance its assets. This debt ratio can show the proportion of a company's debt to total assets it owns. Investors can use the Debt Ratio or Debt Ratio to find out how much debt the company has compared to its assets. Creditors can also measure how high the risk given to a company (Keasey *et al*., 2015; Pindado *et al*., 2006) [15, 22].

The definition of debt to assets ratio is a ratio that measures how much the company's assets can bear the debt owned by the corporation. If the result of the debt to asset ratio is high, the higher the risk of the company in paying off its obligations (Alamsyah, 2016; Cai & Zhang, 2006) [3, 6]. Long Term Debt to Asset Ratio is the ratio of long-term debt to assets, namely that company funding to buy assets uses long-term debt and this ratio is obtained by comparing the amount of long-term debt with total assets with the formula:

$$\text{LDAR} = \text{Long term Debt} / \text{Asset}$$

Debt to equity ratio is a measure of the ratio between the company's total debt and the company's equity. Debt to equity ratio shows how much the company's debt level to its capital. The greater the debt to equity ratio, it means that the company's financial resources will be financed by the lender, not by its own financial sources. Of course this is a bad sign for company finances (Keasey *et al*., 2015; Pindado *et al*., 2006) [15, 22]. The debt to equity ratio calculation formula is the ratio of debt to equity which is defined as the proportion of total debt with equity. This ratio is obtained by comparing total debt with equity.

$$\text{DER} = \text{Debt} / \text{Equity}$$

Capital Intensity ratio (CIR) which can be used to get around the amount of taxes paid by the company. CIR shows the size of the company's investment in its fixed assets. The company bears the depreciation expense for its property, plant and equipment.

Therefore, the assets or fixed assets owned by the company increase, making depreciation expenses also increase, this causes the resulting profit to also decrease. The company reducing the tax it pays is a possible cause of one of the company's fixed assets (Keasey *et al*., 2015; Pindado *et al*., 2006) [15, 22]. The variable capital intensity is proxy by the intensity ratio of fixed assets. The intensity of fixed assets is the proportion of the company's fixed assets in the total assets owned by the company.

$$\text{CIR} = \text{Total Fixed Assets} / \text{Total Assets} \times 100\%$$

Earnings Management

Earnings management can be viewed through two perspectives, namely the contractual perspective and the financial reporting perspective. From a contractual perspective, earnings management can be used as the easiest way to protect the company against the consequences of unseen events when contracts are very rigid and incomplete (Herawati & Ekawati, 2016) [14]. Whereas through the perspective of financial reporting, managers can influence the value of the stock market by doing earnings management. Earnings management can provide information to the market and allow companies to communicate expected profits continuously. Earnings management is a discretionary accrual that is deliberately done by management. The basic concept of discretionary accruals is the result of decomposition of total accruals into discretionary accruals and nondiscretionary accruals (Agustia, 2013; Wiryadi & Sebrina, 2013) [2, 31]. The Friedlan (1994) model approach used by the author in this research explains that discretionary accruals are the difference between the total accruals during the feasibility trial period of the method according to the provisions along with sales during the method feasibility trial period, while the base period of the total accruals is adjusted based on the provisions along with sales in the base period. In calculating the amount of accruals using the following formula:

$$TA = NOI - CFO$$

Information:
- TA = Total Accruals
- NOI = Net Operating Income
- CFO = Cash Flow Operating Activities

Then the discretionary accruals value will be measured using the equation:

$$DACpt = \left(\frac{TApt}{SALEpt}\right) - \left(\frac{TApd}{SALEpd}\right)$$

Information:
- DACpt = discretionary accrual test period
- TApt = total accruals for the test period
- SALEpt = sales of the test period
- TApd = total base period accruals
- SALEpd = base period sales

There are two types of discretionary accruals when detection of earnings management is carried out, namely negative and positive discretionary accruals. Positive discretionary accruals are management engineering by means of income increasing, and vice versa, the way management with income decreasing shows negative. The manager's motivation will adjust the discretionary (Lusi & Swastika, 2013; Satiman, 2019) [17, 28].

Hypothesis Development

LDAR is the ratio of long-term debt to total assets owned by the company. Sources of funds obtained by companies in obtaining fixed assets can come from investors and creditors. If the company uses a source of debt funds, then there is an obligation for the company to pay interest costs periodically to creditors. Interest on large debts will cause the company's net profit to decrease. Article 4 paragraph (1) letter f of Law Number 36 of 2008 explains that taxable income can be reduced by the interest costs used. Research by Alamsyah (2016) [3] shows that LDAR has an influence on corporate income tax. Meanwhile, the conclusions research from Aditama & Purwaningsih, (2016) [1] show that LDAR has no effect on corporate income tax. Based on these arguments the hypothesis formulated is as follows:

H_1: Long term Debt to Asset Ratio (LDAR) has significant effect on corporate income tax.

DER is the ratio between the total amount of debt owned by the company and the amount of company equity. In the Income Tax in Indonesia, the application of loan interest costs is differentiated from dividend income, based on the regulation of article 4 paragraph (1) letter f of Law Number 36 of 2008, loan interest can be minimized to a fee according to applicable regulations, while dividend expenditure cannot be minimized as an expense according to article 9 paragraph (1) letter a Law number 17 of 2000. The effect of DER on corporate income tax, which indicates that the DER result does not affect the corporate income tax, which means that the higher the DER, the lower the amount of corporate income tax Aditama & Purwaningsih (2016) [1]. However, it is different from research Mangoting (1999) [18] and Pohan (2019) [23] that the results of DER affect the corporate income tax. Therefore the hypothesis formulated is as follows:

H_2: Debt to Equity Ratio (DER) has significant effect on corporate income tax.

Capital intensity or the ratio of capital intensity is a company's investment activity associated with investment in fixed assets and inventories. Capital intensity ratio can show the efficiency of using assets to generate sales. Capital intensity can also be defined by how companies make sacrifices to spend funds for operating activities and funding assets in order to obtain company profits. In this research, intensity capital is proxy using the intensity ratio of fixed assets. The intensity of fixed assets is the proportion of the company's fixed assets in the total assets owned by the company Herawati & Ekawati (2016) [14], Pohan, (2019) [23] and Rusydi (2013) [26]. Nearly all fixed assets will be depreciated and depreciation expense can affect the amount of tax the company pays. The more fixed assets the company owns, the lower the taxes paid, and vice versa. Previous research was conducted by Herawati & Ekawati (2016) [14], Pohan, (2019) [23] and Rusydi (2013) [26] which showed that capital intensity had an effect on tax avoidance. Meanwhile research by Herawati & Ekawati (2016) [14] shows that capital intensity has no effect on tax aggressiveness capital intensity has no effect on effective tax rate. Based on the description above, the hypotheses proposed in this research are:

H_3: Capital Intensity Ratio (CIR) has significant effect on corporate income tax.

Moderating variables are variables that can strengthen or weaken the direct relationship between the independent variable and the dependent variable (Hair *et al*., 2020; Martínez *et al*., 2017; Shackman, 2013) [12, 19, 29]. For this research earning management is positioned as moderating variable. Earnings management is defined as an attempt by a company manager to intervene or influence the information in the financial statements in order to deceive stakeholders who want to know the company's performance and condition. The term intervention is used as the basis for some parties to judge earnings management as fraud. Meanwhile, other parties still regard this managerial engineering activity as not cheating. The reason is that the intervention was carried out by company managers within the framework of accounting standards, namely still using accounting methods and procedures that were generally accepted and recognized. In this case, when management wants to reduce the cost of taxes paid, earnings management can be carried out so that the profit shown in the company's financial statements is lower. Tax savings can be achieved by varying the accounting method used. This hypothesis is supported by research by Herawati & Ekawati (2016) [14], Pohan, (2019) [23] and Rusydi (2013) [26] which provides a conclusion that tax motivation is proven to have an effect on earnings management. The hypotheses proposed for moderating variable in this research are:

H4: Earning management moderating the effect of LDAR to corporate income tax.

H5: Earning management moderating the effect of DER to corporate income tax.

H6: Earning management moderating the effect of CIR to corporate income tax.

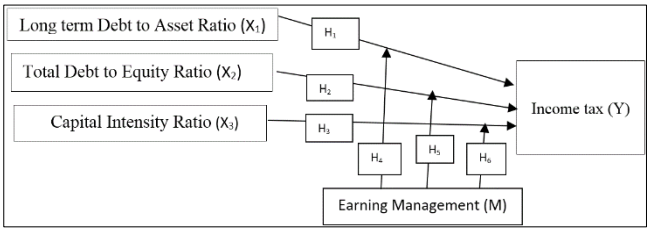

Fig 1: Research Framework Direct and Indirect Specific Effect

Research Finding

Researchers chose the population in the form of manufacturing companies listed on the Indonesia Stock Exchange during the period 2016 to 2019. The choice of manufacturing companies is because most of manufacturing companies have sum of big amount of fixed assets and also tend to have higher debt and equity compared to companies in other sectors. This is considered in accordance with the characteristics of this study which will examine aspects of income tax and company debt. The sample selection procedure in this study used purposive sampling method.

Table 1: List of Observation

No.	Description	Number of Company
1	Manufacturing companies listed on the IDX during 2016-2019	150
2	Companies that did not profits during year 2016- 2019	(51)
3	Report data is incomplete during 2016- 2019	(60)
4	Financial statements does not use the rupiah currency	(10)
5	Total sample	28
6	Year of observation	4
7	Number of observation (28 x 4 years)	112

Source: IDX (2020)

The following are the results of the PLS Algorithm processing in the research model as follows:

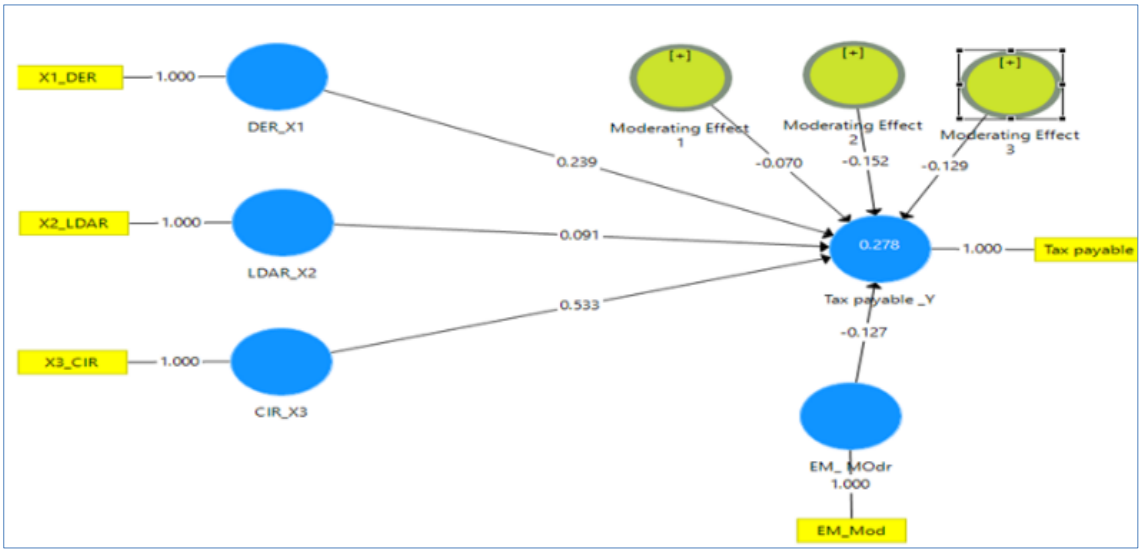

Fig 2: PLS Model Algorithm Processing

The PLS Algorithm calculation results show that the value of R Square is 0.712 shows a structural model that describes the effect of earning management on income tax as a whole is in the high category to explain the effect of the moderating variable (Hair *et al*., 2014; Shackman, 2013) [12, 29].

Table 2: R Square

Variable	R Square	R Square Adjusted
Earning Management	0,712	0,704

Structural Model-Fit evaluation is carried out to determine the relevance of predicting structural models which can be used to test the effect of the moderating variable on the dependent variable and the independent variable. The measure that can be used is the predictive relevance SRMR value, because the two calculation results shows 0,011 two numbers less than 0,1 then the two structural variables have predictive relevance (Hair *et al*., 2014; Shackman, 2013) [12, 29].

Table 3: Structural Model-Fit

Description	Saturated Model	Estimated Model
Standardized Root Mean Square Residual (SRMR)	0,011	0,015
Chi-Square	132,42	130,01

Path Coefficients in the table below contain the path coefficient values (the numbers are located in the original sample column). All path coefficients in this study are positive as based on the Path Coefficients table, the researcher can test for each path with the results listed in the table below. A negative sign and p value less than 0.05 indicates that the independent variable has a negative effect on the dependent variable.

Table 4: Hypothesis Result Path Coefficient Values

	Influence Between Pathways	Beta (Original Sample)	Sample Mean	T-Statistic	P-value	Meaning
H_1	LDAR has significant effect on corporate income tax.	-0,301	-0,094	5,424	0,043	LDAR has significant negative effect on corporate income tax.
H_2	DER has significant effect on corporate income tax.	-0,270	-0,165	3,631	0,037	DER has negative significant effect on corporate income tax.
H_3	CIR has significant effect on corporate income tax.	-0,408	-0,217	3,827	0,022	CIR has negative significant effect on corporate income tax.

Significant P-value (Sig.) At α = 5%

For H_1, LDAR has a negative significant effect on corporate income tax. For H_1 the results of the calculation show that the interaction path coefficient between LDAR and income tax value is negative at -0.301 with the t value of 5.424 and the P value is 0.043 lesser than the significance used at α 0.05, indicating that there The LDAR variable has a negative constant value of -0,301 which means that if the other independent variables have a fixed value and the LDAR variable has an decrease of one unit, the corporate income tax will also decrease. LDAR is defined as the provision of company funds when purchasing assets using long-term debt. The higher the Long Term Debt to Assets Ratio (LDAR) ratio, the greater the debt used by the company as capital to finance all assets it has for the company's operational activities. The effect of high loans was company obliged to pay interest, this interest will included on company expense which will reduce corporate tax. Result for H_2 the DER variable has a negative constant value of -0.270, which means that if the other independent variables have a fixed value and the DER variable increases by one unit, the income tax will decrease by -0.270 and the P value is 0.037 lesser than the significance used at α 0.05 the explanation are because of the large amount of debt, company also has an obligation to pay interest. Interest expense increasing operating costs, causing profit get lesser and the income tax debt will get lesser. The research results concluded that a high DER are considered normal by some investors. Companies that are developing must require a lot of funds for their operational needs which may not be fulfilled if only using their own capital. The results in this study are in line with research conducted by Alamsyah (2016) [3] and Cai & Zhang (2006) [6] which states that high DER has negative effect on corporate income tax.

CIR is an investment activity carried out by companies associated with investment in the form of fixed assets (capital intensity). Capital intensity ratio can show the level of efficiency of a company in using its assets to generate sales. Capital intensity shows the amount of capital needed to earn income. For H_3, capital Intensity Ratio (CIR) has negative significant effect on corporate income tax. So, based on the statement put forward by Miller, the interest expense that can be deducted in the calculation of taxation provides an advantage in using debt financing, therefore income tax will lesser. For H_3 the results of the calculation show that the interaction path coefficient between CIR and income tax value is negative at -0.408 with the t value of 3.827 and the P value is 0.022 higher than the significance used at α 0.05, indicating that CIR has negative significant value to income tax this result consistent with research by Pohan (2019) [23] and Rusydi (2013) [26].

Table 5: Hypothesis Result Specific Indirect Effect

	Hypothesis	Beta (Original Sample)	Sample Mean	T- Statistic	P-value	Meaning
H_4	Earning management moderating the effect of LDAR to corporate income tax.	-0,091	-0,281	6,024	0,000	Hypothesis is supported and indicates that earning management moderates the effect of LDAR to corporate income tax.
H_5	Earning management moderating the effect of DER to corporate income tax.	-0,405	-0,145	4,201	0,018	Hypothesis is supported and indicates that earning management moderates the effect of DER to corporate income tax.
H_6	Earning management moderating the effect of CIR to corporate income tax.	-0,307	-0,201	3,620	0,002	Hypothesis is supported and indicates that earning management moderates the effect of CIR to corporate income tax.

Significant P-value (Sig.) at $\alpha = 5\%$

Moderating variables are variables that can strengthen or weaken the direct relationship between the independent variable and the dependent variable (Chin, Wynne, 1999; Hair *et al*., 2020; Sarstedt *et al*., 2014) [7, 13, 27]. The calculation results show that the P-value H_5 is 0,000 and H_6 is 0,018 smaller than the significance level used at α 0.05, indicating that earning management can moderate the relationship between LDAR and DER to income tax, for H_5 and H_6 are proven. In this research concluded when management wants to reduce the cost of taxes paid, or what is called tax savings, earnings management can be carried out so that the profits displayed in the company's financial statements are lower. Tax savings can be achieved by varying the accounting method used. This result is supported by the research of Chandra Yuliana (2011) and Paul & Rakshit, (2020) [20] which provides a conclusion that tax motivation is proven to have an effect on earnings management.

For H_6 this study also uses CIR is indicated by the ratio between equipment, machinery and various assets to total assets as a whole show P value is 0.002 higher than the significance used at α 0.05. CIR is indicated by the ratio between equipment, machinery and various assets to total assets as a whole. In line with previous research, Earnings management as moderating variable can influence cooperate income tax so that the profit shown in the company's financial statements is lower, because tax regulations that provide different treatment can encourage management to enlarge the company's capital structure by using debt. The explanation is interest paid by the company can be a deductible expense in accordance with tax regulations, but the distribution of profits to stockholders or what is known as dividends is not included in expenses that can be deducted in tax regulations (Aditama & Purwaningsih, 2016; Mangoting, 1999; Pohan, 2019) [1, 18, 23].

Conclusion, limitation and suggestions

The conclusions that can be drawn by researchers are: first, the results of this study indicate that as many as 70% of variations in income tax manufacturing companies listed on the Indonesia Stock Exchange (IDX) are influenced by variables LDAR, DER, CIR. Second, Earnings management in this study as a moderating variable, is able to strengthen the relationship between LDAR, DER and CIR on the income tax of manufacturing companies.

Some limitations of this study is researcher in this study uses three financial ratio such as LDAR, DER, and CIR. To measure of earnings management practices, this research only using one proxy, others limitation was the study only focused on manufacturing listed companies in Indonesia, as an emerging capital market. Therefore, the findings reported in this research might not be generalizable to other firms in other countries with different economic and business settings.

Based on the limitations resulting of this study, some of the suggestions addressed to further research that, for future studies are expected: First, use other financial ratio such as GPM (Gross Profit Margin), OPM(Operating Profit Margin), NPM (Net Profit Margin), ROA (Return to Total Asset), ROE (Return On Equity). Second, to measure of earnings management practices, this research only using one proxy, future research can add proxies or other methods so that EM practices become more accurate, for example using Earnings Response Coefficient (ERC), Income Smoothing. Third, researcher can develop a particular model for each industry, maybe with different industry characteristics future research will have different result.

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