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Tax avoidance determinants and earnings management in Indonesian consumer companies

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Abstract

This research investigates tax avoidance practices and earnings management among Indonesian consumer companies. The study examines the influence of thin capitalization, transfer pricing, and company life cycle on tax avoidance behaviors and their subsequent impact on earnings management. A total of 115 observations were obtained from 23 companies that were listed on the Indonesia Stock Exchange over a 5-year period (2018-2022) using purposive sampling. Panel data regression analysis revealed that thin capitalization negatively affects tax avoidance, while transfer pricing and company life cycle show no significant impact. Transfer pricing and company life cycle positively influence earnings management, while tax avoidance demonstrates a significant negative effect. These findings contribute to understanding corporate tax behavior and financial reporting quality in Indonesia's consumer sector and provide insights for regulators and investors.

Introduction

Tax avoidance in Indonesia's consumer sector remains a significant concern for regulators, with studies showing increasing sophistication in tax planning strategies among listed companies (Murkana & Putra, 2020). The consumer goods sector faces particular scrutiny due to its significant contribution to corporate tax revenue and complex operational structures that enable various tax optimization approaches (Tjhoa, 2020). Research indicates that practices like thin capitalization and strategic financial structuring have become more prevalent, raising concerns about fiscal sustainability and market competition as companies develop increasingly sophisticated approaches to minimize their tax obligations (Fabby, 2025). These practices continue to challenge regulators' efforts to ensure fair tax compliance while maintaining sector competitiveness.

The choice of companies to rely on debt financing rather than equity financing is known as thin capitalization (Pohan, 2019). This practice is characterized by a high debt-to-equity ratio, where a larger proportion of debt in a company results in higher interest expenses that can be deducted from taxable income (Hongler, 2021). Transfer Pricing refers to a company transferring its tax obligations to a company located in another country that has a lower tax rate by reducing the selling price (Hamidah et al., 2023).

The concept of a company's life cycle refers to the various stages a company goes through from its founding to its decline or exit from the market (Pohan, 2019). The company's life cycle generally consists of the introduction, growth, maturity, and decline stages. Each stage has different cash flow and financial performance characteristics, which affect the company's profit management and tax optimization strategies. Earnings management, defined as the application of various accounting techniques to present financial statements more positively (Shawver, 2021), allows companies to adjust their tax practices according to these life cycle stages. This includes controlling transfer pricing and thin capitalization in accordance with their strategic objectives (Kieso et al., 2016). Companies in the growth stage may focus more on expansion and profit growth, while mature companies tend to prioritize managing tax liabilities.

Studies on tax avoidance in the Indonesian consumer sector highlight methodological and theoretical inconsistencies that need further exploration. Findings on thin capitalization are still inconclusive; for example, Gouwvara and Susanty (2023) report a positive relationship with tax avoidance based on regression analysis, while Sianipar et al. (2020), using panel data techniques, find no significant relationship. Similarly, the impact of transfer pricing shows mixed results, with only a few studies—such as Rahman and Utami (2021)—considering the moderating role of firm life cycle in shaping this relationship.

Based on these research gaps, this study aims to address the following research questions: 1) Does thin capitalization have an effect on tax avoidance? 2) Does transfer pricing have an effect on tax avoidance? 3) Does the company's life cycle have an effect on tax avoidance? 4) Does thin capitalization have an effect on earnings management? 5) Does transfer pricing have an effect on earnings management? 6) Does the company's life cycle have an effect on earnings management? 7) Does tax avoidance have an effect on earnings management? Given these research gaps and the economic significance of the consumer sector, there is a clear need for a comprehensive study that examines the interrelationships between these key variables. Such research would not only address the conflicting findings in existing literature but also provide valuable insights for policymakers and regulators.

This research addresses these gaps by examining how thin capitalization, transfer pricing, and company life cycle collectively influence tax avoidance and earnings management practices. By focusing on consumer sector companies listed on the Indonesia Stock Exchange, this study provides insights into the mechanisms and implications of tax avoidance strategies in a crucial economic sector. Previous research shows mixed findings regarding these relationships. Studies by Gouwvara and Susanty (2023), Kurniawati and Mukti (2023), and Kasibi et al. (2023) demonstrate that thin capitalization affects tax avoidance, while others find no significant effect. Similarly, research on transfer pricing and company life cycle shows conflicting results, highlighting the need for further investigation.

Indonesia's economic growth in 2022 reached 5.31%, with the consumer sector showing stable growth of 5.7% year to date. The Primary Consumer Sector Industry, comprising retail trade, food and beverage, cigarette, and non-durable household products subsectors, plays a crucial role in the economy through its production and distribution of anti-cyclical goods.

Literature Review

The Influence of Thin Capitalization on Tax Avoidance

Thin capitalization refers to a corporate financing strategy where a company is funded primarily through debt rather than equity, creating a high leverage situation that impacts tax obligations. This high leverage can have an impact on tax payments. Thin capitalization has become a major tax avoidance strategy according to Mahardika and Irawan (2022) because interest payments on loans are deductible, allowing businesses to lower their taxable income Their research demonstrates that companies with high debt-to-equity ratios (DER) exhibited greater tendencies

toward tax avoidance, with implementation of thin capitalization rules leading to a 9.4% reduction in tax avoidance practices. However, Tarmizi et al. (2023) provide conflicting results showing that thin capitalization significantly has positive effect on tax avoidance, suggesting that despite regulatory measures, companies continue utilizing debt structures for tax planning purposes. These conflicting results highlight the complex relationship between capital structure decisions and tax avoidance behaviors, leading to the hypothesis:

H_1: Thin capitalization has an effect on tax avoidance

The Influence of Transfer Pricing on Tax Avoidance

Transfer pricing refers to price setting between related parties in cross-border transactions, which can be manipulated to shift profits between jurisdictions with different tax rates. According to Azhari et al. (2021), companies justify transfer pricing as a mechanism for transferring assets and services within corporate groups, though it's often perceived negatively as a means of shifting taxable income to lower-tax jurisdictions. Sari et al. (2020) demonstrate that in Asian developing countries, transfer pricing practices occur primarily through purchase transactions and management service fees rather than sales transactions, contrary to findings from developed economies. Their research shows that countries with high tax rates and weak enforcement provide greater opportunities for transfer pricing manipulation. However, Irawan et al. (2020) present contrasting evidence showing that transfer pricing has a significant negative effect on tax avoidance among Indonesian listed companies, suggesting that companies may utilize transfer pricing for purposes other than tax minimization, such as improving reported financial performance. This inconsistency in findings highlights the complex relationship between transfer pricing and tax avoidance in developing economies, leading to the hypothesis:

H_2: Transfer Pricing has an effect on tax avoidance

The Influence of Company's Life Cycle on Tax Avoidance

The relationship between a company's life cycle and tax avoidance behavior reflects complex strategic decisions influenced by resource constraints and reputational concerns. According to Sari et al. (2018), companies in early lifecycle stages tend toward aggressive tax avoidance due to limited resources and greater capital needs, while mature companies adopt more conservative strategies to protect their reputation. Zhang et al. (2022) support this view, demonstrating that prospector-type firms, typically in growth stages, exhibit more aggressive tax avoidance compared to defender firms in mature stages. However, Wen et al. (2020) present contrasting evidence showing that companies with stronger governance mechanisms tend to constrain tax avoidance regardless of lifecycle stage, particularly in regions with stricter tax enforcement. This suggests that reputational concerns may outweigh lifecycle-driven tax planning incentives. These conflicting findings highlight the need to consider both lifecycle characteristics and governance quality when examining tax avoidance behaviors, leading to the hypothesis:

H_3: Company's Life Cycle has an effect on tax avoidance

The Influence of Thin Capitalization on Earnings Management

Thin capitalization occurs when a company is financed with a significantly higher level of debt compared to equity. Mahardika and Irawan (2022) found that thin capitalization rules significantly decreased tax avoidance practices in Indonesian companies, with high debt-to-equity ratio firms showing a nine times greater reduction compared to low debt-to-equity ratio firms. This aligns with earnings management theory, where companies deliberately structure transactions to achieve desired accounting outcomes. Irawan and Novitasari (2021) revealed that thin capitalization has differing effects across sectors - positively influencing tax avoidance in manufacturing companies but showing negative effects in retail companies. As defined by Lim and Siregar (2021), earnings

management involves intentional manipulation when preparing accounting data reports to influence decision-making. Previous studies have shown mixed results regarding this relationship, with some finding strong positive associations while others show weak or negative correlations. These inconsistencies may stem from differences in regulatory environments, industry sectors, and measurement approaches across studies.

H_4: Thin capitalization has an effect on earnings management

The Influence of Transfer Pricing on Earnings Management

Transfer pricing serves dual purposes in multinational corporations - as a performance evaluation tool and as a tax management mechanism. According to Mooij & Liu (2020), transfer pricing regulations significantly impact real investment decisions, with their research finding that multinational affiliates reduce investments by over 11% following stricter transfer pricing rules. This suggests that transfer pricing policies materially affect corporate behavior beyond just tax considerations. Kumar et al. (2021) revealed through bibliometric analysis that transfer pricing has evolved from primarily focusing on performance measurement to being strategically employed for earnings management and tax optimization. Their research shows an increasing trend of studies examining how transfer pricing enables profit shifting to low-tax jurisdictions, though with mixed empirical evidence on its effectiveness. Some studies demonstrate significant tax savings through transfer pricing manipulations, while others find limited benefits once compliance costs and regulatory risks are considered. This complex relationship between transfer pricing and earnings management is further complicated by varying regulatory environments across countries and the challenges of establishing arm's length prices for unique intra-firm transactions.

H_5: Transfer pricing has an effect on earnings management.

The Influence of Company's Life Cycle on Earnings Management

The corporate life cycle stage significantly influences a firm's earnings management practices, but this relationship is more nuanced than a simple linear correlation. According to Wang et al. (2020), firms in introduction, growth, and decline stages face greater financial constraints and limited access to external financing, which increases their propensity to manage earnings. Their research found that firms in these stages show more pronounced negative associations between working capital management and financial performance. In contrast, Kliestik et al. (2021) reveal that mature firms demonstrate more conservative earnings management practices, as they have sufficient internal funds and established market positions. Their study of V4 countries showed that mature firms had insignificant earnings manipulation compared to firms in other life cycle stages. However, both studies note important limitations - the relationship between life cycle and earnings management can be influenced by country-specific factors like regulatory environments and economic conditions that may confound the direct effects of life cycle stages.

H_6: Company's Life Cycle has an effect on earnings Management

The Influence of Tax Avoidance on Earnings Management

The relationship between tax avoidance and earnings management reflects a complex interplay between firms' tax planning and financial reporting strategies. According to Marfiana & Putra (2021), earnings management has a significant positive effect on tax avoidance, as firms engaging in earnings management often utilize tax planning opportunities to reduce their effective tax rates. Their analysis of Indonesian manufacturing firms found that companies employ both strategies complementarily using earnings management techniques while simultaneously exploiting tax regulation loopholes. However, Arman and Mira (2021) present contrasting evidence, finding that aggressive earnings manipulation through opacity actually reduces tax

avoidance behaviors. Their study suggests that this occurs because once earnings are sufficiently obscured through management practices, firms have less need to pursue additional tax reduction strategies. These conflicting findings highlight how the relationship between these practices varies based on firms' specific circumstances and reporting objectives.

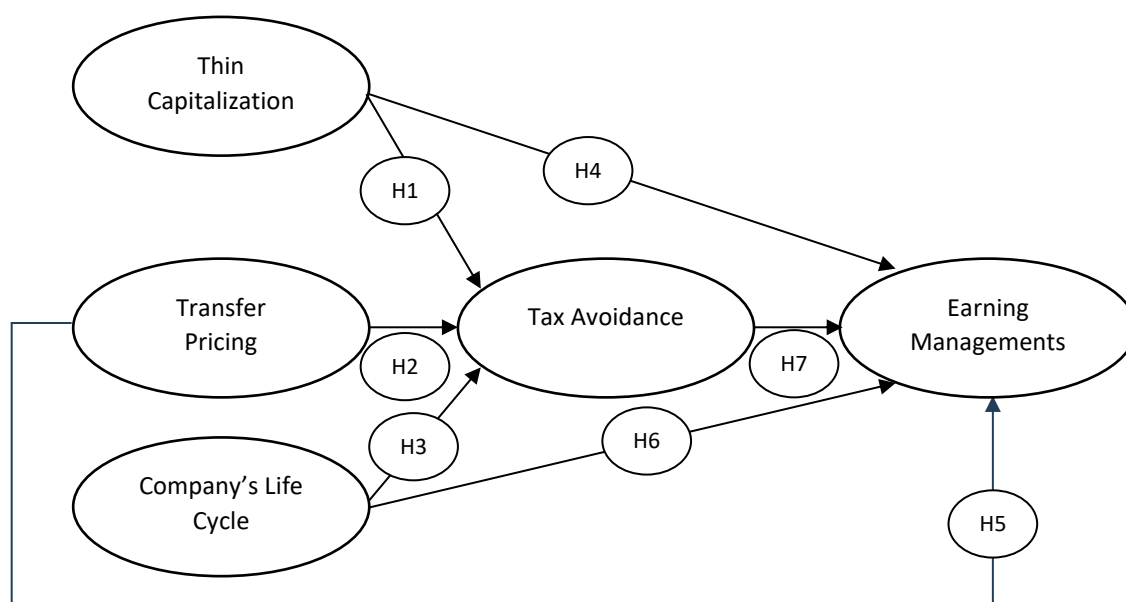H_7: Tax avoidance has an effect on earnings management.

Figure 1. Reasearch Framework

Research Method

This study employs quantitative research methods to examine causal relationships between variables through statistical procedures. The selection of independent variables is theoretically grounded and addresses key research gaps in Indonesia's consumer sector tax avoidance research. Thin capitalization represents a significant tax avoidance mechanism through debt financing (Pohan, 2019), Gouwvara and Susanty (2023) finding positive correlations with tax avoidance, while Mahardika and Irawan (2022) found significant decreases following regulation implementation. Transfer pricing captures strategic tax shifting between related parties (Hamidah et al., 2023), with Sari et al. (2020) showing its prevalence in Asian developing countries through purchase transactions and management fees. Company life cycle reflects organizational maturity's influence on tax planning, Sari et al. (2018) demonstrate early-stage companies tend toward aggressive tax avoidance while mature companies adopt conservative strategies.

This study follows Sekaran (2017)'s four causality conditions: covariance between variables, temporal precedence, control for alternative explanations, and theoretical foundation. The population comprises primary consumer sector companies listed on the Indonesia Stock Exchange (2018-2022), selected for its stable 5.7% growth and significant tax revenue contribution (Tjhoa, 2020). Using purposive sampling (Sekaran, 2019), 23 companies were selected (115 observations) meeting criteria: IPO before 2018, complete financial reports (2018-2022), consistent profitability, Rupiah reporting, and related-party transactions.

Data collection uses annual reports from www.idx.co.id and company websites. Analysis employs panel data regression through Eviews 10, combining time-series and cross-sectional analyses (Ghozali, 2018) with common effect, fixed effect, and random effect approaches. This methodology enables comprehensive examination of company behavior while controlling for temporal and cross-sectional variations.

Table 1. Operationalization of Variables

Variabel	Indicatior / Item	Major References
Thin Capitalization (X1)	$DER = \dfrac{Total\ Debt}{Total\ Equity}$	Anggraini & Nyale (2022)
Transfer Pricing (X2)	$TP = \dfrac{Receivables\ from\ related\ parties}{Total\ receivables}$	Hendi & Julianti (2021)
Company Life Cycle (X3)	$Sales\ growth = \dfrac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$	Lestari et al. (2020)
Tax Avoidance (Y)	$CETR = \dfrac{Tax\ Payment}{Profit\ before\ Tax}$	Roslita & Safitri (2022)
Earnings Management (Z)	$\Delta E = \dfrac{E_{it} - E_{it-1}}{MVE_{t-1}}$	Zai, Masyitah (2023)

Results and Discussion

Statistical Result

Descriptive analysis

Table 2 is a descriptive statistical test results.

Table 2. Results of Descriptive Statistical Tests

	Thin Capitalization	Transfer Pricing	Company Life Cycle	Tax Avoidance	Profit Management
Mean	1.095508	0.312399	0.085845	0.267732	0.010275
Median	0.920706	0.102531	0.082273	0.226493	0.004418
Maximum	3.589238	0.997117	0.504026	2.295040	0.213654
Minimum	0.108542	0.000462	-0.465160	-0.383071	-0.059611
Std. Dev.	0.863655	0.328910	0.143470	0.241943	0.034465
Skewness	1.162563	0.567191	0.027892	5.271567	2.540704
Kurtosis	3.627341	1.788599	4.906341	44.74538	14.67050
Jarque-Bera	27.79054	13.19776	17.42847	8882.959	776.3523
Probability	0.000001	0.001362	0.000164	0.000000	0.000000
Sum	125.9834	35.92588	9.872202	30.78920	1.181662
Sum Sq. Dev.	85.03263	12.33273	2.346541	6.673147	0.135414
Observations	115	115	115	115	115

Resources: Output Eviews 10

Based on the Table 2, it is known that thin capitalization (X1) has a minimum value of 0.108542 and a maximum value of thin capitalization of 3.589238 the average value of thin capitalization is 1.095508 with a standard deviation of 0.863655. Transfer Pricing (X2) has a minimum value of -0.465160 and a maximum value of 0.504026, the average value of transfer pricing is 0.312399 with a standard deviation of 0.328910. Company Life Cycle has a minimum value of -0.465160 and a maximum value of 0.504026, the average value of Company Life Cycle is 0.085845 with a standard deviation of 0.143470. Tax Avoidance (Y) has a minimum value of -0.383071 and a maximum value of 2.295040. The average value of Tax Avoidance is 0.267732 with a standard deviation of 0.241943. Earnings Management (Z) has a minimum value of -0.059611 and a maximum value of 0.213654. The average value of tax avoidance is 0.010275 with a standard deviation of 0.034465.

Model Selection Tests and Classical Assumptions Results

Based on model selection tests, the Fixed Effect Model was chosen as the appropriate approach for both models. The Chow test results showed probability values of 0.0002 (Model 1) and 0.0203 (Model

2), both < 0.05, indicating panel effects. Hausman test results with probabilities of 0.0006 (Model 1) and 0.0073 (Model 2), both < 0.05, confirmed Fixed Effect Model as the most suitable approach.

For classical assumptions, both models passed multicollinearity testing with correlation values < 0.8 between all variables. Heteroscedasticity tests yielded probability values > 0.05 for all independent variables in both models, indicating homoscedastic residuals. These results suggest the models meet the required assumptions for panel data regression analysis.

The selection of Fixed Effect Model aligns with the theoretical framework, as it accounts for unobserved company-specific characteristics that may influence tax avoidance and earnings management decisions. This is particularly relevant given the sample's focus on consumer sector companies with potentially different management approaches and business models.

Panel Data Regression Analysis

Table 3. Panel Data Regression Analysis Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.447499	0.069086	6.477413	0.0000
Thin Capitalization	-0.163049	0.037607	-4.335564	0.0000
Transfer Pricing	0.005656	0.155600	0.036353	0.9711
Company Life Cycle	-0.035210	0.075401	-0.466970	0.6417

Resources: Output Eviews 10

Based on Table 3, the panel data regression equation for model 1 in this study can be formulated, namely:

$$Y = 0.447499 - 0.163049X1 + 0.005656X2 - 0.35210X3 + e$$

The regression analysis reveals theoretically significant relationships in consumer sector financial practices. The negative coefficient of thin capitalization (-0.163049) aligns with Pohan (2019) agency theory framework, suggesting that higher debt levels reduce tax avoidance as companies balance stakeholder interests and debt obligations. Although transfer pricing shows a minimal positive effect (0.005656), this relationship lacks statistical significance ($p>0.05$), indicating limited practical impact on tax avoidance strategies. The negative relationship between company lifecycle and tax avoidance (-0.35210), while statistically insignificant, reflects Wang et al. (2020) lifecycle theory predictions about varying financial strategies across company development stages.

The model's constant (0.447499) represents baseline tax avoidance behavior when other factors are controlled, suggesting underlying tax planning tendencies in consumer sector firms. These relationships demonstrate meaningful economic implications beyond statistical significance, particularly in how companies balance different financial strategies across their development stages.

Table 4. Panel Data Regression Analysis Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.002263	0.024490	0.092415	0.9266
Thin Capitalization	-0.004713	0.012095	-0.389632	0.6978
Transfer Pricing	0.125797	0.045471	2.766535	0.0069
Company Life Cycle	0.051335	0.022061	2.326935	0.0223
Tax Avoidance	-0.114048	0.030976	-3.681797	0.0004

Resources: Output Eviews 10

Based on the Table 4, the regression equation for panel data model 1 in this study can be formulated, namely:

$$Z = 0.002263 - 0.004713X1 + 0.125797X2 + 0.051335X3 - 0.114048Y + e$$

The regression results reveal significant theoretical implications for financial decision-making in the consumer sector. The negative relationship between thin capitalization and tax avoidance (-0.163049) aligns with agency theory, Pohan (2019) suggests that higher debt levels may actually reduce tax avoidance as firms balance stakeholder interests and debt covenant requirements. Transfer pricing's positive effect on earnings management (0.125797) supports transaction cost economics framework, with Kumar et al. (2021) arguing that related-party transactions serve dual purposes of performance measurement and strategic financial reporting. The significant relationship between company lifecycle and earnings management (0.051335) confirms lifecycle theory predictions from Wang et al. (2020), suggesting that growth-stage companies demonstrate distinct earnings management patterns compared to mature firms due to different financing needs and market pressures.

The coefficients demonstrate not just statistical significance but meaningful economic relationships. For instance, the negative coefficient on tax avoidance's effect on earnings management (-0.114048) suggests firms may view these as substitute rather than complementary strategies for financial reporting objectives.

Table 5. F-Test Results for Model 1

Cross-section fixed (dummy variables)	
Prob (F-statistic)	0.000026

Resources: Output Eviews 10

Table 5 shows the results of the simultaneous test (F test) based on the results of the simultaneous test it is known that the significance value is 0.000026 <0.05 so it can be concluded that thin capitalization, transfer pricing and Company Life Cycle together have an effect on Tax Avoidance.

Table 6. F-Test Results for Model 2

Cross-section fixed (dummy variables)	
Prob(F-statistic)	0.001916

Resources: Output Eviews 10

Table 6 shows the results of the simultaneous test (F test) based on the results of the simultaneous test, it is known that the significance value is 0.001916 <0.05 so that it can be concluded that thin capitalization, transfer pricing, Company Life Cycle and Tax Avoidance together have an effect on Earnings Management. Hypothesis testing on models 1 and 2 based on the selected panel data regression model, namely using the fixed effect model approach.

Table 7. T-Test Results for Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.447499	0.069086	6.477413	0.0000
Thin Capitalization	-0.163049	0.037607	-4.335564	0.0000
Transfer Pricing	0.005656	0.155600	0.036353	0.9711
Company Life Cycle	-0.035210	0.075401	-0.466970	0.6417

Resources: Output Eviews 10

Table 7 presents the results of the t-test, which examines the effects of thin capitalization, transfer pricing, and the company life cycle on tax avoidance. The probability value for thin capitalization is 0.000, which is less than the significance level of 0.05. This indicates that the first hypothesis (H1) is accepted, meaning that thin capitalization has a significant effect on tax avoidance. In contrast, the probability value for transfer pricing is 0.9711, which exceeds 0.05, leading to the rejection of the second hypothesis (H2). Therefore, transfer pricing does not have

a significant effect on tax avoidance. Similarly, the probability value for the company life cycle is 0.6411, also greater than 0.05, indicating that the third hypothesis (H3) is rejected, and thus, the company life cycle does not significantly influence tax avoidance.

Table 8. T-Test Results for Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.002263	0.024490	0.092415	0.9266
Thin Capitalization	-0.004713	0.012095	-0.389632	0.6978
Transfer Pricing	0.125797	0.045471	2.766535	0.0069
Company Life Cycle	0.051335	0.022061	2.326935	0.0223
Tax Avoidance	-0.114048	0.030976	-3.681797	0.0004

Resources: Output Eviews 10

Table 8 illustrates the effects of thin capitalization, transfer pricing, company life cycle, and tax avoidance on earnings management. The probability value for thin capitalization is 0.6978, which is greater than the significance level of 0.05. This result leads to the rejection of the fourth hypothesis (H4), indicating that thin capitalization does not have a significant effect on earnings management. In contrast, the probability value for transfer pricing is 0.0069, which is less than 0.05, meaning that the fifth hypothesis (H5) is accepted. This suggests that transfer pricing significantly influences earnings management. Furthermore, the probability value for the company life cycle is 0.0223, also below 0.05, supporting the acceptance of the sixth hypothesis (H6) and indicating a significant effect of the company life cycle on earnings management. Lastly, the probability value for tax avoidance is 0.0004, which is well below 0.05, confirming the acceptance of the seventh hypothesis (H7). This result shows that tax avoidance has a significant impact on earnings management.

Determination Coefficient

Table 9. Determination Coefficient Model 1

Cross-section fixed (dummy variables)	
R-squared	0.475629
Adjusted R-squared	0.328334

Resources: Output Eviews 10

Table 9 shows the results of the coefficient of determination. It can be seen that the Adjusted R Square value is 0.328334, meaning that thin capitalization, transfer pricing, and Company Life Cycle affect Tax Avoidance by 0.328334 or 32.8334%, while the remaining 67.1666% Tax Avoidance is influenced by other variables that are not included in the regression model.

Table 10 shows the results of the determination coefficient. It can be seen that the Adjusted R Square value is 0.231348, meaning that thin capitalization, transfer pricing, and Company Life Cycle and Tax Avoidance affect Earnings Management by 0.231348 or 23.1348%, while the remaining 76.8652% of Earnings Management is influenced by other variables that are not included in the regression model.

Table 10. Coefficient of Determination Model 2

Cross-section fixed (dummy variables)	
R-squared	0.406655
Adjusted R-squared	0.231348

Resources: Output Eviews 10

The moderate R-squared values indicate other potential variables influencing tax avoidance and earnings management in Indonesia's consumer sector. According to Mahardika & Irawan (2022), corporate governance mechanisms, including board composition and ownership concentration, significantly impact tax planning decisions in Indonesian firms. Market competition intensity and regulatory enforcement strength also play crucial roles in financial reporting decisions. Azhari et al. (2021) found that firms in highly competitive markets demonstrate different tax planning behaviors compared to those in concentrated markets. Given Indonesia's evolving regulatory environment, as discussed by Hamidah et al. (2023), enforcement effectiveness particularly influences transfer pricing practices and subsequent earnings management decisions. These factors, while beyond this study's scope, provide context for understanding the complex determinants of tax avoidance and earnings management behaviors in the consumer sector.

Conclusion

This study provides empirical evidence on the dynamics of tax avoidance and earnings management practices within Indonesia's consumer sector, highlighting the influence of thin capitalization, transfer pricing, and the company life cycle. The results indicate that thin capitalization has a significant negative effect on tax avoidance, suggesting that higher debt levels may not lead to greater tax efficiency. Conversely, both transfer pricing and company life cycle are positively associated with earnings management, indicating that these factors play a role in shaping firms' financial reporting behavior. Furthermore, tax avoidance demonstrates a negative relationship with earnings management, emphasizing the complex interplay between tax planning and financial statement manipulation.

From a practical standpoint, the findings offer meaningful implications for regulators, corporations, and investors. Regulators are advised to enhance scrutiny of related-party transactions, particularly among firms exhibiting aggressive earnings management tendencies. Incorporating lifecycle-based regulatory frameworks could also improve oversight effectiveness. For corporate decision-makers, the results underscore the need to align tax planning strategies with a firm's stage in the business lifecycle. Specifically, companies in the growth phase may require distinct financial reporting and tax strategies compared to their mature counterparts. Additionally, capital structure decisions must be evaluated not only for financing efficiency but also for their implications on tax planning outcomes. Investors can benefit from using company lifecycle indicators and tax behavior as signals for assessing financial reporting quality and potential earnings management risks.

Nevertheless, this research is subject to several limitations. The study is confined to publicly listed consumer sector firms on the Indonesia Stock Exchange, which may restrict the generalizability of the findings to other sectors or privately held firms. The five-year observation period (2018–2022), while capturing relevant trends, may not encompass the broader economic cycles that influence corporate financial behavior. Moreover, the exclusion of private companies may overlook alternative reporting incentives and tax strategies present in non-listed entities. Finally, the potential simultaneity between tax avoidance and earnings management decisions raises endogeneity concerns, suggesting the need for future studies employing advanced econometric techniques or experimental designs to better isolate causal relationships.

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