

Corporate Tax Policy: A Comparative Analysis of Corporate Audit Quality

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Abstract

This study aims to analyze the effect of transfer pricing, firm size, and earnings management on tax avoidance, and how audit quality classifies the relationship. The study was conducted on 380 company data by comparing between companies audited by Big Four and non-Big Four Public Accounting Firms (KAP). The regression analysis results show that overall (Model 1), transfer pricing has a significant positive effect on tax avoidance, while firm size has a significant negative effect, and earnings management has no significant effect. In companies audited by Big Four KAP (Model 2), transfer pricing and earnings management show significant influence on tax avoidance, with positive and negative directions respectively. Firm size also shows a significant negative effect in this model. In contrast, for non-Big Four firms (Model 3), only transfer pricing and earnings management have a significant effect on tax avoidance, while firm size has no effect. These results indicate that audit quality plays a role in classifying the effect of firm size and earnings management on tax avoidance. These findings make an important contribution to understanding the dynamics of corporate tax policy and its implications for tax governance and regulation.

Keywords: Tax Avoidance, Transfer Pricing, Firm Size, Earning Management, Audit Quality

Introduction

Taxes are mandatory contributions to the state that are owed by individuals or entities that are coercive based on the law, without direct compensation, and are used for state needs for the greatest prosperity of the people (Mardiasmo, 2019). Taxes have a strategic role as the main source of state financing, both in the context of infrastructure development, the provision of public services, and the financing of community welfare programs (Cahyadi, 2024).

As the backbone of state revenue, 2024 State Budget data shows that more than 75% of state revenue comes from the tax sector. Therefore, the effectiveness of the tax system

is highly dependent on how tax policies are implemented, both by the fiscal authorities and by taxpayers, including the corporate sector which is a major contributor to the national tax structure. In practice, companies have the space to legally design tax policies to manage their fiscal obligations. This corporate tax policy can be in the form of decision-making on reporting strategies, regulating transaction structures, and optimizing the benefits of tax incentives available in the regulatory system.

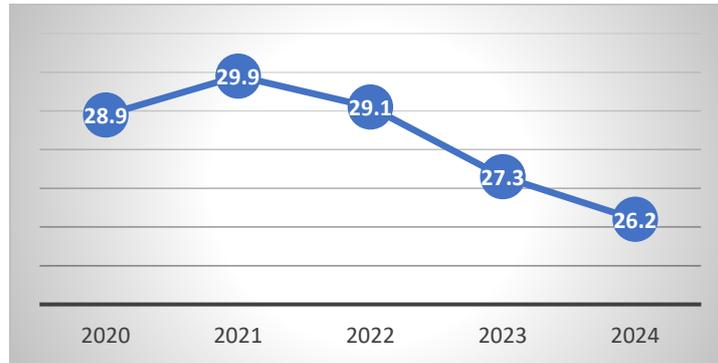


Figure 1. Tax Contribution Manufacture Company
Source: Revised State Budget Data, 2025

Based on Figure 1 which shows the *Tax Contribution of Manufacturing Companies* during the period 2020 to 2024, there is a downward trend in tax contributions from the manufacturing sector to total national tax revenues. In 2020, the tax contribution of the manufacturing sector was recorded at 28.9%. This value increased in 2021 to 29.9%, which is the peak of the contribution over the last five-year period. However, after 2021, the contribution has declined in a row. In 2022, its contribution decreased to 29.1%, then fell more sharply to 27.3% in 2023, and continued to decline to reach 26.2% in 2024. The total decrease of 3.7% from 2021 to 2024 reflects a decline in the performance or effectiveness of tax collection from the manufacturing sector.

This phenomenon indicates that although the manufacturing sector is still one of the largest tax contributors, its contribution to total state revenues is likely to weaken. This decline can be caused by several factors, including the optimization of tax avoidance through schemes such as *transfer pricing*, a decrease in the profitability of the manufacturing industry, increased tax incentives, or weak fiscal supervision of this sector. These findings are relevant to review the tax policy strategy of the industrial sector and assess the role of audit and supervision of corporate accounting practices.

An interesting phenomenon occurred in the Indofood Group, which consists of PT Indofood Sukses Makmur Tbk (INDF) and PT Indofood CBP Sukses Makmur Tbk (ICBP), when the share prices of both actually experienced a significant decline in the midst of financial statements that showed excellent performance. In the first quarter of 2020, Indofood CBP managed to record a net profit growth of 4% to IDR 1.4 trillion. On the other hand, Indofood Group's overall revenue and profitability were also recorded stable, reflecting healthy financial conditions. However, on May 27, 2020, INDF shares fell 6.67%, while ICBP shares slumped deeper by 6.98%. This sharp decline raises a big question mark among the public and investors, because it is not unusual for such a drastic decline in stock prices when a company records a strong financial performance. Apparently, this

weakness in the stock price was triggered by negative market sentiment towards ICBP's corporate action which acquired Pinehill Company Limited for USD 2.99 billion. Investors consider the acquisition to be too expensive and do not fully reflect the fair value of the target company. Furthermore, concerns also arise regarding corporate governance practices (GCG) and indications of the use of transfer pricing strategies in the corporate structure of Indofood Group. This suspicion is reinforced by a number of analysts who observe that some transactions between entities within the group are indicated to shift the tax burden and create artificial efficiencies that impact the earnings statement. This reduces investor confidence in the sustainability of financial performance and management transparency, even though the financial figures look solid (Komparan, 2020).

In an effort to optimize state revenue, corporate tax policy is a strategic issue that continues to grow, especially in the face of global economic dynamics and the complexity of corporate structures. The company has a variety of options in formulating its tax policies, ranging from the use of fiscal incentives, the regulation of transaction structures, to the management of financial statements that have an impact on the tax burden incurred. This policy is certainly legally valid, as long as it is still within the regulatory corridor, but it still raises special attention from tax authorities, the public, and academics regarding transparency and compliance with the principles of tax fairness (Furqon et al., 2022).

The phenomenon that occurred in national tax revenues showed a significant decrease influenced by high tax refunds, especially from the manufacturing sector. Based on data until May 2024, the realization of tax revenue was recorded at IDR 760.38 trillion or a contraction of 8.4% compared to the same period the previous year. This decline was mainly due to a surge in refunds, especially in the manufacturing sector which experienced a 14.2% decrease in net tax payments. The manufacturing sector itself contributes the largest contribution to national tax revenue, which is 25.6%. This phenomenon indicates that although in general economic activity still shows healthy dynamics, faster restitution policies, especially VAT, have put pressure on the country's net tax revenue, so a more adaptive fiscal strategy is needed to maintain a balance between taxpayers' rights and state revenue stability (DDTC, 2024).

According to Elumilade et al., (2022) transfer pricing in transactions between affiliated entities, it is the main tool in tax avoidance strategies. In the context of globalization and the complexity of corporate structures, many multinational corporations are taking advantage of differences in tax rates between jurisdictions to shift profits to countries with lower tax rates. In Indonesia, the issue of transfer pricing is becoming increasingly crucial along with the increasing activities of companies that have cross-border affiliates. This practice not only has implications for state revenue, but also poses a major challenge in tax compliance enforcement (Mardjono et al., 2024). The study (De Mooij & Liu, 2020; Kalra & Afzal, 2023; Rathke et al., 2021) concluded that transfer pricing had an effect on corporate tax policy, while (Amidu et al., 2019; Irawan et al., 2020; Ramdhani et al., 2021) concluded that transfer pricing had no effect on corporate tax policy.

Firm size is also believed to have an influence on the company's tendency to do tax avoidance. Large companies generally have resources, access to tax consultants, and

more complex business structures so that they are better able to explore and exploit loopholes in tax law. However, large companies also tend to be more supervised by the public and regulators, so the motive for tax evasion must be carried out more covertly. Therefore, there is a duality between technical capabilities and reputational risks inherent in large companies in the context of tax policy (Hager & Baines, 2020). The study (Kalbuana et al., 2023; Salehi et al., 2020; Sianipar et al., 2020) concluded that firm size had an effect on corporate tax policy while the study (Nurhasan, 2023; Siswandani et al., 2024; Yantri, 2022) concluded that firm size had no effect on corporate tax policy.

According to Sánchez-Ballesta & Yagüe, (2021) earning management, it is one of the important indicators in measuring the extent to which a company manages its financial statements to achieve certain goals, including tax avoidance. Through certain accounting techniques, companies can engineer accounting figures so that they look more efficient or less profitable in terms of taxation. This practice, although difficult to detect directly, greatly contributes to the manipulation of tax burdens and can degrade the quality of financial information delivered to stakeholders. The study (Delgado et al., 2023; Tang, 2020; Wang et al., 2020) concluded that earning management had an effect on corporate tax policy while the research (Aleqab & Ighnaim, 2021; Nadhifah & Arif, 2020; Svabova et al., 2020) concluded that earning management had no effect on corporate tax policy.

In the midst of this phenomenon, audit quality plays an important role as an independent oversight mechanism. External auditors, especially those from the Big Four Public Accounting Firms (KAP), are expected to have the ability and integrity to detect manipulative practices in financial reporting, including those related to tax evasion. Therefore, in this study, audit quality is used as the basis for classification, by comparing how transfer pricing, firm size, and earning management affect tax avoidance in companies audited by high-quality auditors (Big Four) and those that do not. With this approach, it is hoped that the research can provide a deeper understanding of how the company's internal factors interact with the external supervisory system in influencing the company's tax policy. Quality audits are expected to be able to increase the transparency and accountability of financial statements, as well as reduce potential irregularities in the implementation of tax policies.

Through a comparative approach, this study aims to analyze the influence of transfer pricing, firm size, and earning management on corporate tax policies in the manufacturing sector in Indonesia, taking into account differences in audit quality. This research is expected to contribute to the development of corporate tax literature and become a basis for consideration in formulating more effective tax supervision policies, especially in the manufacturing sector as the main contributor to state revenue.

Literature Review

Agency Theory

The agency theory according to Meckling & Jensen, (1976) explains the relationship between the owner (principal) and management (agent), where conflicts of interest can arise because management has more information and can act in its own interests. In the context of tax policy, management can carry out tax avoidance as a strategy to increase after-tax profits, but this can pose ethical, legal, and reputational risks that are detrimental to shareholders. Transfer pricing is often used to divert profits to low-tax

countries. The large firm size allows for complex structures, thus increasing the opportunities for tax avoidance practices and supervisory difficulties. Earning management is also an opportunistic act of agents to engineer financial performance, including in lowering tax burdens. To reduce these risks, audit quality acts as an external control mechanism. Independent auditors, particularly from the Big Four KAP, are expected to limit management's manipulative actions and improve the transparency of financial statements. Thus, the agency theory explains how the role of audit is important in overseeing the tax policies carried out by management.

Transfer Pricing, Tax Avoidance, Audit Quality

Transfer pricing is a pricing policy in transactions between entities that have a privileged relationship (Mahmudi & Mahmudi, 2022). In the context of taxation, transfer pricing is often used to shift profits to countries or regions with lower tax rates, thereby reducing the company's tax burden legally (Aditya et al., 2023). This strategy is a form of tax avoidance, which is an effort to avoid tax without explicitly violating the law. From the point of view of agency theory, the practice of transfer pricing reflects the opportunistic actions of management (agents) who want to maximize their interests, for example through increased net profit, performance incentives, or a reduction in tax burden. However, such actions can be detrimental to shareholders (principals) if they lead to tax risks, reputational damage, or sanctions from the authorities. The relationship between transfer pricing and tax avoidance can be influenced by audit quality. High-quality audits, especially those conducted by auditors from the Big Four Public Accounting Firms (KAP), are expected to be able to detect manipulative practices in financial reporting and affiliate transactions. Thus, audit quality functions as a supervisory mechanism that can suppress aggressive transfer pricing practices and limit management's room to carry out tax avoidance. The study April & Chairini (2025); Mukarramah & Nugroho (2025); Nuraini (2025) concluded that transfer pricing had an effect on tax avoidance and Amara et al. (2025); Hamrouni & Menchaoui (2025); Saputra et al. (2025) concluded that audit quality had an effect on tax avoidance. Based on this description, the hypothesis proposed:

H1: There is a Difference in the Effect of Transfer Pricing on Corporate Tax Policy with Quality Audit and Companies Without Quality Audit

Firm Size, Tax Avoidance, Audit Quality

Firm size is one of the factors that affect a company's tax strategy. Large companies generally have greater resources, complex organizational structures, as well as access to tax advisors and broader tax planning opportunities (Febriani et al., 2025). This condition allows companies to carry out tax avoidance strategies in a more sophisticated and structured way. From the perspective of agency theory, large companies tend to have a higher degree of separation of ownership and management, thus magnifying the potential for conflict between management (agents) and owners (principals). Management can use operational complexity as a loophole to carry out opportunistic actions, including tax avoidance. However, large companies also face greater pressure from the public and regulators to comply with regulations and maintain their reputations, so they can also demonstrate higher compliance (Ratnadewati & Izzalqurny, 2025). The role of audit quality is crucial in this context. Audits by reputable KAPs, such as the Big Four, can help reduce information asymmetry and ensure that tax reporting is done fairly.

High audit quality is expected to suppress the tendency of large companies to carry out aggressive tax avoidance practices, by increasing transparency and accountability. The study Bougacha & Guedrib (2025); Chen & Nor (2025); Ván et al. (2025) concluded that firm size has an effect on tax avoidance and Adegbite (2025); Listiana & Mapanyukki (2025); Moniruzzaman et al. (2025) concluded that audit quality has an effect on tax avoidance. Based on this description, the hypothesis proposed is:

H2: There is a Difference in the Influence of Firm Size on Corporate Tax Policy with Quality Audit and Companies Without Quality Audit

Earning Management, Tax Avoidance, Audit Quality

Earning management is an action taken by management to influence financial statements with certain objectives, such as meeting profit targets, maintaining the company's image, or avoiding tax burdens (Monday et al., 2025). One form of this practice is to strategically manage the timing of income and expense recognition to minimize taxable profits (Levia & Wahyudi, 2025). In the context of agency theory, earning management reflects the opportunistic behavior of agents who utilize information asymmetry to make decisions that benefit them, but potentially harm the owner (principal). When profits can be manipulated to reduce tax burden, earning management plays a role as a means to carry out tax avoidance. However, this practice is greatly influenced by the effectiveness of external supervision, one of which is through audit quality. High-quality auditors, especially from the Big Four KAP, have greater competence and independence in detecting and limiting the manipulation of financial statements. Thus, the existence of qualified auditors can reduce management's opportunities to carry out aggressive earning management for tax avoidance purposes. The study of Hlel (2025); May et al. (2025); Zhao & Wang (2025) concluded that earning management had an effect on tax avoidance and Dewi (2025); Kamarudin et al. (2025); Su (2025) concluded that audit quality had an effect on tax avoidance. Based on this explanation, the hypotheses that can be proposed are:

H3: There is a Difference in the Influence of Earning Management on Corporate Tax Policy with Quality Audit and Companies Without Quality Audit

Methods

Population and Sample

The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2023. Manufacturing companies were chosen because the sector has the characteristics of complex operational activities and transaction structures, including a tendency to engage in tax avoidance practices through strategies such as transfer pricing and earning management. In addition, the manufacturing sector is one of the largest contributors to tax revenues and the national economy, so it is relevant to be analyzed from the perspective of compliance and tax policy. Sample selection is carried out using the purposive sampling method, which is a sample selection technique based on certain criteria that is tailored to the purpose of the research. The sample criteria set in this study are as follows:

- a) Manufacturing companies listed on the IDX until 2023;
- b) Companies that consistently publish annual financial statements during the observation period of 2019 to 2023.

Table 1. Research Sample Selection

No	Sample Criteria	Amount
1	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2023	124
2	Manufacturing companies that do not publish their financial reports consistently in the 2019-2023 period	-47
Total Company Sample		76
Observation Year (2019 – 2023)		5
Research Data Amount		380

Source: IDX data processed, 2025

Variable Measurement

This study measures the variables of transfer pricing, earnings management, firm size, and tax avoidance with audit quality as a classification. Each variable was measured using indicators that have been proven to be valid and commonly used in previous studies, to ensure an accurate empirical representation of the theoretical construct. A detailed explanation is presented in Table 2 below.

Table 2. Variable Measurement

No	Variable	Measurement	Scale
1	Tax Policy	$ETR = \frac{\text{Tax Expense}}{\text{Earning Before Tax}}$ Source: (Kumar et al., 2021)	Ratio
2	Audit Quality	Score 1 if the company is audited by Big 4 Score 0 if the company is not audited by Big4 Source: (Utama & Oktris, 2025)	Nominal
3	Transfer Pricing	$\text{Transfer Pricing} = \frac{\text{Receivables from Related Parties}}{\text{Total Receivables}}$ Source: (Kumar et al., 2021)	Ratio
4	Firm Size	Firm Size = Ln(Total Asset) Source: (Daito, 2023)	Ratio
5	Earning Management	$TACit = NIit - CFOit$ Source: (Novrica et al., 2024)	Ratio

Data Analysis Methods

Data analysis in this study was conducted using EViews 13 with a panel data regression approach, considering data from 76 manufacturing companies over a five-year period (2019–2023). The analysis began with classical assumption tests, including normality, multicollinearity (using VIF), heteroscedasticity, and autocorrelation. To determine the most suitable model, panel model selection was performed using the Chow test (PLS vs FEM), Hausman test (FEM vs REM), and Lagrange Multiplier test (PLS vs

REM). After selecting the best-fit model, multiple linear regression was applied to examine the influence of transfer pricing, firm size and earnings management on tax avoidance, with audit quality as a classification. Hypothesis testing used t-tests, F-tests, and the coefficient of determination (R^2) to assess the significance and explanatory power of the model. EViews 13 supported efficient estimation and robust diagnostic testing throughout the process.

Result and Discussion

Selection of Regression Models

The results of the data panel model selection test in Table 3 showed that the Chow test produced a probability value of 0.0000 ($p < 0.05$), which means that the Fixed Effect Model (FEM) model is more accurate than the Common Effect Model (CEM). Furthermore, the Hausman test showed a probability value of 0.0005 ($p < 0.05$), so that the FEM model was again selected compared to the Random Effect Model (REM). However, the Lagrange Multiplier (LM) test yielded a probability value of 0.7692 ($p > 0.05$), which means that the Common Effect Model (CEM) model is irrefutable when compared to REM. However, since both Chow's and Hausman's tests consistently chose the FEM model, the best model used in this study is the Fixed Effect Model (FEM).

Table 3. Panel Data Regression Model Selection

Testing	Prob	Model Conclusion
Chow	0.0000	FEM
Hausman	0.0005	FEM
LM	0.7692	CEM

Source: Data processed with Eviews 13, 2025

Normality Testing

Based on the results of the normality test using the residual histogram and the Jarque-Bera test on Figure 2, the statistical value of Jarque-Bera was obtained of 1.622042 with a probability of 0.444404. This probability value is greater than the significance level of 0.05, so a null hypothesis stating that the normally distributed residual is accepted. Thus, it can be concluded that the residuals in this regression model are normally distributed, thus fulfilling one of the classical assumptions of regression.

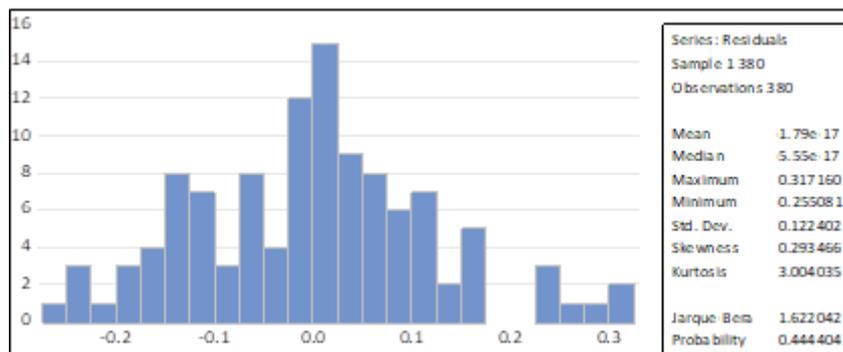


Figure 2. Normality Test

Source: Data processed with Eviews 13, 2025

Multicollinearity Testing

Based on the results of the multicollinearity test measured using the Variance Inflation Factor (VIF) value, all independent variables in the model showed a VIF value below 10, namely: Transfer Pricing of 1.1089, Firm Size of 1.1594, and Earning Management of 1.0717. These values indicate that there is no problem of multicollinearity among the independent variables in the regression model. In other words, each of the independent variables does not have a strong linear relationship to each other, so the regression model is feasible for use in further analysis.

Table 4. Multicollinearity Testing

Variable	VIF
Transfer Pricing	1.108938
Firm Size	1.159448
Earning Management	1.071707

Source: Data processed with Eviews 13, 2025

Heteroscedasticity Testing

Based on the results of the heteroscedasticity test using the Breusch-Pagan-Godfrey method, an F-statistic value of 0.4387 with a probability of 0.7254 was obtained, and an ObsR-squared value of 1.3255 with a probability of 0.7231. Both probabilities are greater than the significance level of 0.05, so it can be concluded that the regression model does not experience heteroscedasticity problems.

Table 5. Heteroscedasticity Testing

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.4387	Prob. F(3,374)	0.7254
Obs*R-squared	1.325511	Prob. Chi-Square(3)	0.7231
Scaled explained SS	35.42974	Prob. Chi-Square(3)	0.0000

Source: Data processed with Eviews 13, 2025

Hypothesis Testing

Hypothesis testing in this study was carried out on three regression models with different data characteristics. Model 1 uses all company data as a form of research data completeness. Model 2 focuses only on companies audited by the Big Four Public Accounting Firm (KAP), while Model 3 includes companies that are not audited by the Big Four KAP. This test aims to evaluate the effect of Transfer Pricing (TP), Firm Size (FS), and Earning Management (EM) variables on Tax Avoidance (TA) by considering possible differences in treatment based on audit quality represented by the company's audit affiliation (Big Four and non-Big Four). The results of hypothesis testing are presented in Table 6 below.

In Model 1, which used the entire data (N = 380), the Transfer Pricing (TP) variable had a significant positive effect on corporate tax policy (coefficient = 2.977, significance = 0.003). Likewise, the Firm Size (FS) variable showed a significant negative influence (coefficient = -2.149, significance = 0.033), while the Earning Management (EM) variable did not have a significant effect (significance = 0.616). In Model 2, which only includes companies audited by the Big Four KAP (N = 113), all independent variables have a significant effect on corporate tax policy with consistent relationship directions: TP and EM have a positive effect, while FS has a negative effect. The model also shows the highest

R-Square value (0.799), which indicates that it is best at explaining variations in corporate tax policies. Meanwhile, in Model 3, which includes companies not audited by the Big Four (N = 267), only TP and EM have a significant effect on corporate tax policy, while FS is insignificant (significance = 0.103). The R-Square value in this model is also lower (0.335), which suggests that this model is less able to explain the variation in corporate tax policies compared to Model 2.

Table 6. Hypothesis Testing

	MODEL 1*		MODEL 2**		MODEL 3		Conclusion
	Coef	Sig	Coef	Sig	Coef	Sig	
TP -> TA	2.977	0.003	4.459	0.000	2.086	0.039	Hypothesis Rejected
FS -> TA	-2.149	0.033	-4.742	0.000	1.638	0.103	Hypothesis Accepted
EM -> TA	-0.503	0.616	-3.570	0.001	-2.126	0.035	Hypothesis Rejected
N	380		113		267		
F - Square	0.0000		0.0000		0.0000		
R-Square	0.486		0.799		0.335		
Model 1*	Completeness of research data						
Model 2**	Only companies audited by Big4						
Model 3***	Only companies that are not audited by Big4						

Source: Data processed with Eviews 13, 2025

The R-Square value in Model 1 of 0.486 shows that 48.6% of the variation in corporate tax policy can be explained by the variables of transfer pricing, firm size, and earning management in the entire company sample. In Model 2, which only includes companies audited by the Big Four KAP, the R-Square value increases significantly to 0.799, indicating that 79.9% of the variation in corporate tax policies is explained by the model, thus indicating that the model has very strong predictive capabilities. Meanwhile, Model 3, which includes companies not audited by the Big Four, has an R-Square value of 0.335, which means that only 33.5% of the variation in corporate tax policies can be explained by those variables. This indicates that the models in this group have lower predictive capabilities than Model 1 and Model 2.

Based on the results of the F test on the three regression models, a significance value of 0.0000 was obtained for Model 1, Model 2, and Model 3. This significance value is well below the 0.05 threshold, which means that the three models are simultaneously significant in explaining the influence of independent variables, namely transfer pricing, firm size, and earnings management, on the dependent variable, i.e. corporate tax policy. Thus, it can be concluded that overall, the models tested have a good ability to explain the relationship between the three independent variables to corporate tax policy, both in the entire sample and in subgroups of companies audited by the Big Four and non-Big Four KAPs.

Discussion

The results of the first hypothesis test showed that there was no difference in the effect of transfer pricing on corporate tax policies with audit quality and companies without audit quality. This means that the transfer pricing practices carried out by companies, whether audited by Big Four and non-Big Four auditors, remain under relatively the same supervision and do not cause any difference in the treatment of their tax policies (Ambarita & Rahmadania, 2025). This shows that the company's management, regardless of who the auditor is, is still encouraged to comply with the applicable tax provisions, especially due to the strict supervision of the tax authorities on affiliate transactions, as stipulated in the Regulation of the Director General of Taxes Number PER-22/PJ/2013 concerning Guidelines for Audit of Affiliate Transactions and the obligation to document transfer pricing. The role of auditors, both from Big Four and non-Big Four public accounting firms, also supports this transparency by ensuring that affiliate transactions are disclosed in accordance with the provisions of PSAK 7 concerning Disclosure of Related Parties. This condition is in line with the agency theory, which explains the existence of an agency relationship between management (agent) and company owner (principal), where there is a potential conflict of interest when the agent has an incentive to carry out financial maneuvers that can benefit himself, including in the practice of transfer pricing to reduce tax burden. However, with oversight from external parties such as independent auditors and tax authorities, information asymmetry between agents and principals can be minimized. Disclosure of affiliate transactions in financial statements and compliance with tax regulations is a form of governance mechanism that reduces the risk of moral hazard from management (Putri et al., 2025). Thus, the agency theory reinforces the importance of the role of external oversight in maintaining compliance and transparency on transactions that are vulnerable to abuse, such as transfer pricing. This result is supported by research (Janide et al., 2025; Stuart & Tjahjono, 2025; Triasma & Faudah, 2025) that concludes that transfer pricing has an effect on corporate tax policy.

The results of the second hypothesis test show that there is a difference in the influence of firm size on corporate tax policies with audit quality and companies without audit quality. This means that firm size has a different effect on tax policy depending on the quality of the audit owned. Large companies audited by high-quality auditors, such as the Big Four Public Accounting Firms, tend to be more cautious in crafting their tax policies due to reputational pressures and higher expectations of public transparency. On the other hand, large companies with low audit quality have the potential to have greater flexibility in managing their tax burdens, including the possibility of tax aggressiveness, due to weak external oversight of their financial statements (Rosidah & Meikhati, 2025). This condition can be explained through agency theory, which assumes the existence of a potential conflict between management (agents) and the owners or stakeholders of the company (principals). In large companies, organizational complexity and high transaction volumes increase management's potential to act opportunistically, including in aggressive tax planning to achieve profit targets or personal interests. However, when such large companies are audited by high-quality auditors, the external monitoring function becomes more effective in suppressing such opportunistic actions, thus encouraging management to develop more compliant tax policies (Ambarita, 2025).

In other words, audit quality serves as a governance mechanism that strengthens agency relationships, reduces information asymmetry, and ensures that firm size is not a means to avoid taxes, but is managed with the principles of prudence and transparency. The results of this study are supported by (Huang & Trisnawati, 2025; Mosuin et al., 2025; Patricia & Dewi, 2025) those who conclude that firm size has an effect on corporate tax policy while (Fahmi & Naibaho, 2025; Handayani et al., 2025; Thayyib, 2025) concluding that firm size has no effect on corporate tax policy

The results of the third hypothesis test show that there is no difference in the influence of earning management on corporate tax policies with audit quality and companies without audit quality. This means that the earning management practices carried out by companies tend to have a similar influence on tax policy, regardless of who the external auditor is (Ismael et al., 2025). These findings indicate that audit quality has not been fully able to become an effective control mechanism in limiting the influence of earning management on corporate tax policies. In other words, both Big Four and non-Big Four auditors are not necessarily able to detect or restrain management in conducting earning management practices that can have an impact on tax planning, especially when management uses legitimate but opportunistic accounting policies (Zheng & Han, 2025). In the context of agency theory, these results reflect that there is a gap in the external monitoring function carried out by auditors on management's behavior as an agent. One of the basic assumptions of agency theory is that management has the motivation to maximize its own interests, which is often at odds with the interests of the owner or other stakeholders. Earning management is a form of opportunistic behavior carried out by agents, and if not strictly supervised, can be used for purposes such as reducing tax burden by adjusting taxable profits. When audit quality is not able to significantly limit these practices, then agency relationships become vulnerable to moral hazard. Therefore, although audit is one of the governance mechanisms, its effectiveness in controlling earning management depends on the integrity, independence, and competence of the auditor himself. These findings also imply the importance of strengthening regulations and increasing audit accountability, so that the role of supervision of management practices can run optimally within the framework of agency relations. The results of this study are supported by (Galek & Čičak, 2025; Lin et al., 2025; Xu, 2025) the conclusion that earning management has an effect on corporate tax policy.

Conclusions, Suggestions, Limitations

Based on the discussion, this study concludes that audit quality does not create differences in how transfer pricing affects corporate tax policies. This indicates that external oversight beyond the audit function, such as regulatory enforcement and the disclosure requirements under PSAK 7, may play a more decisive role in constraining transfer pricing practices. This aligns with agency theory, which emphasizes the importance of monitoring mechanisms to reduce conflicts of interest. In contrast, the study finds a difference in the influence of firm size on tax policies depending on audit quality. Large firms audited by higher-quality auditors tend to adopt more compliant tax policies, supporting the agency-theory view that stronger oversight can curb managerial opportunism. However, there is no difference in the effect of earnings management on

tax policies across audit types, suggesting that audit quality may not be sufficiently effective in limiting the impact of earnings management and that moral hazard risks remain relatively high.

In line with these findings, governments and tax authorities should continue strengthening oversight of transfer pricing, particularly by improving the effectiveness of audits on related-party transactions and enforcing stricter transfer pricing documentation, so that corporate tax compliance is maintained regardless of external audit quality. Large companies are also encouraged to engage reputable, high-quality auditors, such as Big Four firms, to enhance stakeholder trust and to ensure tax policies are developed transparently and in accordance with regulations. At the same time, the audit profession should further improve its capacity to detect opportunistic earnings management, while consistently maintaining independence and integrity, so that the supervisory role over tax-related policies can function more effectively and reduce moral hazard.

This study also has several limitations. The sample is restricted to firms audited by Big Four and non-Big Four auditors, which may not fully represent all Indonesian firms, particularly small and medium-sized enterprises that are not externally audited. The study relies on cross-sectional data and quantitative indicators, which may not capture qualitative dimensions such as auditor judgment, organizational culture, or managerial intent, thereby limiting causal inference over time. Finally, the non-significant difference in the earnings management–tax policy relationship across audit types suggests that current audit practices may not fully detect opportunistic accounting behavior, highlighting a limitation in using audit quality as a stand-alone control mechanism.

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