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Internal Information Quality's Role in Tax Avoidance and Earnings Disclosure Transparency

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Abstract: This research investigates how Internal Information Quality (IIQ) moderates the link between aggressive tax avoidance and earnings disclosure transparency in consumer goods manufacturing firms from 2022 to 2024. Employing a quantitative method with financial statement data, the study finds that aggressive tax strategies significantly raise discretionary revenue, reducing transparency. IIQ acts as a moderating factor, where delays in financial reporting suggest potential earnings manipulation aimed at presenting a favourable image to stakeholders. Such delays may reduce the informative value of disclosures. The findings highlight the need for stronger corporate governance and the adoption of real-time financial reporting systems to minimise information asymmetry. This study enhances tax accounting literature by showing that IIQ impacts operational decisions and influences the reliability of financial disclosures.
Keywords: Tax Aggressiveness; Internal Information Quality; Earnings Disclosure Transparency; Discretionary Revenue.

Abstrak: Penelitian ini mengkaji peran Kualitas Informasi Internal (IIQ) sebagai variabel moderator dalam hubungan antara agresivitas penghindaran pajak dan transparansi pengungkapan laba pada perusahaan manufaktur barang konsumsi tahun 2022 sampai 2024. Dengan pendekatan kuantitatif dari data laporan keuangan, hasil analisis menunjukkan bahwa penghindaran pajak yang agresif meningkatkan pendapatan diskresioner, yang artinya mengurangi transparansi pengungkapan laba. IIQ menjadi faktor moderasi, di mana keterlambatan penerbitan laporan keuangan mengindikasikan potensi manipulasi laba untuk menampilkan citra baik di hadapan pemangku kepentingan. Penundaan tersebut dapat mengurangi nilai informatif dari pengungkapan. Temuan ini menekankan pentingnya penguatan tata kelola perusahaan dan penerapan pelaporan keuangan real-time guna mengurangi asimetri informasi. Penelitian ini memberikan kontribusi pada literatur akuntansi pajak dengan menunjukkan bahwa IIQ tidak hanya memengaruhi efisiensi operasional, tetapi juga mempengaruhi keandalan pengungkapan keuangan.
Kata Kunci: Agresifitas Penghindaran Pajak; Kualitas Informasi Internal; Transparansi Pengungkapan Laba;Pendapatan Diskresioner.

INTRODUCTION

Transparency in financial reporting is a crucial part of the investment decision-making process, influencing investor trust and behaviour (Yoro, 2024). Earnings disclosure transparency is a crucial element of good corporate governance, as it serves as the foundation for investor confidence, market stability, and regulatory compliance. A recent study by DeFond (Hung & Trezevant, 2021) confirms that transparent disclosure reduces information asymmetry and lowers the firm's cost of capital, especially in markets with high levels of uncertainty. Aggressive tax avoidance practices are a legal but risky strategy to minimise tax liabilities; this is an increasingly prominent phenomenon. (Balakrishnan et al., 2019) Investigate the relationship between corporate tax aggressiveness and transparency, finding that firms engaging in more aggressive tax strategies tend to exhibit lower overall corporate transparency. (Balakrishnan et al., 2019) suggest that reduced transparency may be a strategic choice to obscure aggressive tax positions from stakeholders and regulators, highlighting the trade-off between tax benefits and reputational or regulatory risks.

This phenomenon is increasingly relevant in globalisation, where multinational corporations and MSMEs face evolving tax regulatory dynamics, such as implementing Base Erosion and Profit Shifting (BEPS) by the OECD (Carroll & Kellow, 2021). The OECD report shows that 30 per cent of multinationals use cross-border structures to shift profits to low-tax jurisdictions, creating challenges for financial statement transparency. Although this practice is legal, its implications for transparency are highlighted, as companies tend to hide fiscal risks or perform earnings manipulation through ambiguous accounting policies (Balakrishnan et al., 2019). Feng's (Habib & Tian, 2019) research reveals a significant and positive relationship between aggressive tax planning and stock price synchronicity. This is attributed to the tendency of firms to conceal material information regarding high-risk tax transactions within various tax accrual accounts, which reduces the transparency of financial statements, heightens information asymmetry, and diminishes the informativeness of stock prices.

The tension between the economic incentive of maximising after-tax profits and the demand for transparency creates a modern corporate paradox. Recent literature emphasises that tax avoidance negatively affects firm value due to using grey areas and investor concerns about potential future sanctions (Wardani & Susilowati, 2020). Although tax planning contributes positively to firm value, this effect may be weakened by higher levels of transparency (Puspita et al., 2023). Notably, firms that provide more transparent economic reporting, hold frequent board meetings, and have audit committees with strong financial expertise tend to adopt more effective tax avoidance strategies (Wulansari & Pohan, 2024). These insights are consistent with agency and stakeholder theories, revealing the intricate relationship between transparency and tax efficiency. Furthermore, while income tax significantly impacts transfer pricing decisions, motivations such as tunnelling and tax minimisation appear to have no significant influence (Mahdeni et al., 2024). These findings highlight the nuanced challenges firms face in balancing the pursuit of tax efficiency with stakeholder expectations for openness in today's corporate environment.

(McGuire et al., 2018) Higher-quality internal information enables managers to identify and execute tax-motivated income shifting opportunities more effectively. Internal information quality can mitigate risk and increase accountability. It includes the accuracy, timeliness and relevance of financial data, a key mechanism in moderating or mediating the relationship between tax aggressiveness and earnings disclosure transparency. (Osswald, 2020) indicates that elevated tax risk weakens the positive association between internal and external information quality, primarily due to proprietary cost concerns. (Abidin, 2021) provides evidence that enhanced internal audit quality contributes to more comprehensive disclosures regarding risk management and internal control systems. (Sihono & Munandar, 2023) Find that political affiliations are positively linked to tax aggressiveness, whereas executive compensation exhibits a negative relationship with it, moderated by the quality of audit processes. Meanwhile, Pamungkas & Firmansyah (2021) demonstrate that tax aggressiveness adversely affects the informativeness of earnings, as intricate tax arrangements obscure investors' ability to assess the quality of reported earnings. Collectively, these studies underscore the complex interplay among internal audit quality, tax practices, corporate governance mechanisms, and information transparency, highlighting the critical role of audit quality in enhancing disclosure and reducing information asymmetry. In fact, the KPMG report (2022) states that 65 per cent of tax dispute cases in Southeast Asia stem from internal data inconsistencies, which trigger regulatory mistrust. Therefore, this study proposes that internal information quality is not just an operational tool, but also a reputational strategy to mitigate the risk of negative perceptions of aggressive taxation.

The temporal aspect of financial report publication is also a critical dimension often overlooked. Companies with complex tax activities take longer to finalise financial statements, as they must ensure consistency between tax data, financial statements, and risk disclosures. Tax avoidance strategies have been found to influence the timeliness of financial statement publication (Puteri & Satyawan, 2020), indicating a potential link between tax complexity and reporting timelines. Delaying the publication of financial statements may be a strategy to increase the report's credibility. (Blankespoor et al., 2020) found that companies using blockchain technology for real-time reporting experienced increased fraud due to the lack of time for data verification. Thus, aggressive companies may deliberately delay publication to ensure accuracy and alignment between tax data and financial statements, so external users perceive the report as more transparent.

Drawing from the existing body of research, this study highlights two critical research gaps that warrant further exploration. First, prior studies have shown inconsistent findings regarding the link between tax aggressiveness and corporate transparency. Some studies suggest a negative relationship, while others find a neutral or positive connection. These inconsistencies point to the possibility of moderating variables that have not been sufficiently examined. One such variable that merits attention is internal information quality, which may influence how companies manage and disclose aggressive tax strategies. Understanding this dynamic could provide deeper insights into how transparency is maintained or diminished. Second, the literature on the timing of financial reporting, particularly the lag between fiscal year-end and the publication of financial statements, remains fragmented and underdeveloped. Few studies have explored the possibility that delays in reporting may be driven by managerial motives related to transparency, especially among firms engaging in aggressive tax behaviour. This study addresses these two gaps by: (1) investigating the moderating role of internal information quality in the relationship between tax aggressiveness and transparency; and (2) examining how temporal aspects of financial disclosure reflect strategic intentions in tax-aggressive firms. The findings are expected to contribute to academic discourse and practical policy considerations.

This study introduces a fresh perspective by examining the moderating role of internal information quality (IIQ) in the relationship between tax aggressiveness and earnings disclosure transparency (Suwardi et al., 2024), while also incorporating the temporal dimension of financial statement publication as a potential indicator of managerial strategy in tax-aggressive firms. Unlike prior research that tends to isolate internal information quality from tax avoidance issues or focus primarily on external governance mechanisms, this study conceptualises IIQ as an operational control tool and a reputational safeguard that can mitigate the adverse effects of aggressive tax practices on corporate transparency. Furthermore, it advances the literature by framing delays in financial report publication as a deliberate strategic signal to shape perceptions of transparency, particularly in organisations engaging in complex tax planning. This dual focus offers a novel contribution to the tax-transparency discourse, especially in emerging economies where regulatory environments and market expectations are rapidly evolving.

This study is expected to produce output providing empirical evidence that aggressive tax behavior significantly reduces the transparency of earnings disclosure, especially in companies with low internal information quality, high internal information quality can reduce the negative impact of tax aggressiveness on transparency, can provide practical recommendations for regulators and business actors, especially in developing countries, to improve internal information system standards as a reputational risk mitigation strategy while maintaining tax compliance. This output is expected to fill the literature gap on the role of internal factors in tax-transparency dynamics.

THEORETICAL REVIEW

Information Asymmetry Theory. Information Asymmetry Theory describes a situation where one party to a transaction has an information advantage over the other, creating an imbalance that affects market dynamics. (Akerlof, 1970) illustrates this concept through the used car market, where the seller knows the detailed condition of the vehicle, while the buyer can only speculate. This imbalance is often seen in the business world between company management, which controls internal data such as tax strategies, and investors, who rely on limited financial statements. Companies may manipulate earnings or hide tax risks to project positive performance. However, this can potentially mislead stakeholders; this phenomenon forms the basis for analysing various issues such as adverse selection and moral hazard.

Recent research has investigated how earnings management (EM) influences cross-border mergers and acquisitions (M&As) and the role of corporate governance. (Dokas et al., 2025) discovered that EM practices by target firms are significantly associated with a higher likelihood of M&A deal cancellations, particularly when compounded by disparities in corruption levels and legal system effectiveness across countries.

Meanwhile, geographic distance had a minimal effect on deal completion in the presence of elevated EM. In a separate study, Martens et al. (2023) focused on frontier markets, demonstrating that increased financial comparability, the involvement of reputable audit firms, and broader analyst coverage help curb EM and reduce information asymmetry. These studies underscore the importance of institutional quality and governance structures in addressing informational gaps in international transactions. While (Dokas et al., 2025) concentrated on European companies involved in cross-border M&As, (Martens et al., 2023) analysed non-financial entities from 19 frontier economies. The combined insights enhance our understanding of how EM and governance mechanisms shape outcomes in global corporate activities.

In the realm of capital structure, Lemmon & Zender (2018) examine capital structure decisions in the context of asymmetric information, integrating elements of both pecking order and trade-off theories. (Lemmon & Zender, 2018) develop a model that considers not only the face value of debt but also the restrictiveness of debt covenants as key components of financial structure. This approach allows for a more comprehensive analysis of capital structure choices. The Model balances ex ante adverse selection against ex post moral hazard, providing a novel perspective on how firms determine their optimal capital structure. The study generates new empirical implications for understanding corporate financing decisions by incorporating the pecking order and trade-off theories. The research contributes to the literature by offering a more nuanced view of how asymmetric information influences firms' debt capacity and capital structure choices (Lemmon & Zender, 2018). This study reinforces the pecking order theory (Myers & Majluf, 1984), which states that firms prioritise internal funding before turning to debt and equity.

Furthermore, the interaction of information asymmetry with institutional factors, such as legal quality and transparency, suggests that a strong regulatory environment can reduce reliance on debt as a risk mitigation mechanism. This underscores the complexity of information asymmetry dynamics in a global context. Theoretical solutions to address information asymmetry are also explored in a contemporary study (Liu & Ying, 2025), which suggests that firms may manipulate signals (financial statement information) to create positive perceptions, while private information remains hidden. (Di Toro, 2022) Critics argue that information asymmetry continues to disrupt the strong efficient market hypothesis, as asset prices only become "fair" if private information is made public, the implication being that although technology and regulation improve transparency, information inequality remains a structural challenge in modern markets.

Aggressive Tax Behaviour. Aggressive tax behaviour, which is defined as a company's attempt to reduce tax liabilities through legal but potentially unethical strategic planning (Marta et al., 2019), found no significant overall relationship between corporate social responsibility (CSR) and tax avoidance among US companies. Nevertheless, their analysis revealed that firms engaging in more aggressive tax avoidance practices were also more inclined to adopt CSR initiatives, potentially as a strategic response to reduce reputational and regulatory risks. In a different context, Jiang et al. (2022) analysed the influence of compulsory CSR disclosure on tax avoidance in Chinese firms. Their findings indicate that mandatory CSR reporting led to increased tax avoidance, especially among firms with lower profitability, limited ability to shift costs, and those more directly affected by the disclosure regulations. This outcome suggests that firms may use tax strategies as a compensatory mechanism to manage the financial burdens imposed by CSR compliance.

Factors such as governance structure and managerial control mechanisms also affect aggressive tax behaviour. Research on Italian family firms by Flamini et al. (2021) identified that ownership concentration and independent members on the board of directors increased the tendency of tax aggressiveness, while using strategic planning and integrated reporting systems reduced the practice. This finding aligns with agency theory, where conflicts between majority and minority shareholders and the lack of adequate supervision can encourage the exploitation of tax loopholes. On the other hand, a study on multinational companies by Gauß et al. (2024) shows that strict transfer pricing rules and competitive pressures in the domestic market can limit cross-border tax avoidance practices, especially for companies operating in jurisdictions with transparent tax regulations. This confirms that the institutional environment and government policies act as important mitigators.

Earnings Disclosure Transparency. Earnings disclosure transparency is a critical concept in financial accounting that refers to how corporate earnings information accurately reflects economic reality and is accessible to stakeholders. Earnings transparency plays a crucial role in corporate financial practices and decision-making.

Research (Chauhan & Pathak, 2020) shows that firms with greater earnings transparency tend to pay higher cash dividends, supporting the theory that dividend policy is influenced by information asymmetry. Earnings transparency also mitigates information asymmetry, enhances financial disclosure quality, and boosts investor confidence (Qayoom & Chisti, 2025). However, regulatory inconsistencies and market-specific variations arise in standardising transparency practices. Emerging trends such as AI-driven auditing, blockchain technology, and ESG-aligned disclosures are reshaping the transparency framework. These findings have implications for managers formulating dividend policies, investors identifying dividend-paying stocks, and policymakers working towards global disclosure harmonisation. Recent research by Athaya et al. (2025) underscores the crucial role of financial statement transparency in mitigating profit manipulation practices. High levels of transparency enhance the reliability and credibility of financial disclosures and strengthen internal and external monitoring mechanisms, including audits and corporate governance structures. Transparent financial reporting increases investor trust and limits managerial discretion in manipulating earnings figures for opportunistic purposes.

The role of corporate governance and technology is also a driving factor for transparency. (Hapsari et al., 2022) Highlight that technology integration strengthens the accuracy of earnings disclosures by reducing human error and improving consistency. This finding confirms that transparency results from synergy between regulation, governance, and technological infrastructure. However, implementing earnings disclosure transparency faces contextual challenges, especially in developing countries. (Athaya et al., 2025) reveals that transparency functions beyond its technical reporting aspect and acts as an ethical and structural safeguard that reinforces organisational integrity. By providing accurate, relevant, and verifiable information, transparent reporting reduces information asymmetry between management and stakeholders, discouraging earnings management behaviours.

Internal Information Quality. Internal information quality (IIQ) is critical to earnings disclosure transparency, especially in tax planning and strategic decision-making. (Saragih, 2024) finds that strong corporate governance enhances the positive impact of IIQ on tax savings, emphasising the importance of effective governance structures. (Osswald, 2020) Higher IIQ generally improves external information quality (EIQ), but this association is attenuated in firms with high tax risk due to concerns about proprietary costs. (Laplante et al., 2021) demonstrate that IIQ facilitates state tax planning, particularly when firms face restrictive state tax laws or lack international income shifting opportunities. These findings highlight the complex interplay between IIQ, corporate governance, and tax planning strategies. This is achieved because IIQ facilitates the identification of tax reduction opportunities, strong documentation, and coordination across business units, thereby reducing information asymmetry and increasing the reliability of financial statements. The role of regulation and corporate governance also strengthens the relationship between IIQ and earnings transparency.

Nevertheless, the challenges of IIQ implementation and earnings transparency are still significant, especially in developing countries. Factors such as geographical disparities, paternalistic culture, and regulatory instability hinder the optimisation of IIQ. For example, multinational companies with dispersed operations require complex coordination of information, and failure in this regard may result in inconsistencies in earnings disclosure. A study in Pakistan by Saleem and Usman (2020) also found that a non-transparent information environment increases the risk of stock price crashes due to the accumulation of negative news that management covers up, so investors demand a higher risk premium. Therefore, efforts to improve IIQ must be accompanied by improved internal audit quality, human resource training, and harmonisation between global standards and local practices to mitigate these risks.

Relationship between Aggressive Tax Behaviour and Earnings Disclosure Transparency. Prior studies have consistently highlighted a significant relationship between aggressive tax planning and information asymmetry within corporate environments. Firms that actively engage in tax avoidance tend to exhibit elevated levels of information asymmetry and reduced stock price informativeness (Feng et al., 2019; Chen et al., 2018). This is primarily attributed to the opacity generated by complex tax arrangements, which are often embedded within financial statements in a manner that obscures the firm's actual financial position. Such opacity compromises investors' ability to assess firm value accurately, undermining market efficiency and distorting investment decisions (Feng et al., 2019). In addition to impeding financial transparency, aggressive tax strategies may create fertile ground for managerial opportunism, especially in jurisdictions with weak institutional safeguards and limited investor protection. Under such circumstances, insiders may exploit tax complexity to divert corporate resources for personal gain, intensifying agency conflicts between management and shareholders (Bauer et al., 2020). These behaviours deteriorate governance quality and increase the risk of wealth expropriation from minority shareholders.

The adverse implications of tax-driven income shifting are particularly pronounced in multinational firms that experience substantial disparities in earnings growth between domestic and foreign operations. (Chen et al., 2018) This dynamic is further exacerbated when firms cease reporting disaggregated geographic earnings, depriving stakeholders of a clear understanding of the sources of profitability. The absence of geographic disclosure weakens stakeholders' ability to monitor managerial decision-making and increases uncertainty regarding tax strategies and income distribution across jurisdictions. These findings suggest that tax aggressiveness extends beyond financial performance concerns and must be viewed through corporate governance. In some instances, such practices may disproportionately benefit dominant shareholders or insiders, while posing risks to less-informed investors (Bauer et al., 2020; Manjiri & Ahmadipanah, 2019). The selective concealment of tax-related information can erode investor confidence and reduce the perceived fairness of corporate reporting practices. From a governance perspective, these insights underscore the need for more stringent tax transparency policies and enhanced oversight mechanisms. Effective board monitoring, robust internal audit functions, and increased scrutiny by external auditors can help deter overly aggressive tax behaviour. Furthermore, mandatory disclosure of tax risks and geographic income segmentation may empower investors to make more informed decisions and hold management accountable.

(Chaudhry, 2021) attributes the low effective tax rate (ETR) to increased idiosyncratic stock volatility, which reflects market uncertainty about firm value. Martinez and Leal (2023) report that greater analyst coverage of firms listed on Brazil's B3 stock exchange is inversely related to tax aggressiveness. This finding implies that enhanced external monitoring by financial analysts serves as a governance mechanism that mitigates information asymmetry and encourages more transparent tax reporting practices. Increased analyst scrutiny exerts pressure on management to reduce engagement in opaque or overly aggressive tax strategies, thus aligning corporate behaviour with stakeholder expectations for transparency and accountability. A related study (Kim et al., 2020) explores the oftenobserved weak link between executive compensation and firm performance. They propose that aggressive tax avoidance strategies are one potential driver of this low pay-performance sensitivity (PPS). Such practices can distort financial information by introducing ambiguity and inconsistency in reported earnings, making it challenging to assess managerial performance accurately. As a result, boards may struggle to design effective compensation contracts that align managerial incentives with shareholder value. These findings highlight a broader implication: tax avoidance is not merely a financial tactic but a factor that can undermine internal governance structures by weakening the reliability of performance metrics. Therefore, tax strategy should be considered a key element in executive compensation design and corporate transparency policies. The description of the previous research integrates empirical findings from various leading research studies to strengthen the argument that tax aggressiveness can potentially weaken the transparency of earnings disclosure through the mechanisms of information asymmetry, strategic complexity, and reputational risk. Hence, the first hypothesis developed in this study is:

H1: Tax Avoidance Aggressiveness can reduce Earnings Disclosure Transparency.

The Role of Internal Information Quality as a Moderator. Research by Alsmady et al. (2023) on public companies in Jordan showed that the high quality of accounting information can reduce information asymmetry and improve company performance, even when companies perform aggressive tax avoidance. This study emphasises that a strong internal reporting system allows management to disclose tax information more transparently, even though complex tax strategies are used. This is supported by the agency theory framework, where good internal information quality helps align the interests of managers and shareholders, thereby reducing the risk of concealment of tax activities. In addition, Duhoon and Singh (2023) highlight that corporate governance practices (such as effective audit committees) and linkages with CSR can improve transparency, especially in firms that aggressively optimise taxes. They found that firms with good governance tend to disclose tax risks in more detail to maintain social legitimacy.

Recent research by Adams et al. (2024) analysed voluntary tax disclosure practices in sustainability (ESG) reports and found that companies with high internal information quality tend to be more transparent despite aggressive tax avoidance. The study identified that detailed tax disclosures, such as country-by-country reporting, can reduce stock bid-ask spreads, reflecting a decrease in information asymmetry. Such companies use strong internal infrastructure to integrate tax data with sustainability reporting, thus creating a coherent impression of transparency. The findings of (Adams et al., 2024) support the research of (Balakrishnan et al., 2019), which confirms that increased tax-related disclosures can offset the complexity of aggressive tax strategies if companies have an information system.

High-quality internal information also plays a role in reducing uncertainty related to tax risk. (Duhoon & Singh, 2023) Their literature review found that companies with strong internal control systems (such as internal audit and integrated risk management) can disclose the impact of aggressive tax strategies on earnings more accurately. These mechanisms allow investors to assess tax risks better, increasing confidence in financial statements. For example, multinational companies that use complex transfer pricing but have computerised tax reporting systems tend to disclose this information in detail to avoid regulatory sanctions. Case studies on technology companies in the US also show that integration between tax and finance departments facilitates more coherent disclosure, despite using aggressive tax structures (Balakrishnan et al., 2019). The above studies reinforce the argument that internal information quality is a balancing mechanism that mitigates the negative impact of tax aggressiveness on transparency. Integrating a strong internal reporting system, effective governance, and voluntary disclosure is key to maintaining transparency despite the company's aggressive tax strategy. Then the second hypothesis developed in this study is:

H2: Companies with aggressive tax behaviour and high internal information quality can increase financial report transparency.

METHODS

Data Type and Source. The data used in this analysis is sourced from the reports of manufacturing companies in the consumer goods sector that are consistently listed on the Indonesia Stock Exchange (IDX) during the period 2022 to 2024, accessed through the IDX official website (www.idx.co.id), as well as secondary data from the Datastream platform to strengthen the validity and completeness of the information. The selection of the consumer goods sector is based on its role as the backbone of the Indonesian economy, which not only contributes a significant portion to the Gross Domestic Product (GDP), but also reflects the dynamics of domestic demand influenced by income growth, urbanisation, and changes in people's consumption patterns. The 2022 to 2024 period was chosen because it covers the critical phase of economic recovery after the COVID-19 pandemic, during which the sector underwent rapid transformation due to fluctuations in raw material prices, inflationary pressures, and government stimulation policies.

Population and Sample. Population Research Data and Samples. Population is defined as all elements of concern in research. This study uses the consumer goods sector manufacturing industry listed on the IDX from 2022 to 2024. The sample in this study was selected based on specific criteria: (1) Eliminate observations with negative sales numbers or where the value of total assets is zero, or (2) Financial year-end is December 31, in this case, for consistency in the accounting period. (3) Industries with a current tax burden are a proxy for calculating book tax differences as a proxy for aggressive tax behaviour and for emphasising the absence of fiscal losses on the entity. (4) Entities with data relevance through variable calculations.

Data Collection Method: This research uses a documentation study, which involves collecting all secondary data and all the information needed. The data collected relate to tax avoidance aggressiveness, earnings disclosure transparency, and internal information quality in the annual report published on each company's website.

Operational Definition and Measurement of Variables. Independent Variable. The independent variable in this study uses a measurement of aggressive tax behavior on discretionary management of temporary book tax differences developed in the research of (Masri et al., 2019), which shows that temporary book tax differences can contain aggressive tax avoidance, because they involve more discretion from management related to time lag, while permanent book tax differences are more final in nature. The

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measurement of tax avoidance developed in this study is abnormal accrual earnings management from temporary book-tax differences.

Dependent Variable. The dependent variable in this study uses the Discretionary Revenue measurement developed by Hubbard (2024) as a proxy for earnings disclosure transparency. Discretionary revenue, which is measured through the deviation of expected revenue from actual revenue, reflects earnings management practices through discretionary revenue recognition. A high value of Discretionary Revenue indicates that companies may accelerate or delay revenue to manipulate perceptions of financial performance, thereby reducing the transparency of earnings disclosure. In other words, high Discretionary Revenue reflects low transparency, because the disclosed revenue does not represent actual operational activities.

Moderator Variable. The moderator variable in this study is the quality of internal information. Internal information quality is the extent to which the company's financial data and reports are accurate, complete, timely, relevant, and reliable for internal decision making. Internal information quality (IIQ) includes various aspects such as ease of access, usability, reliability, accuracy, quantity, and signal-to-information ratio in the organisation. The higher quality internal information allows companies to make decisions more quickly and efficiently, which is reflected in how long it takes to publish financial reports to the public. A shorter time lag between the end of the quarter and earnings announcement can be achieved in a high IIQ environment.

Control Variables. Market Value Equity (MVE). MVE reflects the size of the company and the level of market confidence in its equity value. Companies with high MVE generally have greater resources to manage sophisticated internal information systems, which may affect earnings disclosure transparency. However, large companies also tend to face regulatory pressure and stricter public scrutiny, potentially reducing tax aggressiveness to maintain their reputation. The study by Ling and Wahab (2019) revealed a negative relationship between permanent and temporary differences and equity value, suggesting shareholders are wary of tax planning activities due to inherent risks. By controlling for MVE, this study can isolate the pure effect of tax aggressiveness on transparency, regardless of the bias arising from differences in firm size.

Debt to Total Assets (DBTA). DBTA measures a firm's leverage, which is associated with financial risk and management's incentive to engineer earnings. Companies with high leverage (large DBTA) tend to be pressured to meet debt obligations, so they have the potential to carry out aggressive tax avoidance to increase short-term liquidity. However, high debt can also trigger agency conflicts, where managers tend to hide tax risk information to avoid violating debt covenants. The relationship between debt ratios and management decisions regarding accounting or tax reporting preferences is non-linear, with companies focusing on accounting reporting below certain debt thresholds and tax reporting above them (Tjondro & Permata, 2019). By controlling for DBTA, this study ensures that the relationship between tax aggressiveness and transparency is not mixed with leverage effects that may affect both variables.

Research Model and Hypothesis Formulation. This study includes three research models to test hypotheses 1 and 2. The following research model is attached:

First Model to test H1

$DisRev_{it} = \beta 0 + \beta 1\ TaxAgresif_{it} + \beta 2\ MVE_{it} + \beta 3\ DBTA_{it} + \varepsilon_{it}$ .... (1)

Second Model, to test H2, the role of IIQ as a moderator

$$DisRev_{it} = \beta0 + \beta1\ TaxAgresif_{it} + \beta2\ IIQ_{it} + \beta3\ TaxAgresif*IIQ_{it} + \beta4\ MVE_{it} + \beta5\ DBTA_{it} + \varepsilon_{it} \quad (2)$$

Description: Aggressive Tax = Aggressive tax based on the measurement; DisRev = Discretionary Revenue based on the measurement, which is a proxy for earnings disclosure transparency, which has an inverse meaning, namely the greater the value of Discretionary Revenue, the more it will reduce the transparency of earnings disclosure; IIQ = Internal Information Quality, measured by the number of days between the end of the quarter and the earnings announcement, the shorter the IIQ, the better; MVE = Market Value Equity, measured by the natural logarithm of Total Share Equity; DBTA = Debt to Total assets, measured by Total debt divided by total assets.

RESULTS

Overview and Research Sample. This study's samples were all manufacturing companies in the consumer goods sector listed on the IDX from 2022 to 2024. Financial information is in the form of annual financial reports obtained from the IDX website, www.idx.co.id. Research also utilises financial statements in the DataStream.

As attached in the appendix in **Table 1**. This research focuses on manufacturing business entities in the consumer goods sector. From 2022 to 2024, the number of manufacturing companies in the consumer goods sector listed was 102 companies, because this study used pool panel balance data, companies that did not publish financial reports from 2022 to 2024 were excluded from the sample, namely, 20 companies were excluded. After checking for entities that have deferred current tax as a proxy to calculate the book tax difference, six companies must be eliminated from the sample because they do not recognise current tax expense in the current year. After checking again, nine companies were excluded because they did not have complete data to calculate the research variables from 2022 to 2024. Finally, after collecting data for all variable measurements, the researcher removed four companies from the sample as outliers. Outlier data must be eliminated from the sample to obtain sound research output, until the final information utilised in this study is 63 companies for three years or 189 company years.

Table 1. Research Sample Selection

	Number of Observations
Public companies in the consumer goods sector listed in 2022 to 2024	102
Public companies in the consumer goods sector that do not publish financial reports for the period 2022 to 2024	-20
Public companies in the consumer goods sector that do not have current tax data in the period 2022 to 2024	-6
Public companies in the consumer goods sector that do not have complete data to measure the calculation of research variables during The period 2022 to 2024.	-9

Public companies in the consumer goods sector that do not have complete data to measure variables (outlier) for the period 2022 to 2024	-4
Sampel final Fiem	63
Sample final firm-year (3 years)	189

Source: Data processed April 2025

Descriptive Statistical Analysis. The calculation of descriptive statistics in the research functioned to ease monitoring by calculating average, median, minimum, maximum, and standard deviation values. Descriptive statistics of the variables utilised are presented in **Table 2**. The independent variable on aggressive tax shows the mean value is more than the median value, which shows a positively skewed distribution, where most companies have high aggressive tax behaviour. For the dependent variable on discretionary revenue, the mean value of discretionary revenue is 0.002, greater than the median value of -0.002, which means the data distribution is positively skewed. Most companies in the sample show high positive discretionary revenue, reflecting the occurrence of earnings manipulation practices, so they become less transparent. For the moderator variable, namely the quality of internal information as measured by the number of days to publish financial reports, the mean value of 90.227 is greater than the median value of 88, indicating that most companies take longer to publish financial reports, which means that companies tend to have lower quality internal information.

Table 2. Descriptive Statistics

	TAXAGRESIF	**DICREV**	**IIQ**	**MVE**	**DBTA**
Mean	-0.000	0.002	90.227	20.842	0.314
Median	-0.007	-0.002	88.000	20.800	0.316
Maximum	0.773	0.238	298.000	25.441	0.753
Minimum	-0.408	-0.180	41.000	16.684	0.023
Std. Dev.	0.084	0.046	25.231	1.703	0.171
Observations	189	189	189	189	189

Source: Data processed April 2025

Research Hypothesis Testing. The first research model is used to test hypothesis 1 on the effect of aggressive tax behaviour on earnings disclosure transparency, as shown in **Table 3**. The results showed that the F statistic was significant at the 1per cent level, with an Adj R2 value of 45 per cent. The t-test on the Aggressive Tax variable shows a positive and significant effect of 1 per cent. H1 can be accepted, which means that companies with aggressive tax behaviour tend to have high discretionary revenue, thus indicating that companies with aggressive tax behaviour are not transparent in disclosing earnings.

Table 3. First Model - H1 Variables Prediction Model 1

Variable	**Prediction**	**Model 1**		**Description**
		Coefficient	**Prob**	
C		-0.326	0.000	
TAXAGRESIF	Positive	0.065	0.000	H1 Accepted

MVE	Positive	0.014	0.000	As per previous research
DBTA	Positive	0.060	0.000	As per previous research
N			189	
Adj R2			0.4579	
F-statistic			3.443	
Prob(F-statistic)			0.000	

Source: Data updated April 2025

The second research model is used to test hypothesis 2 on the role of Internal Information Quality as a moderator variable that can increase the effect of aggressive tax behaviour on earnings disclosure transparency, as shown in **Table 4**. The results showed that the F statistic was significant at the 1 per cent level, with an Adj R^2 value of 22 per cent. For the t-test on the moderation of IIQ variables with Aggressive Tax, there is a significant positive effect at 1 per cent, H2 can be accepted, which means that Companies that tend to have aggressive tax behaviour and have internal information quality can increase financial report transparency.

Table 4. Second Model- H2 Variables Prediction Model 1

Variable	Prediction	Model 1 Coefficient	Model 1 Prob	Description
C		0.027	0.000	
TAXAGRESIF	-	-0.242	0.002	As per previous research
IIQ	+	0.000	0.000	As per previous research
TAXAGRESIF*IIQ	+	0.002	0.000	H2 Accepted
MVE	+/-	-0.001	0.000	As per previous research
DBTA	+/-	-0.035	0.000	As per previous research
N			189	
Adj R2			0.228	
F-statistic			12.109	
Prob(F-statistic)			0.00000	

Source: Data processed April 2025

DISCUSION

The t-test results on the Aggressive Tax variable reveal a statistically significant positive effect at the 1 per cent level, thereby supporting the acceptance of Hypothesis 1 (H1). This finding implies that firms exhibiting aggressive tax planning behaviour are more likely to report higher levels of discretionary revenue, which serves as a proxy for earnings management. Such a tendency suggests that these companies may intentionally manipulate revenue recognition to obscure their financial performance. Consequently, this behaviour reflects a lack of transparency in financial reporting, particularly in earnings disclosure. The implication is that aggressive tax strategies are often accompanied by reduced quality of financial information, potentially misleading stakeholders and undermining investor trust. This result aligns with prior literature that links tax aggressiveness with lower levels of financial reporting transparency and increased information asymmetry between management and external users (Bauer et al., 2020; Manjiri & Ahmadipanah, 2019).

(Bauer et al., 2020) Demonstrate that aggressive tax planning generates secrecy and complexity that impairs effective oversight, thereby enabling managers to conceal opportunistic behaviour. Moreover, their findings indicate that such tax strategies carry significant corporate governance implications, as they can be exploited as a mechanism for the management to expropriate corporate resources. Consequently, attention should be directed toward the fiscal dimensions of tax planning and its broader governance and monitoring consequences. (Manjiri & Ahmadipanah, 2019) Emphasise the critical role of reducing information asymmetry in the context of corporate tax governance. By highlighting the importance of transparency, accountability, and external oversight, their study offers valuable insights for policymakers, regulators, and other stakeholders to enhance reporting and audit systems and curb tax avoidance practices that may harm the state and investors. Companies that are aggressive in avoiding taxes often use earnings management to hide the negative impact of tax strategies on net income and to avoid regulatory oversight, which ultimately triggers a decrease in earnings disclosure transparency.

The results of the t-test on the interaction (moderating effect) between Internal Information Quality (IIQ) and Aggressive Tax indicate a statistically significant positive relationship at the 1 per cent level, thereby confirming the acceptance of Hypothesis 2 (H2). This finding implies that companies engaging in aggressive tax strategies, when supported by Internal Information Quality, are more capable of enhancing the transparency of their financial reporting. In other words, internal information quality can serve as a mitigating factor, offsetting the negative implications typically associated with tax aggressiveness. The proxy used to measure IIQ in this study is the reporting lag, defined as the time elapsed between the end of the fiscal year and the actual publication date of the audited financial statements. A longer delay is interpreted as an indicator of inefficiency in internal reporting processes, suggesting weaker internal information systems. The empirical results show that this proxy (reporting lag) positively and significantly influences discretionary revenue (DisRev), a commonly used proxy for earnings management. This means that the longer the delay in releasing financial statements, the more likely management is to manipulate earnings, possibly using the additional time to modify or "polish" the financial results to present a more favourable image to stakeholders. Such behaviour undermines transparency and may mislead users of financial reports.

Conversely, firms that publish their financial statements more promptly tend to exhibit lower levels of discretionary revenue, reflecting less aggressive earnings management. This suggests that efficient internal information systems and faster reporting cycles are associated with higher levels of transparency in earnings disclosure, even in companies that adopt aggressive tax strategies. These results highlight the crucial role of internal information quality in influencing the credibility of financial reporting. The findings are consistent with prior literature. For instance, Alsmady et al. (2023) demonstrate that a high quality of accounting information reduces information asymmetry and improves firm performance, even in aggressive tax avoidance. Their study underscores the importance of strong internal information environments in promoting accountability. Similarly, Adams et al. (2024) find that firms with robust internal infrastructures can better integrate tax data with sustainability disclosures, creating a more coherent and credible narrative of transparency. This alignment enhances stakeholders' perceptions of corporate integrity, even when firms engage in complex tax arrangements. Furthermore, the study by Balakrishnan et al. (2019), which supports (Adams et al., 2024), reveals that improved tax-related disclosures can counterbalance the complexity of aggressive tax planning, provided that firms possess a well-established internal reporting system. These findings underscore that while tax aggressiveness may introduce opacity, strong internal information quality and timely financial reporting can act as practical governance tools, enhancing the transparency and trustworthiness of corporate disclosures.

CONCLUSIONS

The findings suggest that companies involved in aggressive tax practices are more likely to manipulate earnings, particularly through discretionary revenue, an established proxy for earnings management. This tendency signals a deficiency in financial reporting transparency, especially in how earnings are disclosed. It raises doubts regarding the dependability and integrity of the financial information available to stakeholders. Furthermore, the study supports the theoretical view that aggressive tax strategies are often accompanied by heightened information asymmetry and weakened corporate governance mechanisms. As highlighted by (Bauer et al., 2020), such strategies foster complexity and opacity, which managers can leverage to misappropriate company resources and pursue self-serving actions amid insufficient oversight. Likewise, the research by Manjiri and Ahmadipanah (2019) emphasises the pivotal role of enhancing transparency, enforcing accountability, and implementing strong external monitoring to counteract governance challenges posed by tax avoidance. Collectively, these insights illustrate that aggressive tax planning extends beyond tax minimisation. It is closely associated with deeper issues such as earnings distortion, lower disclosure quality, and stakeholder trust erosion. Therefore, initiatives aimed at curbing aggressive tax behaviour must also prioritise reinforcing corporate governance structures, improving the transparency and credibility of financial reporting, and strengthening regulatory supervision to reduce informational imbalances and safeguard stakeholder interests.

The empirical findings provide compelling support for the notion that internal information quality (IIQ) significantly moderates the relationship between aggressive tax practices and the transparency of financial reporting. Operationalised through the timeliness of financial statement issuance, commonly called reporting lag, IIQ indicates the effectiveness and responsiveness of a firm's internal reporting mechanisms. The analysis reveals that extended delays in financial reporting are positively associated with higher discretionary revenue, suggesting increased opportunities for earnings manipulation and diminished transparency. In contrast, firms that release their financial reports more timely tend to exhibit lower levels of discretionary revenue, which signals enhanced reporting transparency and reduced managerial discretion, even when aggressive tax strategies are in use. These results are consistent with existing literature. (Alsmady et al., 2023) demonstrate that high-quality accounting information reduces information asymmetry and enhances overall firm performance, despite tax avoidance behaviour. In a similar vein, Adams et al. (2024) and Balakrishnan et al. (2019) highlight that well-developed internal reporting systems and timely, coherent disclosures can effectively counterbalance the lack of clarity introduced by complex tax planning mechanisms, thereby promoting stakeholder confidence and reinforcing governance.

Research Suggestions. (1) Companies need to improve the quality of internal information systems by adopting the latest technology to speed up the data consolidation process and reduce the risk of earnings manipulation. This system integration enables more accurate and real-time financial reporting, minimising the need to delay the publication of reports to "polish" the data.

(2) Regulators need to tighten specific disclosure mandates related to tax strategies to minimise information concealment practices. Companies that publish financial statements late without a good reason should face strict sanctions, such as progressive fines or compliance rating downgrades.

(3) Future research could explore the role of artificial intelligence (AI) and blockchain in detecting earnings manipulation associated with aggressive tax practices. These technologies could identify suspicious patterns in discretionary revenue or reporting timing irregularities. Researchers are encouraged to investigate non-financial factors, such as corporate culture or leadership style, that may influence the relationship between tax aggressiveness and transparency.

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