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MANAGER'S INCOME SMOOTHING ACTIONS DUE TO DEBT POLICY: THE MODERATING ROLE OF TAX AVOIDANCE

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Abstract
The manager carries out income-smoothing actions to guard the stability of profit. Stability and high profits are considered an indicator of a low-risk company. The manager made this effort to increase investor belief in providing the company with source funds. This study aims to test the effect of debt policy on action income smoothing. This research also includes tax avoidance as a moderating variable in this association. This study employs data derived from financial statements of listed manufacturing companies on the Indonesian Stock Exchange from 2016 until 2021—research data sourced from www.idnfinancials.com. Samples employed in this study totaled 564 observations (firm-year). Testing hypothesis is using analysis of multiple linear regression for panel data. This study finds that debt policy is positively associated with income smoothing. However, tax avoidance has no role in moderating the association between debt policy and income smoothing. This study contributes to developing literature on income smoothing in financial accounting research frameworks using different proxies in the Indonesian context.
Keywords: Earnings quality, Income smoothing, Leverage, Tax planning

Abstrak
Manajer melakukan tindakan perataan laba untuk menjaga stabilitas laba. Stabilitas dan keuntungan yang tinggi dianggap sebagai indikator perusahaan yang berisiko rendah. Upaya ini dilakukan manajer untuk meningkatkan kepercayaan investor dalam menyediakan sumber dana bagi perusahaan. Penelitian ini bertujuan untuk menguji pengaruh kebijakan utang terhadap tindakan perataan laba. Penelitian ini juga memasukkan penghindaran pajak sebagai variabel moderasi dalam hubungan ini. Penelitian ini menggunakan data yang berasal dari laporan keuangan perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2016 hingga 2021—data penelitian bersumber dari www.idnfinancials.com. Sampel yang digunakan dalam penelitian ini berjumlah 564 observasi (firm-year). Pengujian hipotesis menggunakan analisis regresi linier berganda untuk data panel. Penelitian ini menemukan bahwa kebijakan utang berhubungan positif dengan perataan laba. Namun penghindaran pajak tidak berperan dalam memoderasi hubungan antara kebijakan utang dan perataan laba. Penelitian ini berkontribusi untuk mengembangkan literatur mengenai perataan laba dalam kerangka penelitian akuntansi keuangan dengan menggunakan proksi berbeda dalam konteks Indonesia.
Kata Kunci : Kualitas laba, Leverage, Perencanaan pajak, Perataan laba,

INTRODUCTION

Investors select companies to invest in based on their performance. Company performance can be analyzed using information from financial reports and data from the IDX. However, corporations that use income smoothing can cause investors to make poor investment selections (Natalie & Astika, 2016). In investing, investors seek the maximum possible return from a reasonable level of risk. Managers strive to reduce risk in these circumstances by smoothing revenue (Novianti & Firmansyah, 2020). In practice, managers use natural or artificial techniques to stabilize profitability (Novianti & Firmansyah, 2020). However, not all managers' efforts to stabilize earnings are organic. Hence, some managers take artificial measures to stabilize profits. Income smoothing is the practice of artificially stabilizing earnings. From an investors' perspective, stable earnings suggest that management attempts to eliminate risks associated with profit fluctuation. High earnings volatility suggests the possibility of future uncertainty regarding the company's status (Firmansyah, Utami, et al., 2020).

Income smoothing is voluntary activity management takes to lessen a company's profitability variability by employing certain accounting procedures for logical and sensible reasons (Artawan et al., 2020). The company's income smoothing action can harm investors since it conceals weak profit performance by shifting earnings from a good to a bad year, preventing investors from making sound judgments. Investors are the primary stakeholders in financial reports and want comprehensive information on the company's financial condition (Kieso et al., 2018). Investors can use this information in evaluating and analyzing investments related to the company's risk and return on investment. One of the most important information for investors in financial reports is profit. Investors can use corporate profit data to evaluate performance, forecast future earnings, and calculate investment risk (Green & Zhao, 2022). The link between accounting profits and firm stock returns demonstrates the usage of accounting profits in evaluating companies. Earnings are thought to contain information content if there is a link between profit and stock returns.

Given the significance of earnings quality, investors should examine the company's financial statements beyond the profit and loss components, paying special attention to the techniques employed to generate earnings data. This circumstance compels firm executives to take activities that improve financial statements, ensure the company's existence so that it functions smoothly, and entice investors to invest (Osadchy et al., 2018). As a result, management is likely to take income-smoothing activities to stimulate investor interest and keep the share price offered in line with the company's expectations.

Indonesia has attracted many investments in the manufacturing industry in recent years, establishing Indonesia as a manufacturing center in Southeast Asia. The Indonesian Ministry of Industry announced that, despite the interruption caused by the COVID-19 epidemic, 39.5% of total investment in Indonesia was invested in the manufacturing industry in the first semester of 2022 (Kementerian Perindustrian, 2023). Intense capital rivalry among manufacturing businesses might encourage managers to engage in dubious corporate strategies such as income smoothing and tax dodging to decrease performance volatility and secure growth momentum.

Income smoothing is a strategy designed to generate signals to anticipate future earnings more precisely, benefiting business value (Thoharo et al., 2021). Income smoothing, a component of earnings management, frequently leads to negative public views. Al-Shattarat (2021) stated that because earnings management actions involve a bias in assessing reported earnings (raised or lowered), the dependability of valuable information will be compromised. Earnings management activities come from opportunities restricted by accounting rules. Hence, these acts do not represent infractions that result in manipulation.

Managers' income smoothing can mask true profit information. According to agency theory, an agency relationship is a contract with one or more persons who serve as principals and designate others as agents to execute services in the principal's interests, such as delegating decision-making power (Lahaya, 2017). According to agency theory, there are disparities in interests between the agent and the principal. Therefore, management may not always take the best actions in the owner's interests (Sellah & Herawaty, 2019). As corporate leaders, management demonstrates strong company performance to attain certain goals. In a few other circumstances, the conflicting interests are between management and the company's owners or shareholders and between management and other consumers of accounting information, such as the government, creditors, and potential investors. management can leverage the availability of asymmetric knowledge between management and shareholders to alter financial report figures, particularly profit information (Scott, 2015). Stable profits indicate that managers can reduce company risk (Firmansyah et al., 2020b). Income smoothing, on the other hand, can disadvantage investors when making selections based on fundamental research. As a result, further research into income smoothing is required.

This research aims to examine the effect of debt policy on income smoothing. Income smoothing is largely driven by certain management policies, such as company funding originating from debt. Managers use their discretion to influence the numbers in financial reports. Companies carry out debt financing intending to find easier sources of funding (Firmansyah, Fauzi, et al., 2020). Based on the debt covenant hypothesis, managers will try to display the numbers in financial reports better to attract the attention of creditors to provide their resources to the company. In addition, stable profits are considered better by external parties because the company is in good condition and has risk mitigation. Stable profits indicate that the company is in a low-risk condition. Therefore, when the company has stable profits, creditors will have more confidence in providing loans to the company.

Capital markets in developing countries such as Indonesia have different characteristics from those in developed countries, where the investor protection system is more adequate. In contrast, capital markets in developing countries tend to be characterized by a lack of protection for investors and a significant gap between regulation and compliance (Iatridis, 2012). It causes investors to perceive that accounting numbers in developing countries are more susceptible to manipulation, so companies that list their debt instruments on developing country capital markets may have to bear higher debt costs than similar companies that list their debt instruments on developed country capital markets, even though both have the same level of profitability. The pressure to achieve above-average financial performance tends to be higher in developing countries, especially if companies in developing countries expect financing from investors in developed countries. This condition can encourage managers to carry out excessive income smoothing. Indrawan & Damayanthi (2020), Oktaviasari et al. (2018), Ramanel & Susuilo (2018), and Widhyawan & Dharmadiaksa (2015) concluded that debt policy is positively associated with income smoothing.

On the contrary, Arifah et al. (2022) and Nathania & Nugroho (2023) found that debt policy is negatively associated with income smoothing. Furthermore, Bobby et al. (2022), Mulyati & Mulyana (2021), Putri & Lutfillah (2020), Trisnawati et al. (2017) and Tsuroyya & Astika (2017) suggested that debt policy is not associated with income smoothing. Thus, the various results of the previous studies boost to reexamine the association debt policy and income smoothing.

This research also includes tax avoidance as a moderating variable. Tax avoidance is tax planning to reduce the tax expenses on the government. Tax avoidance motives can be carried out because the company is in greater debt (Amalia & Firmansyah, 2022; Yulianty et al., 2021). Debt can be used for thin capitalization to increase margins. Apart from that, tax avoidance is also usually carried out in the context of earnings management. One pattern used is income smoothing. Unlike the cost of equity, the debt component can be charged for tax purposes and reduces the amount of tax payable. Some components of debt costs include interest and provisions. Interest costs can reduce the amount of tax payable so that it can boost profits (earnings after tax) in the current year. The company also benefits from the allocation of amortization charges for provision costs over the useful life of the debt. Tax avoidance practices can increase managers' motivation to increase the portion of debt in the company's financing sources. Therefore, tax avoidance is thought to have a moderating role in the relationship between debt policy and income smoothing.

This research is expected to be able to contribute to providing financial accounting literature related to one pattern of earnings management, namely income smoothing. Apart from that, this research can also provide input to the capital market supervisory authority in monitoring manager activities that are not in line with investors' interests. It is also envisaged that this research will be used by Indonesian tax authorities to identify tax avoidance acts taken by firms through income smoothing or debt programs.

LITERATURE REVIEW

According to positive accounting theory, managers will prefer accounting policies that will catch the attention of creditors (Scott, 2015). Managers utilize their judgment to smooth earnings between periods, allowing corporations to report profits that do not reflect the period's economic income (Gbadebo, 2023). When managers smooth earnings across time, depending on the managerial incentives for such income smoothing measures, this behavior can increase or distort earnings information (Firmansyah & Herawaty, 2019). Income smoothing distorts the content of earnings and cash flows, leading to higher earnings.

Companies perform income-smoothing actions for various reasons (Tucker & Zarowin, 2006). To begin, income smoothing actions can be used to lower tax debt by reducing profits and increasing expenditures in the current year. Second, income smoothing can boost investor trust by promoting profit stability and a desired dividend policy. Third, income smoothing activities can build the relationship between managers and employees since quickly expanding profit information spreads the likelihood of salary increase requests so that this action can avoid salary increase requests from employees. Fourth, income smoothing methods psychologically impact the economy by allowing success and setbacks to be contrasted and suppressing waves of optimism and pessimism. In addition, income smoothing refers to a company's management endeavor to eliminate irregular profit swings allowed by accounting and management standards (Tucker & Zarowin, 2006).

Capital-intensive manufacturers must sustain investor interest and confidence to meet capital requirements for acquiring fixed assets such as property, plant, and equipment (PP&E) required to expand or maintain current business operations. The optimal level of financial leverage allows the company to maximize growth with the most efficient and effective financing scheme. Investors' perception of risk can influence their return expectations, meaning that higher perceived risk can lead to increased capital costs that the company is trying to avoid.

Indrawan & Damayanthi (2020), Oktaviasari et al. (2018), Ramanel & Susuilo (2018), and Widhyawan & Dharmadiaksa (2015) found that leverage leads managers to conduct income smoothing actions. When a company needs a source of funding from debt, the company needs to convince creditors of the company's financial condition. Companies with stable profits can attract the attention of creditors because creditors have confidence that the company can fulfill its obligations in the future. Managers have policy discretion in presenting financial information in financial reports that do not violate financial accounting standards. Due to the aim of convincing creditors regarding the company's stable condition, the manager chose to take income smoothing action.

H_1: Debt policy is positively associated with income smoothing

Based on positive accounting theory, companies tend to reduce earnings when there is an obligation to pay tax expenses to the government (Saksessia & Firmansyah, 2020). One way to reduce profits is to charge interest costs arising from funding originating from debt. This scheme is one of the manager's policies in carrying out tax avoidance practices. Tax avoidance saves financial resources, which can then be used to boost profit margins, particularly in cost-intensive industrial firms. Manufacturing firms may find it difficult to maintain profitability and operating cash flow. Costs are added at every level of the manufacturing process, and market rivalry frequently forces enterprises in this industry, particularly those producing primary consumer items, to slash margins to remain competitive. Tax avoidance can be an important tactic for organizations that rely heavily on debt financing to keep their ability to pay creditors and investors. The existence of asymmetric information between managers and stakeholders enables managers to engage in tax evasion for various reasons.

When a company has higher debt, the company can take advantage of the high-interest expense to lower the company's tax expenses (Pajriansyah & Firmansyah, 2017). (Amalia &

Firmansyah, 2022; Yulianty et al., 2021) found that debt policy is positively associated with tax avoidance. On the other side, income smoothing actions are carried out by companies with higher debt levels in their capital structure. Managers strive to show more stable profits to creditors so that creditors trust them to provide their resources to the company. In the view of creditors, companies will be more trusted with stable profits even though they have high debt. This condition shows that managers can manage their operational activities well.

Apart from that, tax avoidance activities can also encourage managers to carry out income smoothing. Companies that practice tax avoidance tend to avoid too sharp fluctuations in financial performance, which could invite questions and tighter scrutiny from creditors, investors and regulators. Financial performance that looks stable can be used as a tool to divert the attention of stakeholders from the Company's actual level of risk, which may arise from other manager policies such as excessive debt use policies and tax avoidance practices that are too risky.

H_2: Tax avoidance strengthens the positive effect of debt policy on income smoothing

METHODS

A quantitative technique is used in this investigation. The secondary data for this study came from the financial statements of manufacturing companies registered on the Indonesia Stock Exchange between 2016 and 2021. The information was gathered from www.idnfinancial.com. The following is the research sample:

Table 1
Research Sample

Criteria	**Amount**
Manufacturing companies are listed as of January 1, 2023, consisting of subsector industry basic and chemical, industrial goods consumption, and miscellaneous industry	193
The number of listed companies after 2010	-81
The company implements financial reporting other than started in January and ended in December.	-2
Companies that do not publish financial statements from 2010 up to 2021	-6
The company that has equity worth negative	-10
The number of company data can be used in this study	**94**
Total Observation	**564**

The dependent variable in this study is income smoothing, while debt policy is the independent variable, as tax avoidance is a moderating variable. This study also uses variable control from profitability, size of the company and operating cash flow. The correlation between changes in discretionary accruals (DAP) and changes in pre-discretionary income (PDI) for the period t to t-5 established by Tucker & Zarowin (2006) is used to quantify income smoothing. The cross-sectional model from Kothari et al. (2005) was used to calculate discretionary accruals (DAP).

$$\frac{\text{Accruals}_{it}}{\text{Assets}_{it-1}} = \beta_0 \frac{1}{\text{Assets}_{it-1}} + \beta_1 \frac{\Delta\text{Sales}_{it}}{\text{Assets}_{it-1}} + \beta_2 \frac{\text{PPE}_{it}}{\text{Assets}_{it-1}} + \beta_3 \frac{\text{ROA}_{it}}{\text{Assets}_{it-1}} + \varepsilon_{it} \quad \text{..............(1)}$$

Information

Accruals_{it}	: total accruals of company i in year t, namely net income (NI_{it}) minus cash flow from operations (CFO_{it})
ΔSales_{it}	: change in sales of company i in year t
PPE_{it}	: property, plant, & equipment of company i in year t
ROA_{it}	: return on assets of company i in year t
Assets_{it-1}	: lagged total assets, total assets of company i in year t-1
ε_{it}	: error term of company i in year t

Non-discretionary accruals (NDAP) are regression equation (1) fitted values. To find NDAP, the values $\beta_{0}, \beta_{1}, \beta_{2}, \beta_{3},$ and e_{it} from equation (1) are substituted into equation (2).

$$\frac{NDAP_{it}}{Assets_{it-1}} = \beta_0 \frac{1}{Assets_{it-1}} + \beta_1 \frac{\Delta Sales_{it}}{Assets_{it-1}} + \beta_2 \frac{PPE_{it}}{Assets_{it-1}} + \beta_3 \frac{ROA_{it}}{Assets_{it-1}} + \varepsilon_{it} \text{ ....(2)}$$

The discretionary accruals (DAP) are then calculated using the accruals analysis from equation (1) and the NDAP from equation (2).

$$DAP_{it} = Accruals_{it} - NDAP_{it} \text{..............(3)}$$

DAP from equation (3) is then used to compute pre-discretionary income (PDI), which is obtained by subtracting net income (NI) from DAP.

$$PDI_{it} = NI_{it} - DAP_{it} \text{ ....(4)}$$

Income smoothing connects changes in discretionary accruals with pre-discretionary income for five observations: Corr (DAP, PDI). The advantage of measuring in this model is that it assumes managers employ discretionary accruals to smooth the reported series, resulting in a larger negative correlation between DAP and PDI as income smoothing becomes more evident. If profits in financial statements are divided into unmanaged earnings and managed earnings, the higher the correlation coefficient between unmanaged earnings and earnings in financial reports, the more likely the CEO has not engaged in excessive income smoothing. (Zhang, 2016).

The debt-to-equity ratio (DER), which divides total liabilities by total equity, is used to assess debt policy. It is a frequent and commonly used proxy, as evidenced by Bobby et al. (2022) and Januardi & Afrianto (2017).

$$DER = \frac{Total\ Liabilities}{Total\ Equities}$$

Tax avoidance is the moderating variable in this study. This study measures tax avoidance using Dyreng et al.'s (2008) long-run cash effective tax rates (ETR). Long-run cash ETR is calculated by dividing the amount of cash taxes paid over a long period (five years) from year t-4 to year t by the amount of pretax book income earned over the same period (Guenther et al., 2013). This proxy follows the research of Geno et al. (2022).

$$LCETR_i = \frac{\sum_{t=1}^{N} Cash\ Taxes\ Paid_{it}}{\sum_{t=1}^{N} Pretax\ Book\ Income}$$

Profitability in this research uses the return on assets proxy as Pajriansyah & Firmansyah (2017).

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

The natural logarithm of Total Assets measures size in this study as Pamungkas et al. (2022)

$$Size_{it} = \ln total\ assets$$

Operating cash flow in this study is measured by operating cash flow divided by average total assets as Chang et al. (2015).

$$CFO = \frac{CFO}{Average\ Total\ Assets}$$

Using panel data, multiple linear regression analysis was used to assess hypotheses. This study employs two regression equation models, the first designed to investigate the relationship between debt policy and income smoothing. The second model is designed to explore the function of tax avoidance as a moderator in the link between debt policy and income smoothing. This study's equation model is as follows:

Model 1

$$ISit = \beta 0 + \beta 1DERit + \beta 2CFOit + \beta 3ROAit + \beta 4SIZEit + \varepsilon it$$

Model 2

$$ISit = \beta 0 + \beta 1DERit + \beta 2TAVit + \beta 3DERit * TAVit + \beta 4CFOit + \beta 5ROAit + \beta 6SIZEit + \varepsilon it$$

Where: IS is income smoothing, TA is tax avoidance, CFO is cash flow operation, ROA is return on assets, and SIZE is firm size.

RESULTS AND DISCUSSIONS

Table 2 shows a description of variable study in statistics.

Table 2 Statistics Descriptive

Variable	Mean	Med.	Max.	Min.	Std. Dev.	Obs
DER	1,116	0.872	13,551	0.027	1,097	564
IS	0.792	0.907	0.999	0,000	0.272	564
CFO	0.075	0.062	0.571	-0.218	0.103	564
ROA	0.057	0.036	4,658	-0.569	0.218	564
SIZE	28,776	28,486	33,537	25,640	1,645	564
TAV	-0.278	-0.241	0,000	-1,000	0.245	564

Table 2 shows descriptive statistics for each variable used in this assessment. The mean value of DER is 1.116, which shows that the average company in Indonesia does not practice thin capitalization. The mean value of IS is 0.792, indicating that the average manufacturing company in Indonesia carries out income smoothing to a certain level. The mean LCFO value is 0.075 with a negative minimum value, indicating that the average manufacturing company in Indonesia has problems with limited cash. The mean ROA value is 0.057, and the minimum value is negative, indicating that the average manufacturing company in Indonesia has a profit margin that is not too large. The mean SIZE value of 28.776 shows that the average manufacturing company in Indonesia has an asset value of around IDR 3.15 trillion. The average TAXAVOID value is -0.278, indicating that the average manufacturing company in Indonesia has a low level of tax compliance.

Furthermore, after performing the Chow Test, Lagrange Multiplier Test and Hausman Test, the best Equations 1 and 2 models are fixed effect models. The results testing the hypothesis are shown in Table 4 below.

Table 3 Test Results Hypothesis

Var.	Coeff.	t-Stat	Prob.		Coeff	t-Stat	Prob.	
C	1,842	1,611	0.054	*	1,485	9,206	0,000	***
DER	0.019	1,662	0.048	**	0.007	1,913	0.028	**
CFO	-0.156	-1,328	0.092	*	-0.055	-3,660	0,000	***
ROA	-0.004	-0.075	0.470		-0.003	-0.062	0.475	
SIZE	-0.037	-0.926	0.177		-0.024	-4,418	0,000	***
TAXAVOID					-0.027	-1,497	0.067	*
DER*TAXAVOID					-0.009	-0.833	0.202	
R2		0.652			0.846			
Adj. R2		0.579			0.813			
F-stat.		8,997			25,773			
Prob(F-stat.)		0,000			0,000			

The association between debt policy and income smoothing

Based on the results of hypothesis testing, debt policy is positively associated with income smoothing. The results of this test confirm the findings of Indrawan & Damayanthi (2020), Oktaviasari et al. (2018), Ramanel & Susuilo (2018), and Widhyawan & Dharmadiaksa (2015) although using different proxies. However, the result of this study is not in line with Arifah et al. (2022), Bobby et al. (2022), Mulyati & Mulyana (2021), Nathania & Nugroho (2023), Putri & Lutfillah (2020), Trisnawati et al. (2017), and Tsuroyya & Astika (2017). Companies with higher debt have the desire to convince creditors that the company is in a stable condition. Excessive use of debt financing can reduce creditors' and investors' confidence in the Company's ability to pay off its obligations, especially in companies with limited cash. Creditors and investors view companies with relatively higher debt as facing a higher level of financial risk because this can increase the likelihood of default and bankruptcy (Maverick, 2021). The manager will strive to build the company's credibility in the eyes of creditors and investors by demonstrating good financial performance and covering the company's shortcomings. One of these efforts is through income smoothing.

Smoothing income is a dangerous strategy for investors and debtors. If the information is made public, investors and creditors may be forced to release the debt instruments they own or demand a better rate of return. However, manufacturing organizations have extremely complicated accounting systems, making it difficult for investors and creditors to discover management's income-smoothing tactics. Manufacturing firms carry out rather sophisticated business processes by establishing a continuous production chain to transform raw materials into finished items, beginning with purchasing raw materials, processing raw materials, making finished goods, and storing finished goods ready for sale. Because income smoothing procedures in manufacturing organizations are difficult to identify, managers can carry out income smoothing in manufacturing companies with a high level of debt.

Income smoothing is earnings management carried out across years. Income smoothing aims to reduce the volatility of financial performance from year to year. For companies that trade their debt instruments on the stock exchange, income smoothing becomes increasingly important because credit risk rating agencies, such as Fitch Ratings, Moody's, and Standard and Poor's, will measure risk every year by testing financial performance over a certain period (multi-years). A bad debt rating will result in greater debt costs that the Company must bear.

With the enactment of PSAK 71, investors will continuously measure the fair value of the debt instruments they own. This fair value assessment also involves testing the Company's financial performance over a certain period. A fairly large decrease in the present value of a debt instrument can trigger the release of the instrument by investors into the secondary market at a lower price. If the company does not find a way to improve its financial performance, it could impact the confidence of other investors. The decline in investors' confidence and interest in owning these debt instruments will also affect the amount of funds that issuers of these financial instruments can raise from the primary market, resulting in them having to sell at a discount and bear greater debt costs.

The moderating effect of tax avoidance on the association between debt policy and income smoothing

Based on the results of hypothesis testing, tax avoidance does not strengthen the positive influence of debt policy on income smoothing. Income smoothing is an action managers take to divert creditors' attention from the company's actual risk level, which can increase incorrectly due to excessive tax avoidance practices. However, the test result suggests that tax avoidance actions align with creditor interests (Irawan & Turwanto, 2020; Widodo & Firmansyah, 2021).

Tax avoidance carried out by managers tends to be the opposite of income-smoothing actions carried out by managers. Tax savings are seen as increasing the cash available to pay off the company's obligations to creditors. Tax savings can also be an instrument to increase margins, especially in companies with poor financial performance, thereby reducing the need for managers to use excessive income smoothing schemes.

The company's policy of obtaining greater funding from debt may motivate managers to carry out income smoothing. However, this may not be related to the manager's efforts to carry out tax avoidance practices, where managers use high debt interest costs as a deduction from taxable income. Meanwhile, income smoothing tends to make creditors willing to provide debt with lower interest costs.

Although it seems that tax avoidance practices will encourage managers to increase the financing portion of debt because almost the entire cost of debt can be a deduction from taxable income, in practice, this is not always the case. In designing tax avoidance schemes, companies will limit the use of debt so that it does not exceed the amount permitted in tax regulations that limit the practice of thin capitalization. In Indonesia itself, the maximum debt-to-equity ratio (DER) level allowed for tax purposes is 4:1. A DER level higher than this, or negative equity, will cause a correction in the interest costs that have been charged in the company's commercial financial statements, thereby increasing the amount of tax payable.

Income smoothing is an action taken by managers to attract creditors' interest by covering the company's shortcomings. Meanwhile, tax avoidance tends not to encourage companies to carry out income smoothing. Investors do not want biased information regarding income-smoothing actions. Meanwhile, tax avoidance is an action that aligns with shareholders' wishes.

CONCLUSIONS AND SUGGESTIONS

This research concludes that income smoothing is carried out by managers when the company bears higher debt. The manager makes this effort to provide confidence to investors; even though there is potential for financial difficulties in the future, the manager continues to strive for good performance by stabilizing profits. This research also finds that tax avoidance does not moderate the relationship between debt policy and income smoothing.

This research has limitations, namely the existence of certain criteria in sample selection resulting in a reduction in the number of samples that can be used in this research. Future research can use non-financial companies and a longer time horizon to obtain a larger sample. This research suggests that the Financial Services Authority monitors income smoothing activities by listed companies to protect investors using financial statements as a basis for making investment decisions. This research suggests to the Indonesian tax authority that income smoothing and debt regulations are not suggestive of capturing corporate tax dodging actions.

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