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The Role of Related Party Transaction and Earning Management in Reducing Tax Aggressiveness

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ABSTRACT

This study aimed to examine the influence of related party transactions (RPT) on tax aggressiveness by using earning management as an intervening variable. This study was performed based on the perception that RPT is a positive practice and it is predicted to decrease tax aggressiveness. Besides aiming to find empirical evidence of positive role of RPT in the field of taxation, this study also aimed to test the positive role of earning management in reducing tax aggressiveness. The population of this study was 47 of manufacturing company registered on the Indonesia Stock Exchange for the period of 2014-2016 having transactions with related party (RPT). The analysis method of this study was structural equation model using Partial Least Square (PLS) software. This findings supported the hypothesis that RPT and earning management negatively affects tax aggressiveness. The results of the study also showed that earning management mediate the relationship between RPT and tax aggressiveness.

BACKGROUND OF THE STUDY

One of the company's strategy in increasing performance is is conducting related party transaction (RPT). RPT is transaction between parent and subsidiary, transaction between a company and its key employee, or transaction between company and the party having the significant voting rights (IAI, 2018).

Although there are no parties or institutions that prohibit companies from conducting RPT, there really are three perspectives in viewing RPT. The first perspective considers RPT as positive practice (as a propping activity) due to the fact that it can support the performance of a problematic company (Gonenc & Hermes, 2008; Jian & Wong, 2010). This perspective is called Efficient Transaction Hypothesis. The second perspective states that RPT is an opportunistic practice because it reflects the tunneling activity, as a mean to avoid tax (Cheung, Rau, & Stouraitis, 2006; Chen, Chen, & Chen, 2009; Cheung, Jing, Lu, Rau, & Stouraitis, 2009; Sari, 2012; Yeh, Shu, & Su, 2012). The third perspective is actually a combination of first and second perspective. It considers RPT to be a potentially positive or negative practice (Gordon, Henry, Lauwers, & Reed, 2007; Guo, 2009; Huang & Liu, 2010) due to the fact that they are usually comprised of complicated transactions between a company and its managers, directors, subsidiaries and major shareholders. It is a fact that related-party transactions result in higher agency costs due to the alignment of decision-making rights and monitoring rights. The traditional accounting performance measures (return of equity, earnings per share; Peng, Wei, & Yang, 2011) in equilibrium, controlling shareholders may choose either tunneling or propping of their listed companies depending on the magnitude of an adverse shock and the magnitude of the private benefits of control. In this paper, we employ connected transaction data from China to test the implications of their model. We hypothesize that, when listed companies are financially healthy (in financial distress; Ryngaert & Thomas, 2012).

One of the company's motivations to execute RPT is to avoid taxes. Studies observing relation between RPT and tax have been conducted since 1970's. For instance, a study conducted by Eustice (1968) and Bischel (1973). The latest studies, which

examine the relation between RPT and tax are conducted by Chen, Chen, Cheng, and Shevlin (2010) as well as Heckemeyer and Overesch (2013). In Indonesia, Azizah and Kusmuriyanto (2016) analysed the influence of RPT on tax aggressiveness and they discovered that RPT has a positive relation with tax aggressiveness. However, limited study examines the influence of RPT together with earning management on company's tax aggressiveness in Indonesia that warrent this study to be conducted.

Beside focusing on the relation between RPT and tax aggressiveness, previous study also analyzed the influence of RPT on earning management, such as the studies conducted by Jian & Wong (2004); Gordon & Henry (2005); Aharony, Wang, & Yuan (2010); Chen, Cheng, & Xiao (2011) and Jian & Wong (2004). In their researches, they state that RPT is a kind of opportunistic transaction. A company will be willing to execute RPT if there is a motive to conduct the earning management stimulated by the anxiety of being declined from capital market or the anxiety when the company plans to issue new share. Being consistent with their previous researches, Aharony et al. (2010) and Chen, Cheng, & Xiao (2011) state that RPT is opportunistically used to support the attitude of earning management. In addition, Febrianto & Widiastuti (2017) found that RPT affects earning management positively. Meanwhile, Gordon & Henry (2005) and Suryantina (2013) argue that RPT does not necessarily promote earning management. Due to the inconsistency between the results of previous studies, this motivate more research in this area.

Consideration to obtain tax efficiency is one of manager's reasons to execute earning management (Luke & Zulaikha, 2016). Therefore, this study will also analyse the influence of earning management on tax aggressiveness. Novitasari (2017), Fadli (2016) leverage, independent commissioner, earnings management, and ownership institutional against the aggressiveness of corporate tax. The method used in this research is descriptive method. The population in this study is a company listed on the Indonesia Stock Exchange. The sampling technique using purposive sampling method prescribed researchers for years 2011 to 2013. The sample was manufacturing companies listed in Indonesia Stock Exchange (BEI, and Sari (2016) analyzed relation between earning management and tax

aggressiveness and the result implied that there is positive relation between earning management and tax aggressiveness.

Contrary to most researches in Indonesia which consider RPT and earning management to be the opportunistic activity, this paper considers earning management and RPT as positive practice. Similar to a number of research findings stating that earning management influences performance or future performance positively, including the studies of Dechow (1994) as reflected in stock returns. The importance of accruals is hypothesized to increase (i; Jiraporn, Miller, Yoon, & Kim (2008); Gunny (2010) I identify firms that appear to engage in any of the following RM: reducing research and development (R&D; Jiang, Habib, & Wang (2018) "ISSN" : "00207063", "abstract" : "This paper investigates the association between firms' engagement in real activities manipulation (hereafter REM, this paper predicted that earning management brings positive effect in the form of decreasing tax aggressiveness.

Specifically, the motivation of this study is to obtain more empirical support on the relationship between RPT and earning management due to mixed findings of previous studies. The previous studies focused on the role of RPT and earning management in increasing company performance, while this study focused on the role of RPT and earning management in decreasing the practice of tax aggressiveness. Some previous studies have been analyzed the effect of RPT on tax aggressiveness and earning management as well as the effect of earning management on tax aggressiveness. However, it seems that there has not been single research establishing a comprehensive model of relation between three variables. So, due to this case, this study was conducted. To advance the previous studies, this study analysed the role of earning management, as mediator variable, to the relation between RPT and tax aggressiveness.

Then, the research question of this study were:

a) are RPT and earning management capable to deduce the practice of tax aggressiveness? b) does RPT influence the earning management? c) does earning management serve as mediator variable on the relation between RPT and tax aggressiveness?

Literature Review and Hypotheses Development

RPT is a transaction with related party

or the so-called special party which consists of the transaction between involved company (for instance between parent and subsidiary company), transaction between associating companies, transaction between the company and its key employee, or the transaction between the company and the party having significant voting rights (IAI, 2018). RPT is commonly executed by the company due to the fact that the transaction has major role in increasing company's performance (Gordon & Henry, 2016). Through RPT, company will be able to obtain the financial support with lower capital funding.

Chen, Chen, & Chen, W (2009) argue that the reason why companies in China perform RPT is because provisions enforced by China's stock exchange are relatively strict in connection with the effort to maintain the status of registered company. The company which is registered in stock exchange requires an incentive to execute transaction with related party for the purpose of earning management, so that the company can reach desirable level of operational performance.

Cheung, Jing, Lu, Rau, & Stouraitis, (2009) state that there are three things which encourage the company to execute RPT. The first is, by performing RPT, it is easier to identify the potential of tunneling activity, because RPT provides the opportunity for related party to obtain the cash directly. The second is that related party transaction can be used to support the companies with poor performance. The third is that related party transaction can be motivated by pure economic reason (for instance, to readjust the company's operation). In the empirical study conducted in China for the period 2001-2002, it has been discovered that the right of minority shareholders of a company may be taken over because of the tunneling, yet the company will be able to obtain the benefit by RPT because RPT supports majority shareholders needs. However, RPT is more about executing the tunneling rather than supporting majority shareholders needs.

Tax aggressiveness is the measure implemented to save the tax by manipulating the taxable income to break the tax law and regulation, as in to report sales improperly or to make fictive costs (Amril, Puspa, & Fauziati, 2015). Due to the fact that tax saving is implemented by breaking the laws, it can be considered to be a negative practice. In spite of its reputation as risky measure, many companies

perform it due to considerations to gain benefits including lower tax (Suyanto & Supramono, 2012).

In addition, although several researchers consider tax aggressiveness a negative practice, many companies choose to perform it because some other researchers argued that this practice is acknowledged and it would not infringe the laws if performed in order to do tax sheltering or tax avoidance, or any kind of effort to lower the tax paid by company (Ridha & Martani, 2014).

Earning management is a practice to report the earning for a specified motive and purpose (Fadli, 2016) leverage, independent commissioner, earnings management, and ownership institutional against the aggressiveness of corporate tax. The method used in this research is descriptive method. The population in this study is a company listed on the Indonesia Stock Exchange. The sampling technique using purposive sampling method prescribed researchers for years 2011 to 2013. The sample was manufacturing companies listed in Indonesia Stock Exchange (BEI). There are two perceptions of earning management, including the view that earning management is an opportunistic practice and earning management is a positive practice (due to the opinion that earning management emits a signal that company's performance is in a good condition).

Speaking about the first perception, Agency Theory which is developed by Ross (1973); Jensen & Meckling, (1976); as well as Eisenhardt (1989) states that earning management will be considered to be a negative practice if a manager reports the earning of his/her company in order to reach personal benefit. Agency Theory also considers the earning management an opportunistic practice if a company applies aggressive accounting policies, which is to make up the report of actual earning (for instance to make it higher than the actual one).

Meanwhile, the second perception considers earning management is a positive practice because it encourages signaling motivation, as the earning management provides informations (especially the ones related to company's earning) that imply positive signal for the shareholders (Partiningsih & Asyik, 2016; Brigham and Houston, 2001). This theory, which says that earning management serves as a positive signal, is built based on the Signaling Theory developed by Morris (1987).

There is an assumption that the informations received by each parties are somewhat varied. In other words, Signaling Theory is related with the information asymmetry (unbalanced information). Therefore, it is important that managers provide the informations to the interested parties by issuing financial statement (Prapaska, 2012). Managers should provides the information through financial statement, in which they inform implementation of conservatism accounting policy which generates better quality earning (Partiningsih & Asyik, 2016).

Influence of Related Party Transaction on Tax Aggressiveness

Efficient Transaction Hypothesis states that RPT is an efficient transaction, and it may improve company's performance (Gordon et al., 2007; Gordon & Henry, 2005). This is because the transaction with related party will save the transaction cost (through the deduction of negotiation process in building cooperation contract), optimize the use of organizational resources and eases the transfer of resources among relative parties.

RPT is the main factor that provokes 'transfer pricing' which is a strategy in implementing tax aggressiveness (Azizah & Kusmuriyanto, 2016). RPT may causes transfer of income, tax base, or the cost from one tax payer to other tax payers, and also manipulation in order to decrease the tax total amount that should be paid by tax payer (Azizah & Kusmuriyanto, 2016).

The study concerning the relation between RPT and tax aggressiveness in Indonesia is somewhat rare. Azizah and Kusmuriyanto (2016) analyzed the influence of RPT on tax aggressiveness and discovered that RPT has a positive relation with tax aggressiveness. Contrary to the previous study which considers RPT an opportunistic transaction, Azizah and Kusmuriyanto (2016) found that RPT is an efficient transaction. As described in the theoretical frame work, Efficient Transaction Hypothesis believes that RPT can improve the company's efficiency and reduce the transaction cost borne by the company as well as tax payer. Oktavia, Kristanto, Subagyo & Kurniawati (2012) discovered RPT loan affects tax rate negatively and significantly, which implies that the higher RPT loan the lower the tax rate of a company. The research conducted by Oktavia, Kristanto, Subagyo, &

Kurniawati (2012) implied that efficient transaction decreases tax expense and it encourages the company to decrease tax aggressiveness. Therefore, the first hypothesis is defined as follows:

H1: *Related party transaction influences tax aggressiveness negatively.*

Influence of Related Party Transaction on Earning Management

The relation of RPT and earning management can also be described using Efficient Transaction Hypothesis. A low transaction cost (due to RPT implementation) prospered the company and will increase the earning. Earning rising will decrease company's earning management.

Previous study has analyzed the influence of RPT on earning management, such as the studies conducted by Jian & Wong (2004); Gordon & Henry (2005); Aharony, Wang, & Yuan (2010); and Chen, Cheng, & Xiao (2011). These researches used the perspective that RPT is opportunistic practice which will improve earning management. Contrary to the previous researches, this study argue that transaction is an efficient transaction.

RPT is extremely common in in Asia, where there are many big companies having business group. Then, ownership structure in Asia, including Indonesia, is generally concentrated in the power of company's founder or a family as the controlling shareholder, so that agency problem occurred in the form of acquisition of non controlling shareholders property by controlling shareholder (Utama & Utama 2014). RPT triggers the action of acquiring property in order to control the owner. RPT can be efficient when they decreased the transaction cost. The warranty of completion offered by RPT is relatively higher than the one offered by third party transaction. Moreover, the cost required by RPT transaction is lower than that of the third party transaction (Gordon & Henry, 2016). Therefore, by viewing perception that RPT is an efficient transaction which will improve the company's performance, it can be stated that RPT may increase earning management. According that statement, it can be assumed that:

H2: *Related party transaction affects earning management positively.*

Influence of Earning Management on Tax

Aggressiveness

Implementation of earning management actually based on various purposes and objectives (Fadli, 2016)leverage, independent commissioner, earnings management, and ownership institutional against the aggressiveness of corporate tax. The method used in this research is descriptive method. The population in this study is a company listed on the Indonesia Stock Exchange. The sampling technique using purposive sampling method prescribed researchers for years 2011 to 2013. The sample was manufacturing companies listed in Indonesia Stock Exchange (BEI. Signaling Theory said that earning management is implemented in order to provide positive signal to the shareholders. Being consistent to the theory, Dechow (1994) as reflected in stock returns. The importance of accruals is hypothesized to increase (i argued that one of the role of accrual accounting is to provide depiction of company's performance. The research conducted by Dechow (1994)as reflected in stock returns. The importance of accruals is hypothesized to increase (i found that accrual earning has a closer association with share return than with cash flow. Overall, the evidence revealed that accrual accounting plays the major role in increasing the earning as the reflection of company's performance.

Signaling Theory also states that earning management implementation indicates information asymmetry between manager and the owner caused by conflict of interest. By the motivation to convey signal, in which manager will report the earning according to the accounting policy and keep the report valid (as in not making up the report as if the earning is higher), the company will have no intention to do tax aggressiveness. In case a manager reported high earning, it will affect the paid tax, and the tax became company's problem, due to the fact that tax payment directly related to the net earning obtained by company. Therefore, management will report the earning based on its purposes to minimize the taxable income.

Some previous researches have analyzed the influence of earning management on tax aggressiveness. Novitasari (2017), Fadli (2016) leverage, independent commissioner, earnings management, and ownership institutional against the aggressiveness of corporate tax. The method

used in this research is descriptive method. The population in this study is a company listed on the Indonesia Stock Exchange. The sampling technique using purposive sampling method prescribed researchers for years 2011 to 2013. The sample was manufacturing companies listed in Indonesia Stock Exchange (BEI, and Sari (2016) examined the relation between earning management and tax aggressiveness and the results of their reaserches implied that there ia a positive correlation between earning management and tax aggressiveness. Contrary to those previous researches, this study considered that earning management is the process to provide positive signal for the shareholders and it may reduce tax aggressiveness. According to that statement, it can be assumed that:

H3: *Earning management affects tax aggressiveness negatively.*

Influence of Related Party Transaction on Tax Aggressiveness through Earning Management

Hypothesis 1 predicts that the RPT negatively affects tax aggressiveness, while hypothesis 2 predicts that the RPT influences earnings management

Research Model

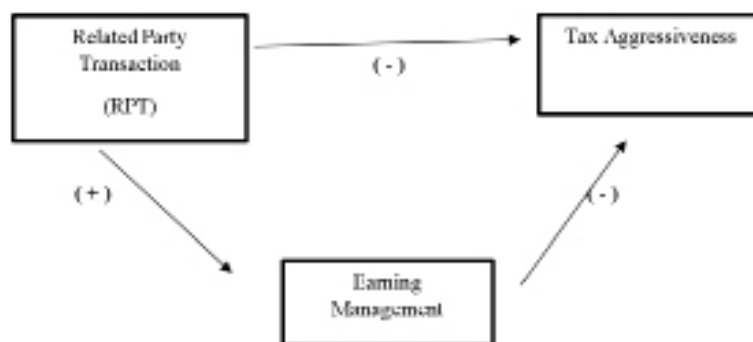


Figure 1 . Research Model

RESEARCH METHOD

Object of Study

Data were collected from 47 manufacturing companies listed in Indonesia Stock Exchange (BEI) for four years (2014-2016). The sampling was selected using criteria 1) the companies have been registered consistently in Indonesian Stock Exchange from 2014 until 2016; 2) the companies issue complete financial statement which would be useful as the data of this study; 3) the companies use Rupiah currency and provide fiscal year from 1st of

positively. Then, hypothesis 3 predicts that earnings management negatively affects tax aggressiveness. From this hypothesis, it can be concluded that the effect of RPT on tax aggressiveness occurs directly or indirectly through earnings management.

This research builds a comprehensive model on the relationship between RPT, tax aggressiveness and earnings management. In addition, this study views that RPT and earnings management are positive practices while tax aggressiveness is a negative practice. Because RPT is a positive and efficient practice, this study hypothesizes that the RPT can reduce the practice of tax aggressiveness directly. Furthermore, the model also predicts that RPT and earnings management are positively related, because both are efficient practices that benefit the company. Therefore, this model also predicts that the RPT can improve earnings management practices, further increasing earnings management will reduce tax aggressiveness. Therefore, the fourth hypothesis that will be examined is as follows:

H4: *Earning management as intervening variable for the relation between RPT and tax aggressiveness*

January to 31st of December; 4) and the company not experiencing any loss before paying the tax. The data used in this research is obtained through the website www.idx.com and www.sahamok.com.

Research and Measurement Variable

Related Party Transaction. Related party transaction is the transaction executed by a company together with a special party, i.e the transaction executed with association company, company that shares the same parent, individual business, family company or a company having significant voting

right (IAI, 2018). The calculation of Related Party Transaction according to Jian & Wong, (2004) is as follow:

$$RPT_{loan} = \frac{\text{Total loan of related party}}{\text{Total loan carried by company}}$$

Tax Aggressiveness. Tax aggressiveness is an action of tax planning with the purpose to obtain tax saving in several ways, either it would not break the law or break the law (Amril, Puspa, & Fauziati, 2015). For measuring tax aggressiveness, the researchers used the method of Cash Effective Tax Rate (CETR) due to the fact that it can identify the aggressiveness of tax planning (Suyanto & Supramono, 2012). The formula of that method is:

$$CashETR_{it} = \frac{\text{Cash Taxes Paid}_{it}}{\text{Pre Tax Income}_{it}}$$

CashETR_{it} = Paid tax is divided by earning before tax.

Earning Management. Earning management is a form of intervention from management in the process of financial statement arrangement with the purpose to obtain the personal benefit (Schipper, 1989). Earning management is measured by using Modified Jones Model as follows:

1) Total Accrual

$$TAC_{it} = NI_{it} - CFO_{it}$$

2) Non discretionary Total Accrual by using

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta Rev_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \varepsilon_{it}$$

3) Non discretionary Total Accrual (NDTA)

$$NDTA_{it} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta Rev_{it} + \Delta TRec_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right)$$

4) Discretionary Total Accrual (DTA)

$$DTA_{it} = \frac{TAC_{it}}{TA_{it-1}} - NDTA_{it}$$

Remark:

TAC_{it} = Total Accrual of company i in the period t

NI_{it} = Net Income of company i in the period t

CFO_{it} = Cash flow of company i operation in the period t

TA_{it-1} = Total asset of company i in year t-1

ΔRev_{it} = Income of company i in period t subtracted from the income in period t-1

β = Coefficient obtained from equation of regression.

ΔTRec = Business loan of company i in period t subtracted from business loan in period t-1

PPE_{it} = Gross property, plant, and equipment

E_{it} = Error

Method of Analysis

The structural equation modeling with software SmartPLS 3.0 for window was used as data analysis. In addition, to test the mediating variable used sobel test.

Findings

Result of Data Collection. In this research, the authors used the data of financial report of 2014 to 2016 from manufacturing companies registered in Indonesia Stock Exchange. The amount of manufacturing companies registered in Indonesia Stock Exchange is 150 and divided into three sectors; the sector of material and chemical industry (65 companies), the sector of various industries (43 companies), and industry of consumption goods (42 companies). From the result of sampling performed using the criteria specified in this study, there were 47 manufacturing companies have been successfully identified as the object of the study.

Analysis of Descriptive Statistic. Result of descriptive statistic analysis is shown in table 1.

Coefficient of Determination Analysis. Result of coefficient determination analysis is shown in table 2.

Table 1. Descriptive Statistic Analysis

	Average	Median	Minimum	Maximum	Standard Deviation
Earning Management	-0.002	-0.008	-0.184	0.414	0.079
RPT	0.071	0.034	0.000	0.779	0.107
Tax Aggressiveness	0.259	0.252	0.003	0.710	0.101

Table 2. Coefficient of Determination

	R Square	R Square Adjusted
Tax Aggressiveness	0.061	0.047
Earning Management	0.029	0.022

Hypotheses Test

Table 3. Result of Hypotheses Test

	Coefficients	T Statistics	P Values
RPT → TA	-0.177	3.221	0.001
RPT → EM	-0,169	1.730	0.042
EM → TA	-0,204	2.733	0.003

From the hypotheses test indicated in the table 3, it can be concluded that:

Coefficient on the effect of RPT on tax aggressiveness was -0.177 and p-value was $0.001 < 0.05$, which clarified that RPT affected tax aggressiveness negatively and significantly, so that the first hypotheses was supported. This result is compatible with the theory of efficient transaction hypothesis arguing that RPT is beneficial. Efficient RPT was useful for the company because they decrease tax rate. This finding was also supported by the result of a research conducted by Oktavia et al. (2012) discovering that RPT has negative correlation with tax rate of the company. The bigger the RPT, the lower the tax rate of the company. However, this research result was different with that of the previous research conducted by Azizah (2016) arguing that RPT has positive relation with tax aggressiveness.

Next, coefficient on the effect of RPT on earning management was -0.169 and the p-value was $0.042 < 0.05$ revealed that related party transaction (RPT) affected earning management negatively and significantly, therefore, the second hypotheses could be supported. This research result is compatible with the theory of efficient transaction hypothesis clarifying that RPT is earningable because the transaction was considered economically rational due to its low transaction cost. This lower cost brings more earning to the company. Earning rising would reduce the action of earning management. Similar to the research conducted by Suryantina (2013) which discovered that RPT influenced the action of earning management negatively but the influence was not significant.

Table 3 described that coefficient on the effect

of earning management on tax aggressiveness was -0.204 and the p-value was $0.003 < 0.05$. So, it can be said that earning management influenced tax aggressiveness negatively and significantly. Therefore, the third hypothesis could be supported. This result is compatible with Agency Theory which explains that earning management within a company is as an implication of information asymmetry (imbalance of information) between the manager (agent) and the owner (principal) due to conflict of interest. In the Signaling Theory, manager provides information through financial report which shows that they implement conservative accounting policy as the effort to generate high quality earning because this principle prevents the company from exaggerating earning and helps the user of financial report to receive a report on company's earning and assets which does not seem so overstated. If the manager reports the earning based on to the accounting standars and not overstating the earning, the company will not execute tax aggressiveness.

In other hand, this result was different with that of the previous study conducted by Novitasari (2017) and Sari, Pratomo, and Yudowati (2016) arguing that earning management affects tax aggressiveness positively and significantly, for which the higher the income decreasing the clearer the indication of performing tax aggressiveness.

To test hypothesis 4, we used sobel test. For determining intervening variable, a coefficient on the relation between independent variable and intervening variable (i.e. relationship between RPT and earning management, symbolized by A was -0.169) was needed, and the second was coefficient on the relation between intervening variable and

dependent variable (i.e. relationship between earning management and tax aggressiveness symbolized by B was -0.204) was also needed. In addition, sobel test also requires standard error of the relation between RPT and earning management as well as between earning management and tax aggressiveness. Sobel test can be conducted by following formula:

$$SE = \frac{s}{\sqrt{n}}$$

Remark:

SE : standard error

s : standard deviation

n : amount of samples

According to the above formula, for estimating standard error of the relation between RPT and earning management, the formula was: $SE_A =$. The result of standard error of relation between RTP and earning management was 0.008. Then, for calculating standard error of relation between earning management and tax aggressiveness, the formula was $SE_B =$. The result of the standard error was 0.006. According to the above calculation, the results of sobel test were explained in table 4.

Table 4. Sobel Test

A	-0.169
B	-0.204
SE _A	0.008
SE _B	0.006
Sobel test statistic	17.94355032
One-tailed probability	0.000
Two-tailed probability	0.000

Table 4 indicated that, sobel test statistic was 17.94355032 > 1.96, and the probability was 0.000 < 0.05, which means that the fourth hypothesis, which assumed that earning management mediated the relationship between RPT and tax aggressiveness, was supported. However, due to the fact that relation between RPT and tax aggressiveness was also significant, it can be concluded that mediation effect was partial mediation.

Conclusion, Implication, and Research Limitation

This study aimed to examine the influence of Related Party Transaction (RPT) on tax aggressiveness through earning management in manufacturing

company registered in Indonesia Stock Exchange in the period of 2014-2016. Generally, the results of this research can be concluded as follows. Related Party Transaction (RPT) affects company's tax aggressiveness negatively. The finding indicated that higher the value of RPT the lower tax aggressiveness. This finding support our prediction that RPT was efficient practice.

The next finding concerning the relationship between RPT and earning management was negative and this is contrary to the our prediction. This finding imply that efficient RPT delivers earning to the companies because the spending is lower, that the manager reduces execution of earning management.

This study also support our prediction that earning management was a good practice and will reduce tax aggressiveness. The Signaling Theory saying that earning management includes the report of company's earning based on accounting policies, which means it is not performed by overstating the reported earning, and this practice decreases tax aggressiveness.

Finally, the findings reveals that earning management can mediate the relation between RPT and tax aggressiveness. Efficient RPT brings earning to the companies due to the lower spending, that it will interfere the manger to execute earning management. When earning management is reduced by not overstating the earning in financial statement, tax aggressiveness will decline.

There is limitation of this study, i.e. coefficient determination is quite low, due to the fact that there are other stronger variables as the independent variables. Accordingly, this study suggestions for future study developed more comprehensive model using more variable. It is recommended that the future research extend the population of company, not merely the manufacturing companies, but also other companies from different sectors.

The result of this research implies that although RPT is proved to have positive role in reducing tax aggressiveness, when it is not controlled, RPT will generate negative effect. Therefore, the Statement of Financial Accounting Standard which requires that companies convey their RPT is such a positive thing, and it requires to be practiced by business practitioners.

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