International Journal of Economics, Business and Accounting Research (IJEBAR)
Peer Reviewed – International Journal
Vol-5, Issue-4, 2021 (IJEBAR)
E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

IDENTIFICATION OF TAX MANAGEMENT IN EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE 2016-2019

Novia Azelita,[1] Wiwiek Prihandini[2]
Perbanas Institute, Jakarta
Email : wiwiek@perbanas.id

Abstract: *The purpose of this research to identify tax management which is explained through tax planning, deferred tax expense and tax avoidance. In this research the sample used was manufacturing companies listed on the Indonesia Stock Exchange during the 2016 until 2019 period, 38 company sample with four years of research produced 152 data were obtained by purposive sampling. The data used was panel data and analysis technique using multiple regressions analysis with Eviews software. The result showed that the tax planning and tax avoidance have a significant effect on earning management, but the coefficient of determination is low at 3,28%. Meanwhile, deferred tax expense have no significant effect on earnings management on manufacturing companies. However, research shows that the higher the profit earned by the company, the lower the tax payable ratio. The tax government should be supervise low income group companies because they have a tendency to reduce taxes.*

Keywords: *Tax Planning, Deferred Tax Expense, Tax Avoidance, Effective Tax Rate.*

1. Introduction

Earnings management is a way for management to intervene in the preparation of financial statements with the aim of benefiting themselves and other parties (Aditama, 2014). The intervention causes the financial statements presented do not reflect the actual conditions, resulting in an imbalance of information between management as a provider of information and shareholders and stakeholders (Lubis & Suryani, 2018).

Earnings management tends to have a negative impact, therefore companies must be careful in making decisions. There are two points of view when a company decides to carry out earnings management. First, in terms of maximizing profit, it occurs when the company wants to display good financial performance with high profits. While the second point of view is to minimize profits for tax purposes (Citra, 2013).

Management can achieve maximum profit by reducing the tax burden to a minimum. Tax management is one way of management to minimize the tax burden.

The tax scandal occurred at PT Jhonlin Baratama which was found during the 2019 inspection, involving the Director General of Extensification and Assessment of the Directorate General of Taxes for tax bribery. The results of the examination prove that for the 2016 fiscal year, the underpayment of PT Jhonlin Baratama was Rp. 70 billion, which should have been Rp. 91 billion, while in 2017 it was reported that it was overpayment of Rp. 59 billion which should have been underpaid of Rp. 27 billion. This is included in one of the tax management actions that are detrimental to many parties.

Tax management can be done through tax planning, deferred tax burden and tax avoidance. Tax Planning is the process of organizing taxpayers' businesses whose ultimate goal is to keep tax debts to a minimum, while still complying. Tax planning is categorized as a legal action that is allowed by the government (Aditama 2014).

Another factor that affects earnings management is deferred tax expense. Deferred tax expense will be more useful incrementally in detecting earnings management than total accruals and abnormal accruals (Hotimah, 2015). Deferred tax expense arises from the fiscal correction process. The negative correction shows that income based on accounting is higher than income based on taxes, and costs based on accounting are less than costs based on taxes. From this statement, it shows that there is an indication of management in prioritizing an increase in accounting profit compared to an increase in fiscal profit and a decrease in accounting costs compared to fiscal costs (Sumomba & Hutomo, 2012).

The third factor is tax avoidance. Tax avoidance is an effort to find tax loopholes that are actually contrary to tax regulations but are sought so as not to violate the law. Tax avoidance is carried out by charging personal costs into operational costs (Apsari & Setiawan, 2018). Basically, the ultimate goal of tax avoidance is to reduce the tax payable. The smaller the burden incurred, the greater the EAT obtained by the company (Fadillah, 2019).

Until now, taxation is still the center of attention in financial statements because it is related to profit. Many existing theories, with diverse contents, make researchers want to do further research by focusing on taxation factors. Based on this description, the formulation of the problem in this study includes: 1) Does tax planning affect earnings management? 2) Does deferred tax expense affect earnings management? 3) Does tax avoidance affect earnings management?

The objectives of this study are: 1) To analyze the effect of tax planning on earnings management; 2) Analyzing the effect of deferred tax expense on earnings management; 3) Analyzing the effect of tax avoidance on earnings management.

2. Underlying Theory

Legitimacy Theory

The thing that forms the basis of legitimacy theory is the "social contract" between the company and the community (Octaviana, 2014). The social contract occurs due to the interrelation of people's social life to achieve harmony that will protect their respective interests (Hadi, 2011). Legitimacy theory is defined as a psychological state that favors a group of people who are sensitive to environmental symptoms that occur around them both physically and non-physically (Putri et al., 2016).

Agency Theory

Agency theory is the relationship between two parties, namely the owner and management. The theory describes the relationship between ownership and control of the company. If there is a separation between the principal and the agent in running the company, various kinds of problems will arise because each party plans to maximize the utility function (Astria, 2011).

Profit management

Earnings management is an effort made by management to influence the information contained in financial statements or intervene by tricking stakeholders who want to know the performance and condition of the company (Sulistyanto, 2018). Earnings management carried out causes a reduction in the credibility of the financial statements and the bias in the financial

E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

statements increases, so that it can interfere with users of financial statements who have given confidence to the company that the figures listed are real numbers and not the result of engineering.

Tax Planning

The tax planning stage starts with collecting tax regulations, researching and selecting actions that can be taken to save corporate taxes (Suandy, 2011). Tax planning is the effort of taxpayers in organizing tax debts so that they are in a minimal position while still complying with applicable laws and regulations (Sumomba & Hutomo, 2012).

Deferred Tax Burden

Deferred tax expense arises as a result of temporary differences between accounting profit (profit according to SAK for the benefit of external parties) and fiscal profit (profit according to taxation rules used as the basis for calculating tax) (Harnanto, 2011). According to Alawiyah, 2017 temporary differences arise due to differences in standards or provisions relating to the recognition and measurement of elements in financial statements.

Tax Avoidance

Tax avoidance is defined as an effort that is usually made by companies to reduce tax debt legally by taking advantage of applicable legal loopholes (Prakosa & Kesit, 2014). Tax avoidance raises various risks such as fines and creates a bad reputation for the company in the eyes of the public which is carried out by controlling actions to avoid the imposition of unwanted taxes.

Hypothesis Development

Effect of Tax Planning on Earnings Management

Management's desire to generate profits can be done through tax planning (Puji Astutik, 2016). Conceptual tax planning is explained in legitimacy theory and agency theory. The theory of legitimacy of tax planning shows the public that management manages earnings carefully. In addition, tax planning which involves agency theory is seen from the conflict between management and government. Where management strives for tax payable to be deferred while the government requires to pay taxes in accordance with the time of occurrence. Previous research that proves that tax planning has an effect on earnings management is research from Mahpudin, 2017 and Negara & Suputra, 2017.
Based on the explanation above, the following hypothesis is formulated:
H1: Tax planning has an effect on earnings management.

Effect of Deferred Tax Expense on Earnings Management

According to Lubis & Suryani, 2018 the reason for deferred tax is to save taxes, reduce reported profits by delaying income and accelerate costs so that the resulting profit is smaller. Meanwhile, the government wants large taxes and timely tax payments. The two statements describe the relationship with agency theory, namely there is a conflict between management and government. Puji Astutik's research, 2016 shows that deferred tax burden has an effect on earnings management. Then the following hypothesis is generated:
H2: Deferred Tax Expenses affect earnings management

E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

Effect of Tax Avoidance on Earnings Management

Tax avoidance has a relationship with legitimacy theory because tax avoidance is not something that is prohibited, so companies try to follow the regulations carefully so that a positive image is needed from the community and shareholders. From the research conducted by Larastomo et al., 2016 and Ibrahim, 2019 both show that tax avoidance has an effect on earnings management. Based on previous research, the following hypothesis is formulated:

H3: Tax avoidance affects earnings management

3. Research Method

This study uses a quantitative approach with the type of data used, namely secondary data in the form of annual financial reports obtained from the IDX website. The method of data collection was carried out by documenting financial statements and analyzed using descriptive statistics, linear regression and classical assumption tests. The sampling technique is purposive sampling which is selected by determining certain criteria (Kalsum, 2017). The criteria in this research sample are as follows:

1) Companies listed on the IDX during 2016-2019, by publishing financial statements on www.idx.co.id
2) The financial statements made a positive profit for 2016-2019.
3) Financial statements in rupiah currency.
4) Have complete data.

The dependent and independent variables in this study were calculated using the following approach:

Table 1. Measurement

Formula	Source
$\Delta E = \frac{\text{Eit - EAit-1}}{\text{MVE t-1}}$	(Syilvia et al., 2016)
$TRR = \frac{\text{Net income it}}{\text{Pretax Income (EBIT it)}}$	(Mahpudin, 2017)
$BPT = \frac{\text{BPT periode t}}{\text{Total Aset periode t}}$	(Sumomba & Hutomo, 2012)
$ETR = \frac{\text{Total Tax Expense it}}{\text{Pretax Income (EBIT it)}}$	(Suyanto & Supramono, 2012)

Source: Processed data(2021)

Description:
△E : Profit Distribution
TRR : Company retention rate
ETR : Effective Tax Rate

4. Result And Discussion

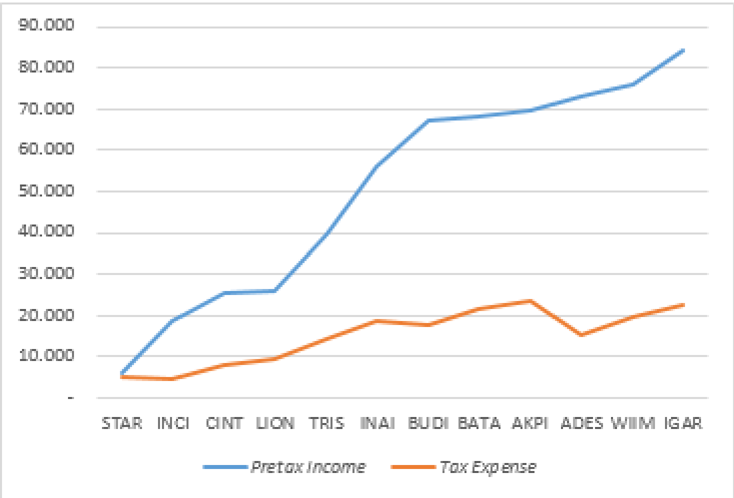
This study uses 38 manufacturing companies with 4 years of observation. The results of the descriptive statistical test are explained in the following table:

E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

Table 2. Descriptive Statistical Test Results

	MnL	TPl	BpT	TAd
Mean	-0.001437	0.706216	0.007827	0.291884
Median	0.005230	0.741970	0.002855	0.258020
Maximum	0.082140	0.827800	0.069190	0.971210
Minimum	-0.126260	0.078000	-0.012960	0.172190
Std. Dev.	0.037167	0.121061	0.014782	0.122648
Skewness	-1.088406	-3.617661	2.390165	3.746570
Kurtosis	4.769031	17.35639	9.153818	18.34296
Jarque-Bera	49.83053	1636.887	384.5665	1846.506
Probability	0.000000	0.000000	0.000000	0.000000
Sum	-0.218430	107.3448	1.189670	44.36633
Sum Sq. Dev.	0.208589	2.213009	0.032993	2.271405
Observations	152	152	152	152

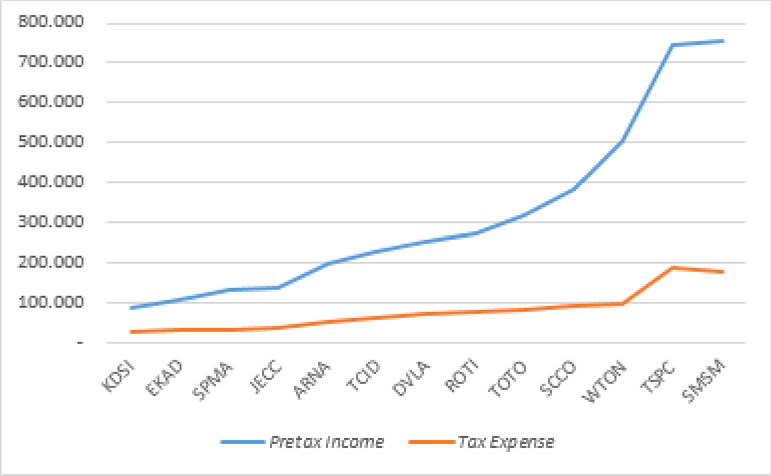
Source: Processed data(2021)



Source: Processed data(2021)

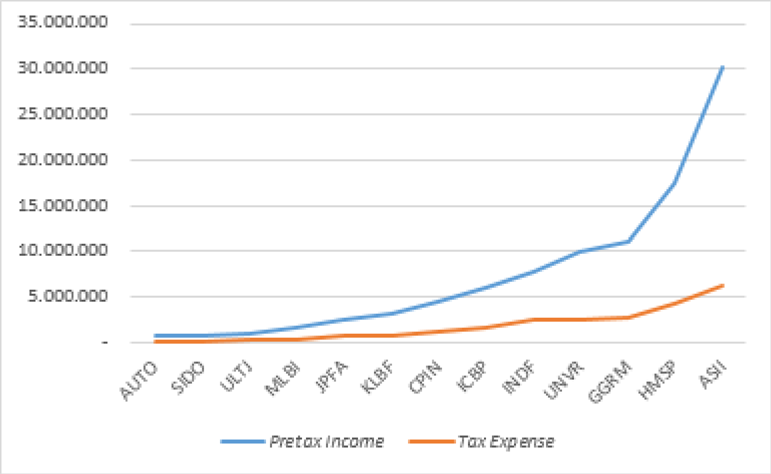
Figure 1. Pattern of Low Income Tax Expense

Figure 2. Pattern of the Middle Income Tax Expense



Source: Processed data(2021)

Figure 3. Pattern of High Income Tax Burden



Source: Processed data(2021)

The pattern in the graph above shows that groups with low incomes tend to pay less taxes than those in the middle and high income groups. This is indicated by the magnitude of the deviation between the pretax income line and tax expense.

Table 3. t test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.354538	0.168795	2.100399	0.0374
TPl	-0.343606	0.170153	-2.019392	0.0453
BpT	0.098292	0.234583	0.419009	0.6758
TAd	-0.390853	0.168484	-2.319825	0.0217
Effects Specification				
			S.D.	Rho
Cross-section random			0.016014	0.1891
Idiosyncratic random			0.033163	0.8109
Weighted Statistics				
R-squared	0.052048	Mean dependent var		-0.001034
Adjusted R-squared	0.032832	S.D. dependent var		0.033553
S.E. of regression	0.032997	Sum squared resid		0.161144
F-statistic	2.708664	Durbin-Watson stat		1.964166
Prob(F-statistic)	0.047326			

Source: Processed data(2021)

Multiple regression analysis in this study shows the R^2 value of 3.28%, which means that there are many other factors outside of taxation that can affect earnings management. The F test obtained a probability value of 0.047326, which means that H0 is rejected and H1 is accepted so that the estimated regression model is feasible to use.

The results of the t-test obtained a t-statistical tax planning value of -2.019392 with a probability level of 0.0453 which is smaller than a significance level of 0.05. It can be concluded that the tax planning variable has a negative effect on earnings management, so H1 is accepted. The results of this study support previous research that has been carried out by Mahpudin, 2017 and Negara & Suputra, 2017. A negative effect means that the lower the profit generated by management, the higher the company's tax planning.

The t-statistic value of deferred tax expense is 0.419009 and the probability value of 0.6758 is greater than the significance level, which means that the deferred tax expense has no effect on earnings management, so H2 is rejected. This result is in line with research conducted by Barus & Setiawati, 2015 and Utami, 2019 which states that deferred tax expense has no effect on earnings management, because there is a decrease in temporary difference earnings which results in the effect of not too large a deferred tax expense so that it cannot affect the ability of the expense. deferred tax in detecting earnings management.

The tax avoidance test shows a t-statistic value of -2.319825 with a probability value of 0.0217 which is smaller than a significance level of 0.05. A negative ETR value means the greater the ETR, the lower the tax avoidance. If ETR has a negative effect, then the value of tax avoidance has a positive effect on earnings management, H3 is accepted. The results of this study support the research that has been done previously by Larastomo et al., 2016 and Agatha, 2020. Tax avoidance has a positive effect, meaning that the greater the tax avoidance carried out by the company, the company is maximal in earnings management.

E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

5. Conclusions, Implications and Limitations of The Research

Conclusion

Based on the results of the analysis of research data, it can be concluded that companies with low income groups have a tendency to pay small taxes.
Tax planning has a negative effect and tax avoidance has a positive effect, but has a low R^2 value. Meanwhile, deferred tax expense has no effect on earnings management.

Implications

Companies with small profits tend to have a high ratio of profits to taxes paid. This is a concern for the director general of taxes to be more careful in carrying out the supervisory function of low-profit companies.

Research Limitations

The limitation in this research is that the company's profit has a negative value, which makes the number of objects studied less and less.

REFERENCES

Aditama (2014). Pengaruh Perencanaan Pajak Terhadap Manjemen Laba Pada Perusahaan Non Manufaktur Yang Terdaftar di BEI. *Jurnal Akuntansi*.

Agatha (2020). Pengaruh tax avoidance terhadap earnings management dengan audit quality. FEB-Usakti.

Alawiyah (2017). Pengaruh Aset Pajak Tangguhan, Beban Pajak Tangguhan, Leverage dan Ukuran Perusahaan Terhadap Manajemen Laba.

Apsari, & Setiawan (2018). Pengaruh Tax Avoidance terhadap Nilai Perusahaan. *E-Jurnal Akuntansi*.

Astria (2011). Analisis Pengaruh Audit Tenure, Struktur Corporate Governance dan Ukuran KAP Terhadap Integritas Laporan Keuangan.

Barus, & Setiawati (2015). Pengaruh Asimetri Informasi, Mekanisme Corporate Governance dan Beban Pajak Tangguhan Terhadap Manajemen Laba.

Citra (2013). *Pengaruh Aset Pajak Tangguhan Dan Beban Pajak Terhadap Manajemen Laba*.

Fadillah, H. (2019). Pengaruh Tax Avoidance Terhadap Nilai Perusahaan. *JIAFE*.

Hadi (2011). *Corporate Social Responsibility*. Graha Ilmu.

Harnanto. (2011). *Akuntansi Perpajakan*. BPFE-Yogyakarta.

Hotimah, H. (2015). Pengaruh Perencanaan Pajak Terhadap Manajemen Laba. *Esensi*.

Ibrahim, F. (2019). Analisis pengaruh tax avoidance terhadap earnings management.

Larastomo, Perdana, Triatmoko, & Sudaryono (2016). Pengaruh Tata Kelola Perusahaan dan Penghindaran Pajak Terhadap Manajemen Laba. *Esensi*.

E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

Lubis, I., & Suryani. (2018). Pengaruh Tax Planning, Beban Pajak Tangguhan dan Ukuran Perusahaan Terhadap Manajemen Laba. *Jurnal Akuntansi Dan Keuangan*.

Mahpudin, E. (2017). Pengaruh Perencanaan Pajak Terhadap Manajemen. *Journal of Accounting and Finance*.

Negara & Suputra (2017). Pengaruh Perencanaan Pajak dan Beban Pajak Tangguhan Terhadap Manjemen Laba. *E-Jurnal Akuntansi*.

Octaviana (2014). Pengaruh Agresivitas Pajak Terhadap CSR. *Universitas Diponegoro*.

Prakosa, & Kesit, B. (2014). Pengaruh Profitabilitas, Kepemilikan Keluarga dan Corporate Governance terdadap Penghindaran Pajak diIndonesia.

Puji Astutik, R. E. (2016). Pengaruh Perencanaan Pajak Dan Beban Pajak Tangguhan. *Jurnal Ilmu&Riset Akuntansi*.

Putri, Surya, & Hanif (2016). Pengaruh GCG, Ukuran Perusahaan dan Profitabilitas terhadap ETR. *Jurnal Online Mahasiswa Fakultas Ekonomi Universitas Riau*.

Ratmono, & Sagala (2016). Pengungkapan CSR Sebagai Sarana Legitimasi. *Nominal, Barometer Riset Akuntansi Dan Manajemen*.

Suandy, E. (2011). *Perencanaan Pajak* (EdisiKeli). Salemba Empat.

Sulistyanto, H. S. (2018). *Manajemen Laba dan Teori Model Empiris*. Grasindo.

Sumomba & Hutomo (2012). Pengaruh Beban Pajak Tangguhan dan Perencanaan Pajak terhadap Manajemen Laba. *Journal of Business and Economics.*

Suyanto, & Supramono. (2012). Likuiditas, Leverage, Komisaris Independen, Manajemen Laba Terhadap Agresivitas Pajak Perusahaan.

Syilvia, Boenjamin, & Mulyani (2016). *Pengaruh Beban Pajak Tangguhan, Perencanaan Pajak dan Debt To Equity Ratio terhadap Praktik Manajemen Laba*.

Ulya, F. N. (2020). *Simak, Ini Kronologi Lengkap Kasus Jiwasraya Versi BPK*. KOMPAS.COM.

Utami, S. (2019). *Tax Planning, Beban Pajak Tangguhan dan ETR terhadap Manajemen Laba*.