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Does Tax Planning and Deferred Tax Expense Affect Earnings Management?

Nofrivul [1]✉, Elsa Fitri Amran [2], and Widia Firmanola [3]

[1,2,3]Islamic Economics and Business Faculty, Mahmud Yunus State Islamic University Batusangkar, Indonesia

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ABSTRACT

Purpose : To achieve high profits the company must have a competitive advantage compared to other companies, one of which is the ability to manage finances well, in order to ensure the company's long-term viability, which is reflected in the amount of profit generated. This is what motivates managers to take deviations in the presentation and reporting of earnings information, which is called earnings management. The goal of this research is to determine the impact of tax planning and deferred tax expense on earnings management.
Method : The study uses purposive sampling method and obtained 36 manufacturing companies for eight years of observation. The population used are manufacturing companies listed in Indonesian Stock Exchange (IDX) during the years 2013-2020. The data were tested using logistic regression.
Findings : The result of this study indicated that tax planning has no effect on earnings management and deferred tax expense has effect on the probability of companies doing earnings management. While tax planning and deferred tax expense have a simultaneous effect on earnings management.
Novelty : The research was conducted to determine the factors that influence the company to practice earnings management that is focused on tax planning and deferred tax expense. The earnings management measure used in this study is a dummy variable which implies the existence of a company policy to increase or decrease profits.

INTRODUCTION

In general, good or bad company performance can be measured by the profit generated. Users of financial statements make profit as a reference in making decisions, for example, for internal parties, profit information is used as a reference in giving rewards and bonuses to managers, while for external parties, profit information is used as a basis for making investment decisions, and as a reference in determining the amount of tax to be paid. This is what causes the company's profit to be the center of attention for investors, creditors, and the government in this case the Directorate General of Taxes (Pratiwi, 2017). The goal achieved by management is to maximize profits, this is because it is related to the bonuses received, the higher the profit generated, the higher the bonuses that will be given by the company. Companies must have a competitive advantage over their rivals in order to generate high profits. Profits are displayed by creating high-quality products for consumers and managing their finances effectively, which means that financial management policies must be able to guarantee the continuation of the company's business, which is reflected in the amount of profit generated. This is what motivates managers to take deviations in the presentation and reporting of lab information, which is called earnings management. Earnings management, often known as earnings management, is the deliberate act of managers intervening in the process of creating financial statements by boosting or decreasing profits without being connected to a modification in the company's long-term economic performance (Ponto & Rasyid, 2017).

Earnings management behavior results in financial reports no longer reflecting the company's fundamental values, therefore, manipulating financial reports has become a central issue in the source of misuse of information that can be detrimental to users of financial statements, such as investors and the government. This condition is known as information asymmetry, which is a condition where there is an imbalance in obtaining information between management as an information provider and shareholders and stakeholders.

Earnings management practices are explained in agency theory, namely conflict of interest between (1) ma-

* *E-mail: nofrivul@uinmybatusangkar.ac.id*
Address: Jl. Jenderal Sudirman No.137, Limo Kaum, Kec. Lima Kaum, Kabupaten Tanah Datar, Sumatera Barat 27217, Indonesia

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nagement (agent) and owner (principal). Management is motivated to increase company profits with the aim of getting bonuses, while owners are motivated to make contracts with the aim of making themselves prosperous through dividends distributed by the company and profits from rising prices shares (2) Management (agent) with creditors (principal). Management is motivated to be able to maintain the company's debt-to-equity ratio, while creditors have an interest in making debt decisions to companies by taking into account the company's financial performance. (3) Management (agent) with the government (principal). Management will try to minimize tax payments, while the government is tasked with collecting taxes in accordance with applicable regulations (Pratiwi, 2017).

Earnings management behavior serves as an important theoretical paradigm. However, earnings management behavior of managers who want to hide the real business can still be explained by the principle of the event, principle of absence of managers Voluntary benefit from the management of the income if there are many good stores. These factors include: having contracts and managing contracts at no cost; The necessary and useful qualities that make the greatest entrepreneurs and leaders. Communication management is not expensive. Since these terms don't seem to hold up in an industry plagued by organizational friction, managers are using earnings management as a revenue-generating tool (Habib et al., 2022).

There are four patterns in carrying out earnings management practices for companies, namely, Taking a bath, this method is done by increasing or decreasing profits from the previous year. Income minimization, this method is done by making the current year's profit lower than it actually is. Income maximization, this method is done by making the current year's profit higher than it actually is and Income Smoothing, this method is done by reducing profit fluctuations, with the aim of stabilizing company profits (Pratiwi, 2017).

Earnings management behavior causes financial statements to no longer reflect the company's fundamental values, therefore, engineering financial statements has become a central issue in sources of information abuse that will harm users of financial statements, such as shareholders (investors) and the government. This condition is known as information asymmetry, which is a term used to describe the situation where there is an imbalance between the shareholders and stakeholders and the management, who serves as the information provider. One of the phenomena regarding earnings management practices occurred at PT Tiga Pilar Sejahtera Food (AISA) based on the audited financial report, AISA's net income fell to 1.95 trillion from the previous Rp4.92 trillion. Cost of goods sold decreased to Rp1.39 trillion from the previous Rp4.29 trillion. PT AISA also received other income of only 1.9 trillion from the previous income of only Rp18.11 billion, thus making the company's operating profit soar to Rp1.49 trillion from an operating loss of Rp9.25 billion. This confirms the allegations that the accounting firm Ernest & Young Indonesia has issued an audit regarding alleged violations committed by the old management of AISA, and proves that the company's management has earnings management practices, namely by increasing profits (decreasing losses) reported from the company which is the actual profit (loss) so that the loss experienced by the company looks smaller. When this corporation manages its earnings, the goal is to keep the company's value high in the eyes of its stakeholders, but what actually happened in this situation was that the company's value fell dramatically (CNBC, 2019). In addition, earnings management improved significantly during the pandemic years for banks located in Europe, indicating that the quality of financial reporting was affected during the crisis period (Taylor et al., 2022).

Earnings management practices are detected by companies in Anglophone sub-Saharan African countries within a dynamic framework, causing increased financial performance and directly strengthening the quality of corporate governance in the eyes of stakeholders (Boachie et al., 2022). Likewise with non-financial companies in China that measure earnings management practices, where a fairly large dividend payment will suppress or limit the behavior of managers in managing earnings (Hussain et al., 2022). Managers who have unlimited authority and power are able to carry out earnings management actions that are driven by corporate social responsibility activities (Kuo et al., 2021). The agency conflict, incentives, rationalization, opportunity plus having the capability among the managers to manipulate the financial statements lead them to commit fraud (Kazemian & Sanusi, 2015). Companies need to implement enterprise risk management in managing finances which limits company managers from practicing earnings management (Wang et al., 2018). Other research find that penalties on peer firm leaders significantly decrease focal firms' earnings management, suggesting that firms adjust their expected costs related to misconducts when observing the salient penalties against their peers (Cai et al., 2023). There is an increase in earnings management of IFRS adoption is more pronounced in low trust countries/societies after control for country-level institutions, and IFRS adoption decreases total earnings management in high trust countries/societies (Lam et al., 2023).

Indonesian country makes taxes as a source of revenue used to finance state expenditures. There are different interests between the government as a tax collector and companies as tax collectors, where the government tries to get the maximum tax revenue from each company, while on the other hand companies try to pay as little tax as possible to get the maximum profit. From the differences in interests that occur between the government and also companies, this makes companies carry out various strategies to be able to pay their taxes to the government (Sinaga & Sukartha, 2018). On the other hand, for companies tax is a burden that will reduce net income. Companies tend to want to generate large profits, so they will try to report the tax burden to a minimum, so that companies pay a minimum amount of tax. The company's efforts to minimize the tax burden are carried out by tax management.

Tax management is the process of planning, organizing, directing, and controlling resources to pay taxes owed effectively and efficiently. Effective means being able to achieve the goal of tax savings in accordance with the tax planning that has been set. Efficient means that the tasks at hand are carried out correctly, organized, and carried out according to an agreed plan. According to Pohan (2013) tax management is a comprehensive effort made by the tax manager of a company or organization to manage it properly, efficiently, and economically, so as to provide maximum contribution to the company. One of the duties of tax management is tax planning (Budi, 2016).

The act of structuring taxpayers' businesses and transactions to reduce their tax liabilities is known as tax planning, but still covered by the appropriate tax legislation (Suandy, 2016). This is further addressed in the positive accounting theory, which contends that "The Political Cost Hypothesis," the third hypothesis, best accounts for earnings management behavior, which companies dealing with political costs tend to practice earnings management with the aim of reducing political costs that must be borne company. Political costs include all expenses incurred by businesses as a result of government laws, including the tax burden.

Tax planning mechanisms are location (the use of tax havens, offshore financial centres) and special purpose entities; location of holding companies, inversion, Double Irish Dutch Sandwich, etc; transfer pricing; intangible assets holding in low-tax countries and the use of transfer pricing for royalty charges; capital structure and the use of internal debt versus external debt and the related thin capitalization rules; cash holdings versus profit repatriation (Cooper & Nguyen, 2020). Thus, there is an opportunity for management to make its financial performance look good by showing the ideal composition of financial reports for readers and policy makers. Tax planning carried out by companies is tax avoidance, tax evasion, and tax saving (Pohan, 2013). Tax avoidance is a strategy and method of tax avoidance that is carried out legally and safely for taxpayers because it does not violate tax laws. The means and methods used are designed to take advantage of the weaknesses of the applicable tax laws and regulations. Tax evasion is a strategy and method illegal and unsafe tax avoidance for the obligatory taxes, and this method of smuggling violates tax laws, because the method used is not in the corridor of tax regulations. This method is risky and can be subject to sanctions for violations of law or criminal acts. Therefore good tax planning is advised not to use this method. Tax saving is a legal and safe tax saving measure for taxpayers because it does not violate tax regulations.

Benchmark-beating firms enter into real earnings manipulation to inflate earnings. However, this form of earnings management is relatively costly. The costs include extra taxes as REM is a basically tax conforming form of inflating earnings. One could expect that this additional tax burden can be lowered by firms by entering into tax planning activities. The results of study show the opposite–benchmark-beaters that engage in Real Earnings management are less tax aggressive than their industry-size peers (Kałdoński & Jewartowski, 2020).

In addition to tax planning, according to Philips (2003) in Jayanti et al., (2020) one method for identifying earnings management methods utilized by firm management is deferred tax expense. According to (Ardyansah, 2014), large companies that do better tax planning tend to have more space. One way a company can do that is by adopting effective accounting practices to reduce a company's effective tax rate (Huseynov & Klamm, 2012). As stated by Lietz (2013) that tax planning is carried out by companies in the form of tax avoidance. Tax planning carried out by companies is also driven by the ability to survive in business competition (Armstrong et al., 2019). Accounting is a recording technique used in the creation of financial accounts, and taxes are one of the sources of governmental revenue. In order to address the information asymmetry that may exist between management and readers of financial statements, accounting seeks to provide information about corporate performance in addition to increasing state revenues. Users of financial statements can get additional information to evaluate the caliber of a company's performance by understanding the distinction between tax accounting (fiscal income) and commercial accounting. Since tax regulations place limitations on the flexibility of the use of discretion in establishing taxable income, the difference between commercial profit and taxable profit may have an impact on management's discretion in the accrual process.

The management's discretion increases with the gap between fiscal profit and accounting profit. Deferred tax expense measures the degree of management discretion and can be used to spot organizations' earnings management techniques. It can also be done by examining the outcomes of fiscal corrections in the form of negative corrections. A negative correction occurs when fiscal accounting income is less than commercial accounting income and fiscal accounting expenses are greater than commercial accounting expenses. The following period's income statement will include deferred tax expense, which will raise the current period's deferred tax expense in the balance sheet. Deferred tax is basically the impact of taxes future corporate income arising from temporary differences in accounting and tax treatment and future tax losses that can be compensated for for a specified period of time and reported in the company's financial statements. The impact of future income tax must be recognized, calculated, presented and prepared in the financial statements, up to the statement of financial position and statement of comprehensive income.

Several studies related to this research are research conducted by Sumomba et al. (2012) which examines the effect of Deferred Tax Burden and Tax Planning on Earnings Management. According to the study's findings, tax planning has an impact on profits management techniques whereas deferred tax expense has no impact on it. Subsequent research was carried out by (Nagara et al., 2017) which showed that tax planning had an effect on earnings management and deferred tax expense had an effect on the probability of companies doing earnings management.

Furthermore, research conducted by Kanji (2019) showed that tax planning and deferred tax expense had no effect on earnings management. Research conducted by Astutik & Mildawati (2016) shows that tax planning and deferred tax expense each have an influence on earnings management.

According to agency theory, each individual is motivated solely by his or her own welfare and self-interest. The principal is motivated to enter into a contract in order to benefit himself through dividend distribution or an increase in the company's stock price, whereas the agent is motivated by increased compensation (Susanto, 2017). The concept of earnings management is explained using an agency theory approach based on The principle of discretionary accruals is described using an agency theoretical approach based on the authorized party's relationship (investor), also known as the principal, and the manager, who serves as the agent and is granted the power to manage the company as directed by the principal (investor).

Because the principal lacks adequate information about the agent's performance, the principal cannot always monitor the agent's actions, and the principal cannot be certain how the agent's efforts contribute to the company (Widyaningsih, 2017). While the management has the authority and discretion in maximizing the company's profits which leads to the process of maximizing personal interests at costs that must be borne by the owner of the company. Efforts to increase the value of the company no longer reflect the actual performance of management, but have been engineered in such a way that it becomes better in accordance with the wishes of management. This is called the agency problem. This study aims to review several large studies conducted in various countries and assess the relationship between tax planning and deferred tax expense on earnings management practices. This prompted researchers to uncover taxes in the country of Indonesia which are the main source of income, so that it is likely that there will be acts of fraud or accounting practices that can prevent companies from paying taxes by way of earnings management. Therefore, with various opinions and previous research, the purpose of this study is to see whether tax planning and deferred tax expenses will make companies practice earnings management.

According to positive accounting theory, the third hypothesis, The Political Cost Hypothesis, can explain earnings management behavior. Companies that face political costs, tend to reduce profits with the aim of reducing the agency cost they must bear. Political costs include all costs that must be borne by the company in connection with government regulations, including the tax burden. Companies that go public are more well-known than companies that do not. Organization is stimulated to provide the better financial performance information possible in order to improve the significance of the outstanding earnings. As a result, management will manage tax, which is a profit deduction that may be got to share with investors or invested by the company, to minimize it in order to maximize the size of the company 's net income (Beuselinck & Deloof, 2014 and Astutik & Mildawati, 2016). By carrying out tax planning, companies can save cash out and can manage cash in and out (Suandy, 2020). Thus the company has the opportunity indirectly to carry out a strategy for presenting profits in financial statements which results in a very good signal for stakeholders. So that stakeholders are interested in investing in the company which in the end the company gets good news to allocate the investment to value-added activities for the company. Tax planning is done in various ways so that tax payments can be kept to a minimum so that company profits can increase. The way that managers take to minimize tax payments is an act of earnings management.

H_1: Tax planning affects earnings management

According to Philips (2003) in Jayanti et al., (2020), deferred tax expense is one method for detecting how earnings are managed by company management. Accounting is a recording system used to prepare financial statements, and taxation is one source of state revenue. Taxation, in particular, seeks to increase state revenues; accounting, on the other hand, aims to gather data about earnings quality and is expected to conquer information gap between management and financial statement users. The distinction among both tax and commercial financial reporting can provide additional details to financial statement users in assessing the quality of current earnings. Because tax regulations restrict the use of professional judgment in determining tax liability, the distinction among both financial gains and budgetary profit can notify management's accrual process discretion.

Another method for detecting earnings management practices is to examine the results of financial adjustments in the type of negative repairs. When fiscal accounting income is less than commercial accounting income and fiscal accounting expenses exceed commercial accounting expenses, a negative correction occurs. This results in an increase in deferred tax liability in the relevant decade financial statements, which is identified as deferred tax expense in the following period's income statement. Companies can manipulate profits by recognizing a large number of deferred tax assets, which will cause changes in deferred tax assets that are not normal compared to previous years (Li et al., 2020).

Profits that report management are not only accountable to stakeholders but for the benefit of the tax authorities as well. If the profits reported by management are large, then this is also good news not only for stakeholders but for the tax authorities, because what is used as the basis for calculating the tax burden is the profit generated by the company. If the profit generated is large, then the tax burden will be large so that it can reduce the profit that will be obtained by the company. This means that every change in deferred tax expense, the company's opportunity to manage earnings will occur (increase or decrease profits). Temporary differences will also arise from the components of accruals and operating cash flows. It is because of the temporary differences that deferred tax expense has an effect on efforts to detect earnings management actions.

H_2: Deferred tax expense affects earnings management

RESEARCH METHODS

This type of research uses a comparative causal hypothesis testing type with a quantitative approach method. Comparative causal hypothesis testing research is research that examines the causal relationship between two or more variables. The quantitative approach is an approach that uses data in the form of numbers in statistical analysis (Sayidah, 2018). This study uses secondary data in the form of company financial statements published on the Indonesia Stock Exchange. The population of this study consists of all manufacturing businesses that have been listed on the Indonesia Stock Exchange between 2013 and 2020 (193 companies). The following criteria were employed as part of the purposive sampling method in this study are manufacturing companies Listed on the IDX for the 2013-2020 period, companies who publish their financial statements and submit audited financial statements during, submit deferred tax expenses for the 2013–2020 period are those that have comprehensive data, companies that don't engage in mergers, acquisitions, reorganizations, or changes to their business groups and report financial statements in Rupiah (IDR) for the period 2013-2020. So that the sample in this study became 36 companies with a total of 288 observations.

This study uses two variables, namely the independent variable and the dependent variable. The independent variable is the variable that causes the dependent variable, in this study using two dependent variables, namely tax planning and deferred tax burden. Tax planning is the process of organizing the business of individual and business entity taxpayers in such a way as to take advantage of various possible loopholes that can be taken by companies within the limits of tax provisions so that companies can pay taxes in a minimum amount (Pohan, 2013). Destinationof tax planning is to maximize the tax burden payable so as to save cash out, and maximize after-tax profit generated by the company. Tax planning is an independent variable that can be measured using the formula Wild et al (2005) in Prasetyo et al. (2018) that shown by equation 1.

TRR = Net Income / Pretax Income...1

Deferred tax is basically the impact of taxes future corporate income arising from temporary differences in the accounting and treatment of future tax and taxable losses that can be offset for a specified period of time and reported in the company's financial statements. The future income tax effect must be recognized, calculated, presented, and disclosed in the financial statements, up to the statement of financial position and the statement of comprehensive income. Deferred tax expense is a tax expense that will increase the tax burden to be paid in the future which can be measured using the formula by Phillips, et al. (2003) in Jayanti et al. (2020) that shown by equation 2.

Deferred Tax Expense = Deferred Tax Expense i on t / Total Asset At The End of Year t-1.................................2

Earnings management is a set of actions used by managers to influence financial reports by increasing or decreasing profits according to their goals. In this case, management can influence the recognition of costs, revenues and profits by accelerating or delaying its recognition so that the profit generated is in line with expectations (Supriyono, 2018). In this study, earnings management is measured with a dummy variable and classified into two categories: code 1 if the company is in the range of small profit firms (reporting small profit) ranging from 0 to 0.06 indicated that the company performs earnings management, and code 0 if the company is in the range of small loss firms (reporting small loss) ranging from -0.09 to 0 indicated that the company does not do earnings management. Dechow's Jones Modification model from 1995 was used to determine which companies are in the range of small profit or small loss firms. The steps taken in the table 1.

Hypothesis testing in this study uses logistic regression, which is used to test the effect of independent variables on the dependent variable. If the dependent and independent variables are a mix of metric and non-metric variables, logistic regression analysis may be used, and the dependent variable (earnings management) is a dummy variable (see equation 3). This analytical technique method does not require the assumption of normality on the independent variables. The logistic regression model used to test the hypothesis is descriptive statistics which are used

Table 1. The Steps Dechow's Jones Modification model

No	Information	Formula
1	Calculating the actual total accruals	$TA_{it} = NI_{it} - CFO_{it}$
2	Total Accruals are estimated using the OLS (Ordinary Least Square) regression equation	$\frac{TAit}{Ait-1} = \beta_1 \frac{1}{Ait-1} + \beta_2 \frac{\Delta Revit}{Ait-1} + \beta_3 \frac{PPEit}{Ait-1}$
3	Calculating Non-Discretionary Accruals	$NDA_{it} = \beta_1 \frac{1}{Ait-1} + \beta_2 (\frac{\Delta Revit}{Ait-1} - \frac{\Delta Recit}{Ait-1}) + \beta_3 \frac{PPEit}{Ait-1}$
4	Calculating Discretionary Accruals	$DA_{it} = \frac{TAit}{Ait-1} - NDA_{it}$

Table 2. Results of Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Earnings Management	288	-0.1635	0.2221	0.001241	0.0180840
Tax Planning	288	-7.0317	11.1714	0.727920	0.9906235
Deferred Tax Expense	288	-0.0004	0.1515	0.005659	0.0115786
Valid N (listwise)	288				

Source : Secondary data processed, 2021

to describe quantitative data into qualitative data and are useful for facilitating interpretation (Saputra et al., 2020).

$EM= a+ b_1\ TRR_{it}+ b_2\ \ BPT_{it}+ e$...3

Information :
EM = Earnings management Code 1 if the company is in the range of small profit firms and code 0 if the company is in the range of small loss firms
TRRit = Tax Retention Rate of company i in year t
BPTit = Deferred Tax Expense of company i in year t divided by Total Assets at the end of year t
a = constant
b_1 = Variable Regression Coefficient 1
b_2 = Variable Regression Coefficient 2
e = Error term

RESULTS AND DISCUSSIONS

In this study, descriptive analysis was used to give a descriptive description of the variables based on their lowest, maximum, average, and standard deviation values. It is thought that the variable tends to grow if the standard deviation value is less than the mean value. Table 2 shows the results of the descriptive analysis.

Earnings management (Y) has a minimum value of -0.1635 and a maximum value of 0.2221. The average value (mean) is 0.001241 and the standard deviation value is 0.0180840 (greater than the average value) means that earnings management has a high level of data variation. Tax planning (X_1) has a minimum value of -7.0317 and a maximum value of 11.1714. The average value (mean) is 0.727920 and the standard deviation value is 0.9906235 (greater than the average value) means that tax planning has a high level of data variation. Deferred tax expense (X_2) has a minimum value of -0.0004 and a maximum value of 0.1515. The average value (mean) is 0.005659 and the standard deviation value is 0.0115786 (greater than the average value) means that deferred tax has a high level of data variation.

Regression Logistic Test

Logistic regression analysis is used because the dependent variable in this study is a categorical variable, namely companies with small losses and companies with small profits. If using logistic regression data analysis techniques, it is no longer necessary to test the normality of the independent variables and ignore heteroscedasticity. Table 3 shows results of regression logistic test.

Feasibility of Regression Model

The feasibility of the regression model was evaluated using Hosmer and Lemeshow tests. The Hosmer and Lemeshow test tested the null hypothesis that the empirical data fit the model. The null hypothesis is accepted if the Hosmer and Lemeshow test statistic result is larger than 0.05. This indicates that the model may either be trusted

Table 3. Results of Regression Logistic Test

Information	Value
Chi-square	14.090
Sig	0.079
Initial 2LL (Block Number = 0)	394.224
Final -2LL (Block Number = 1)	387.346
Nagelkerke R Square	0.032
Tax Planning	-0.525
Deferred Tax Expense	-0.476

Source : Secondary data processed, 2021

Table 4. Classification Matrix Results

Observed			Predicted		
			Earnings management		Perentage Correct
			Small Loss Firms	Small Profit Firms	
Step 1	Earnings management	Small Loss Firms	16	109	12.8
		Small Profit Firms	14	149	91.4
	Overall Percentage				57.3

Source : Secondary data processed, 2021

because it matches the observation data or can be used to predict the value of the observation.

In Table 3 it can be shown that Chi-square value of 14.090 with a sig value of 0.079. If the significance value is greater than 0.05, the model is capable of predicting the observation value, or the model is acceptable because it matches the observation data.

Overall Model Fit

The test is done by comparing the value between -2 Log Likelihood (-2LL) at the beginning (Block Number = 0) with a value of -2 Log Likelihood (-2LL) at the end (Block Number = 1). If there is a decrease in the Likelihood value, this indicates a good regression model or in other words the hypothesized model fits the data.

Based on the result tests on table 2 it can be shown that have been carried out, it is known that the initial -2LL value is 394.224 and the final -2LL value has decreased to 387.346. Because there is a decrease in the Likelihood value (-2LL), this indicates a good regression model or in other words the hypothesized model fits the data.

Coefficient of Determination (Nagelkerke R^2)

The magnitude of the coefficient of determination in the logistic regression model is indicated by the value of Nagelkerke R^2. The Nagelkerke R^2 value on the table 2 is 0.032, meaning that the variability of the dependent variable that can be explained by the independent variable is 3.2 percent, while the remaining 96.8 percent is explained by other variables outside the research model.

Multicollinearity Test

Multicollinearity test logistic regression seen from the correlation matrix table (table 2). Indicators of multicollinearity between variables do not exist if the correlation matrix is less than 0.8. Since there are no coefficient values between variables in the aforementioned table that are bigger than 0.8, multicollinearity between variables does not exist.

Classification Matrix

The classification matrix shows the predictive power of the regression model to predict the possibility of earnings management practices by the company. The table 4 presents the classification matrix.

Based on the test results shown in the table above, the predictive power of the regression model that predicts the probability of companies implementing earnings management practices is 91.4 percent. This shows that by using the regression model used 149 of a total of 163 observations 91.4 percent of companies that perform earnings management. The predictive power of the regression model predicts the probability that the company does not perform earnings management is 12.8 percent. This means that the regression model used consists of 16 out of a total of 125 observations, 12.8 percent which are predicted not to do earnings management. From the output of the logistic regression equation, this study shows the power of grouping the overall prediction accuracy of 57.3%.

Partial Testing

Table 5 shows that the constant in logistic regression is 0.447, meaning that if tax planning and deferred tax

Table 5. Hypothesis Testing Results

		B	Wald	Sig.	Description
Step 1^a	Tax Planning	0.030	0.053	0.819	H_1 Rejected
	Deferred Tax Expense	-38.395	4.546	0.033	H_2 Accepted
	Constant	0.447	6.484	0.011	

Source : Secondary data processed, 2021

Table 6. Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	6.878	2	0.032
	Block	6.878	2	0.032
	Model	6.878	2	0.032

Source : Secondary data processed, 2021

expenses are constant, then the tendency of companies to carry out earnings management is 0.447 units. The regression coefficient on the tax planning variable is 0.030, this means that when the tax planning value increases, assuming the other independent variables are held constant, the company tends to increase profits (manage earnings). However, tax planning does not have a significant effect on earnings management as indicated by the significance of 0.819> 0.05. The regression coefficient on the variable deferred tax expense is -38.395, this means that when the value of deferred tax expense increases, assuming the other independent variables are held constant, companies tend to manage earnings by reducing profits. Based on a significance value of 0.033 < 0.05 which means that there is a significant effect of deferred tax expense on earnings management.

Simultaneous Testing

In simultaneous logistic regression testing, the Omnibus Tests of model coefficient are used to determine whether the two independent variables of tax planning and deferred tax expense have a combined impact on earnings management. The test results can be seen in the table 6.

Tax planning and deferred tax expense have a significant effect on earnings management simultaneously, with a sig value of 0.032 < 0.5. Based on the findings of the logistic regression test used in this study, there is a positive relationship between tax planning and earnings management, meaning that manufacturing companies in this study have the opportunity to manage earnings by increasing the composition of earnings on the statement of financial position. However, the effect on earnings management is 0.819 > 0.05 which indicates that it has no effect on earnings management practices. The results of this study are consistent with Aditama's research (Aditama & Purwaningsih, 2014), but different from research (Astutik & Mildawati, 2016) and (Sumomba et al., 2012), which state that tax planning significantly increases a company's opportunities to practice management profit by increasing profit.

It is assumed that manufacturing companies generally have several departments/divisions with their respective management structures. So this will create a tendency that management will prioritize their respective interests in terms of obtaining bonuses or rewards if they show good performance. So that earnings management tends to occur because management's self-interest is not due to tax planning which is in the interests of company owners (Wardani & Santi, 2018). Because tax planning is the desire of the owner of the company. Where the owner of the company wants high dividends, with minimal costs. So whether there is tax planning, does not affect management in managing earnings.

Deferred tax expense has a negative impact on managing earnings; but, if the amount of deferred tax expense is low, the corporation has more chance to manage earnings. Deferred tax expense's sig value is 0.033 < 0.05. It implies that deferred tax expense has a big impact on managing earnings. The average earnings management variable is positive, based on the theory of Phillips, et al. (2003) in (Jayanti et al., 2020) shows that companies that carry out management practices aim to avoid declining profits. This research supports Astutik & Mildawati (2016); Kasipillai et al. (2013) and Saputra et al. (2020); who contend that partially deferred tax burden has no impact on earnings management, are at odds with this study. It means that the manufacturing companies in this study perform earnings management actions by reducing profits. This is indicated by the multiple linear regression coefficient which is negative.

Until now, earnings management actions carried out by companies can still be found in various existing cases. Several phenomenal cases were Enron, Kimia Farma and in 2019 PT Tiga Pilar Sejahtera Food. Reflecting on this case is not a warning or vigilance for the company in running its business. But it is still being done secretly, which will be bad for the long term. It is undeniable that the company's desire to survive and operate requires a business strategy that is likely to violate the rules and can harm many people. One business strategy that is always a topic is earnings management. Those that are published to the general public are usually companies that go public and are listed on the stock exchange. However, if you look at companies that have not gone public, it is believed that the earnings management practices that are being carried out are clear. One of the techniques used by increasing or decreasing profits, so that the company's financial performance reports look promising to stakeholders.

CONCLUSIONS

This study focuses on manufacturing companies, because in general these companies have good financial performance in the eyes of stakeholders because they have the potential to be able to provide extraordinary rewards from the products/services they produce. Earnings management in this study looks at measuring how a company's actions use policies to reduce or increase profits. So the results of the study indicate that tax planning does not influence companies to take policies to increase or decrease profits. This is due to the characteristics of manufacturing companies that have many divisions/departments so that in managing the management of departments/divisions there are also various methods and characteristics. As a result, each has its own interests in the management of their respective departments/divisions. Meanwhile, deferred tax expense has an influence on company policy in managing earnings by choosing policies to reduce profits. Because from the results of this study it was found that the higher the portion of deferred tax expense in the company will increase the chances of the company/management to carry out earnings management by reducing profits. Simultaneously, tax planning and deferred tax expenses influence companies to take earnings management actions by choosing policies to increase or decrease profits. Further research is expected to include moderating or intervening variables that allow earnings management to occur, such as investor reactions, changes in accounting rules and policies, and others.

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