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The effect of tax planning and deferred tax expense on earnings management

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ABSTRAK
This study aimed to analyze the effect of Tax Planning and Deferred Tax Expense to Earnings Management. The independent variable is Tax Planning and Deferred Tax Expense and the dependent variable is the Earnings Management. Data were obtained from the financial statement of 6 manufacturing companies in food and beverages sub-sector listed on Indonesia Stock Exchange in the period 2014-2018. The study uses Multiple Linear Regression Test as the data analysis method. The results show that Tax Planning partially has not a significant positive effect to Earnings Management and Deferred Tax Expense partially have a significant positive effect to Earnings Management. Simultaneously, Tax Planning and Deferred Tax Expense had an effect to Earnings Management.

INTRODUCTION

Currently, the company is faced with intense competition to continue to exist in the capital market, especially for the manufacturing industry in Indonesia. It is not only a demand to produce quality goods for consumers, but also to be able to manage finances properly, which means that company management is responsible for managing financial reports. The purpose of financial reports is to provide financial information that includes changes from the elements of financial statements addressed to other parties with an interest in assessing the company's financial performance other than company management (Irham Fahmi, 2011). One of the parameters used to measure company performance is information about earnings. In analyzing external and internal party financial reports, profit is used as the basis for making compensation decisions and giving bonuses to employees, management performance, and the basis for determining the amount of taxation (Aldeshinta, 2017). But now many companies are manipulating financial statements by increasing profits to maximize their own desires.

The accounting fraud phenomenon is the case of PT. Coca Cola Indonesia, PT. Kimia Farma Tbk, and PT. Toyota Motor Manufacturing Indonesia Tbk, which demonstrates earnings management practices. PT Coca Cola Indonesia (CCI) is suspected of circumventing taxes, causing a tax underpayment of Rp.49.24 billion. This case occurred for the fiscal years 2002, 2003, 2004, and 2006. The tax avoidance phenomenon was then carried out by PT. Toyota Motor Manufacturing Indonesia (TMMIN), this case occurred because of a correction made by the Director General of Taxes on the sales value and TMMIN royalty payments. This dispute revolved around the 2008 tax report. At that time, TMMIN's shareholders were Toyota Motor Corporation at 95% and the remaining 5% was owned by PT. Astra International Tbk. In its tax report, TMMIN stated that the sales value reached Rp 32.9 trillion, but Drijen Tax corrected the value to Rp 34.5 trillion or there was a correction of Rp 1.5 trillion. With a correction value of IDR 1.5 trillion, TMMIN must add tax payments of IDR 500 billion. (Monday, 8 January 2018.

The following are the results of the calculation of earnings management calculated using a proxy for changes in income scale in 6 companies whose samples were taken from a total population of 26 companies, which were selected using purposive sampling method. In the food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in the 2014-2018 period.

Table 1. Calculated of Earnings Management

No	Company	SEC				
		2014	**2015**	**2016**	**2017**	**2018**
1	**BTEK**	-0,0031	0,0012	0,0002	0,0099	0,0102
2	**BUDI**	-0,0280	-0,8391	1,5652	0,0736	0,0476
3	**CEKA**	-0,9021	2,2999	15,6720	-1,9885	-0,0206
4	**ICBP**	0,0274	0,0114	0,1430	-0,0094	0,0966
5	**IIKP**	0,4881	0,0400	0,0634	-0,0147	-0,0010
6	**ULTJ**	-0,0280	1,6060	3,7844	0,0032	-0,0013

Based on table 1, the food and beverage sub-sector manufacturing companies during the period 2014 to 2018 are indicated to practice earnings management, because they have scaled changes in income that are above zero or above the income threshold, to avoid negative values. Meanwhile, for companies that change the profit scale below zero or below the threshold, it is indicated that they do not practice earnings management.

Factors that affect earnings management are deferred tax expense and tax planning. According to Watt and Zimmerman (1990) in the book Bambang Subroto (2014) the reason for companies to save or postpone taxes (deferred tax) is through the company's tendency to reduce reported profits so that the deferred tax burden can affect earnings management as a motivation for savings tax. Efforts to minimize tax costs are often referred to as tax planning (tax planning) or tax sheltering (Suandy, 2014). Following is the average tax planning and deferred tax burden for manufacturing companies in the food and beverage sub-sector for the 2014-2018 period.

Table 2. The Average of Tax Planning and Deferred Tax Expense

Ratio	2014	2015	2016	2017	2018
TRR	0,91	0,70	0,82	0,78	0,80
BBPT	0,004153	0,005068	0,010018	0,00467	0,003666

Table 2 shows the average level of tax planning and deferred tax burden on the food and beverage sub-sector manufacturing companies. Where the highest level of tax planning was found in 2014 with a TRR (Tax Retention Rate) of 0.91. And the lowest tax planning level in 2015 with TRR 0.70. Meanwhile, the highest deferred tax expense was in 2016 with BBPT of 0.010018. And the lowest deferred tax expense is in 2018 of 0.003666.

Based on previous research, there are several factors that influence earnings management. In Endang Mahpudin's research (2017) shows that tax planning has a positive effect on earnings management practices with a magnitude of influence of only 8.9%. The value of the positive regression coefficient, which indicates that the higher the tax planning, will significantly improve earnings management practices. But it is different from Ferry Aditama's research (2014) where the results show that tax planning does not have a positive effect on earnings management for non-manufacturing companies listed on the Stock Exchange. Meanwhile, according to research by Gede Raka and Dharma (2017), deferred tax expense has a positive effect on the probability of a company doing earnings management, meaning that every increase in deferred tax expense, but in other ways the company's probability of making management income will increase. However, it is different from Khusnul Khotimah's research (2014) which shows that deferred tax expense does not have a significant effect on earnings management. These results support the equity view theory which states that deferred tax has no value relevance because of the uncertainty associated with cash flows.

Based on the description above and differences in variables, samples, and places in this study with previous research, the authors are interested in conducting research with the title: "The Effect of

Tax Planning and Deferred Tax Expense on Earnings Management (an empirical study on Registered Food and Beverage Subsector Manufacturing Companies) on the Indonesia Stock Exchange for the 2014-2018 period)."

Based on the research objectives above which have been previously described, it can be concluded that the objectives of this study are as follows:

1. To determine the effect of tax planning on food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange.
2. To determine the effect of deferred tax burden on food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange.
3. To determine the effect of tax planning and deferred tax burden on earnings management in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange.

RESEARCH METHOD

The population in this study were food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2014-2018 period. The method used in sampling using purposive sampling method, namely determining the sample based on criteria that have been formulated in advance. The sample criteria for this study are as follows:

1. Food and beverage sub-sector manufacturing companies listed on the Stock Exchange in the 2014-2018 period.
2. Companies that publish financial statements consecutively in the 2014-2018 period.
3. Companies that report deferred tax expense in certain years, namely in the 2014-2018 period.

The dependent variable in this study is earnings management. Based on research by Philips et al. (2003), the formula for earnings management variables measured using the earnings distribution approach is as follows:

$$\Delta E = \frac{E_{it} - E_{it-1}}{MVE_{t-1}}$$

E = Profit distribution, where if the value of ΔE is zero or positive, then the company avoids decline in profit. If the value of E is negative, then the company avoids reporting losses.
MVE= Market Value of Equity of company i in year t-1.

The independent variable in this study is tax planning. The tax planning variable is measured using the tax retention rate formula, which analyzes a measure of the effectiveness of tax management on the company's financial statements for the current year (Wild et al., 2004). TRR formula:

$$TRR = \frac{\textit{Net Income}_{it}}{\textit{Pretax Income (EBIT)}_{it}}$$

TRRit`	=	Company i retention rate (tax retention rate) in year t.
Net Income it	=	Net income of company i in year t.
Pretax Income (EBITit)=		Profit before company tax i year t.

Deferred tax expense is an expense arising from the difference between accounting profit (namely profit in financial statements for the benefit of external parties) and taxable profit (profit is used as the basis for calculating taxes) (Harnanto, 2013: 115). So this research variable deferred tax expense is measured by the formula:

$$BBPT_{it} = \frac{\textit{Company Deferred Tax Expense i in yeat t}}{\textit{Total Assets}_{t-1}}$$

BBPTit = Amount of Corporate Deferred Tax Expenses i in year t

RESULTS AND DISCUSSION

The results of statistical descriptive testing on each research variable can be seen in table 3 below:

Table 3. Descriptive Statistic Result

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TRR	30	,40	1,81	,8016	,22191
BBPT	30	,00002	,02709	,0051815	,00547665
SEC	30	-1,9885	5,6720	,403583	1,4103334
Valid N (listwise)	30				

Source: Data Processed by Researcher, 2020

Table 3 shows research on 30 data samples from manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange for the 2014-2018 period, while the results of descriptive statistics are that tax planning has an average value of 0.8016 and a standard deviation of 0.22191. this means that the average is 0.8016> standard deviation of 0.22191 or the average is higher than the standard deviation, so it shows good results and has small fluctuations. This is because the standard deviation is a reflection of a very high deviation. Which causes the data to be normal and not biased. In addition, the maximum value is 1.81 at PT Bumi Teknokultura Unggul, Tbk (BTEK) for the 2014 period and the minimum average value is 0.40 at PT Budi Starch and Sweetener, Tbk (BUDI) for the 2015 period.

BBPT has a mean value of 0.0051815 and a standard deviation of 0.00547665, this means that an average of 0.0051815 <a standard deviation of 0.00547665 or an average smaller than the standard deviation indicates a bad result and has large fluctuations. In addition, the maximum value is 0.02709 at PT Wilmar Cahaya Indonesia, Tbk (CEKA) and the minimum value is 0.00002 at PT Bumi Teknokultura Unggul, Tbk (BTEK) for the 2016 period.

Scaled Income Change has a mean value of 0.403583 with a standard deviation of 1.4103334, it means that the average is 0.403583 <standard deviation of 1.4103334 or it means the average is smaller than the standard deviation, thus indicating poor results and also has large fluctuations. Because the standard deviation is a reflection of high deviation, so that the spread of data shows abnormal results and causes bias. The maximum value is 5,6720 at PT Wilmar Cahaya Indonesia, Tbk (CEKA) for the 2016 period and the minimum value is 0.00002 at PT Bumi Teknokultura Unggul, Tbk (BTEK) for the 2016 period.

Table 4. Normality Test Result

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		30
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	2,05038526
Most Extreme Differences	Absolute	,155
	Positive	,155
	Negative	-,091
Test Statistic		,155
Asymp. Sig. (2-tailed)		,065[c]

Source: Data Processed by Researcher, 2020

Based on the Kolmogrov Smirnov One-Sample test, the Asympthotic Sig. is 0.065, which means that the data has an Asympotic Significance value higher than 0.05 (Asymp, Sig> 0.05). So, it can be concluded that the data used in this study has a normal distribution.

Table 5. Multicollinearity Test Result

Model		Unstandardized Coefficients		T	Sig.	Collinearity Statistics	
		B	**Std. Error**			Tolerance	VIF
1	(Constant)	-3,198	1,593	-2,007	,055		
	TRR	2,315	1,799	1,286	,209	,977	1,024
	BBPT	401,377	72,903	5,506	,000	,977	1,024

Source: Data Processed by Researcher, 2020

Based on table 5, it is known that each VIF value is as follows:

1. The VIF value for the Tax Planning variable (TRR) of 1,024 is less than 10 (1,024 <10), then the TRR variable can be expressed as no multicollinearity symptom.
2. The VIF value for the Deferred Tax Expense (BBPT) variable is less than 10 (1,024 <10), then the BBPT variable can be declared as having no multicollinearity symptoms.

From this explanation, it can be concluded that there is no multicollinearity between the independent variables in the regression.

Table 6. Autocorrelation Test Result
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,728[a]	,531	,496	2,1249689	1,106

Source: Data Processed by Researcher, 2020

Based on table 7 shows that the autocorrelation test obtained a Durbin-Watson value of 1.106 so that the DW value between -2 and +2, it means there is no autocorrelation of the variables in this study.

Table 7. Multiple Linear Regression Analysis Test Result
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	-3,198	1,593		-2,007	,055
	TRR	2,315	1,799	,172	1,286	,209
	BBPT	401,377	72,903	,735	5,506	,000

Source: Data Processed by Researcher, 2020

Based on the results of processing with SPSS 25, the results of the multiple linear regression analysis equation are as follows:

$$Y = -3{,}198 + 2{,}315TRR + 401{,}377BBPT$$

From the results of the multiple regression analysis equation, it can be seen that the constant value (α) is -3.198 which indicates the value of the earnings management variable. This shows that if the value of tax planning and deferred tax expense is equal to zero or constant, the company will make earnings management. The regression coefficient value for variable X1, namely tax planning proxied by TRR, is positive, which means that there is a direct relationship between Tax Planning (X1) and Earnings Management (Y). The regression coefficient variable X1 is 2,315, meaning that each increase in Tax Planning (X1) is 1 point, so that the value of earnings management will decrease by 2,315. The regression coefficient value for variable X2, namely the deferred tax expense proxied by BBPT is positive, which means that there is a direct relationship between Deferred Tax Expense (X2) and Profit Management (Y). The regression coefficient for the X2 variable is 401,377. This means that each increase or increase in Deferred Tax Expense (X2) by 1 point, it will cause an increase in Profit Management of 401,377.

Table 8. t Test Result
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,198	1,593		-2,007	,055
	TRR	2,315	1,799	,172	1,286	,209
	BBPT	401,377	72,903	,735	5,506	,000

Source: Data Processed by Researcher, 2020

Based on this calculation, it can be seen that the significant value of t in each variant will be compared with the results of t table at n = 30 with a significance level of 5%. At the error rate ($\alpha = 0.05$) using the 2-tailed test, degrees of freedom (n-k) or 30-2 = 28 were obtained with a t-table value (28; 0.025) of 2.048. Based on the results of the t test contained in table 4.9, a significance value of 0.209> 0.05 is obtained, so partially there is no significant tax planning. While the value of t_{count} 1.286 <t table 2.048. So it can be concluded that Ho was not rejected and Ha was rejected. Then TRR does not have a significant positive effect on SEC or the tax planning variable does not have a significant positive effect on earnings management. Based on the results of the t test shown in table 4.9, the significance value is 0.000 <0.05, so partially there is a significance of deferred tax expense. While the value of tcount 5.506> 2,048. So it can be concluded that Ho was rejected and Ha was not rejected. Then BBPT has a significant positive effect on the SEC or the deferred tax expense variable has a significant positive effect on earnings management.

Table 9. F Test Result
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	137,799	2	68,900	15,258	,000[b]
	Residual	121,918	27	4,515		
	Total	259,717	29			

Sorce: Data Processed by Researcher, 2020

Based on the test results above, the Tax Planning (TRR) and Deferred Tax Expense (BBPT) variables simultaneously affect Earnings Management (SEC) which is able to know that the F_{count} value is 4.288 which is the Ftable with degrees of freedom in the 0.05 significance value is df1. = 2 and df2 = 27, so F_{table} is F (2; 27) = 3,350. Then F_{count} and F_{table} are compared so that the value of 15.258> 3,350 is obtained F_{count} is higher than F_{table}. The significance value in SPSS is 0.000 which is smaller than 0.05, which means that Ho is rejected and Ha is not rejected. Thus, it can be concluded that simultaneous tax planning and deferred tax expense has an influence on Earnings Management.

Table 10. Coefficient Determination Test Result (R^2)
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,728[a]	,531	,496	2,1249689	1,106

Source: Data Processed by Researcher, 2020

Based on the results of the coefficient of determination in table 4:11, it can be seen that the value of R Square is 0.531. Which shows that Income Management is influenced by two independent variables, namely Tax Planning and Deferred Tax Expense of 53.1%, while the remaining 46.9% is influenced by other variables not involved by the authors in this study.

CONCLUSION

Based on the results of data analysis and discussion stated in chapter four, the conclusions that can be drawn from this study are the effect of Tax Planning and Deferred Tax Costs on Profit Management, either partially or simultaneously, as follows based on the results of the tests that have been carried out, it can be concluded that tax planning has no significant effect on earnings management. That's because companies that produce the food and beverage sub-sector use tax planning as a way to avoid falling profits, not to increase profits so that they can exceed the revenue threshold. So there are many other factors that determine the occurrence of earnings management. Deferred tax expense has a positive effect on earnings management, meaning that for each increase in deferred tax expense, the company's probability of performing earnings management will increase, on the other hand, if deferred tax expense decreases, the company's probability of performing earnings management will decrease. This study accepts the hypothesis that deferred tax expense has a positive effect on earnings management. This study finds that there is earnings management with the aim of avoiding reporting losses to food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period. Based on the results of research conducted, the variable tax planning and deferred tax expense calculated using the tax retention rate (TRR) proxy and the deferred tax expense calculated using the BBPT proxy are stated to have a simultaneous effect on earnings management. This figure implies that tax planning and deferred tax expense affect earnings management by 53.1% in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period.

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