How The Effect Of Deferred Tax Expenses And Tax Planning On Earning Management ?

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Abstract: Recognition of the value of deferred tax expense and tax planning subjective gives management the opportunity to practice earnings management. This study aims to determine how much influence tax planning and tax burden in conducting earnings management in manufacturing companies listed on the Indonesia Stock Exchange for the period 2014-2017. The method used in this research is descriptive method. Data collection techniques are carried out through secondary data. The population in this study were manufacturing companies of the Food and Beverages Sector listed on the Indonesia Stock Exchange for the 2014-2017 period totaling 43 companies. The sample research method used was purposive sampling. The type of data used is secondary data obtained from the financial statements of company publications in www.idx.co.id. Data is processed through multiple linear regression statistical test methods using SPSS software. Based on the results of statistical tests, concluded that (1) Tax planning has a positive and not significant effect on earnings management, (2) The burden of deferred tax has a positive and not significant effect on the probability of companies making earnings management. The study also found that earnings management did occur with the aim of avoiding reporting losses on companies listed on the Stock Exchange in 2014 - 2017.

Index Terms: Defferred Tax Expenses, Tax Planning, Profit Management, Indonesia Stock Exchange.

1 Introduction

The company is faced with intense competition to be able to exist in the global market, especially for the manufacturing industry in Indonesia. In order to compete strongly, companies are required to have competitive advantages from other companies. The company is not only required to produce quality products for consumers, but is also able to manage its finances well, meaning that financial management policies must be able to guarantee the sustainability of the company's business and this is indicated by the amount of profit achieved by a company. This situation usually encourages managers to commit deviant behavior in presenting and reporting earnings information known as earnings management. Earnings management is an attempt to change, hide, and engineer numbers in financial statements and play around accounting methods and procedures used by the company (Sulityanto, 2008). Whereas according to (National Association of Certified Fraud Examiners, 1993 in Hairu, 2009) defines earnings management as intentional errors or omissions in making financial statements regarding material facts and accounting data, so that it is misleading when all information is used to make judgments that will eventually cause people to read it will change or change their opinions or decisions. Earnings management can be done through income smoothing, taking a bath, and income maximization (Scoot, 2000). The concept of earnings management can be explained using the agency theory approach, namely the theory which states that practice earnings management is influenced by a conflict of interest between the parties concerned (principal) and management as the party that runs the interest (agent). This conflict arises when each party tries to reach the level of prosperity it wants. The company's efforts to engineer information through the practice of earnings management have become the main factors that cause financial statements to no longer reflect the fundamental value of a company. Therefore, the engineering of financial statements has become a central issue as a source of misuse of information that can harm interested parties. That is why the information submitted is sometimes accepted not in accordance with the actual conditions of the company. This condition is known as information asymmetry, which is a condition where there is an imbalance in information acquisition between management as a provider of information with shareholders and stakeholders (Hairu, 2009: 1). With the management's desire to suppress and make the tax burden as small as possible, management tends to minimize tax payments. Efforts to minimize the tax burden by euphemism are often referred to as tax planning (tax planning) or tax sheltering (Suandy, 2003). Generally tax planning refers to the process of reengineering businesses and taxpayer transactions so that tax debt is in a minimal amount but still within the framework of applicable tax regulations, so tax planning is a legal action during the corridor of tax laws applicable in Indonesia. Tax is one source of state revenue, including Indonesia which relies on tax revenues as the main source of state (Irianto, 2010). One of the biggest tax sectors that the country gets is income tax. For financial statement tax accounting, every company in Indonesia in making financial statements is required to follow the rules of the Financial Accounting Standards (IFRS) in order to produce credible and informative financial reports to investors and creditors. In addition, the company is also required to prepare an income statement based on tax rules. A number of differences between IFRS and tax rules produce two types of income, namely pre-tax profit (calculation of accounting profit according to IFRS) and taxable income (calculation of fiscal profit, according to fiscal rules). The difference between accounting earnings and taxable income can cause difficulties in determining the amount of profit, so that it can affect the financial statements and cause an imbalance in the final balance. Therefore, it is necessary to adjust the balance between accounting profit and fiscal profit fiscal reconciliation. Temporary differences between accounting earnings and profits give rise to deferred tax expense. Until now earnings management is the most controversial area in financial accounting based on the background raised above, the research title raised in this study is "The Effect of Deferred Tax Expenses and Tax Planning on Profit Management (Case Study of Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2014-2017)".

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2 LITERATURE REVIEW

2.1 Corporate Income Tax
One type of tax that applies in Indonesia is Income Tax, which is imposed on individual taxpayers and corporate tax returns. What is meant by corporate taxpayers according to Income Tax Law No. 36 of 2008 is a group of people and / or capital which constitutes a unit that does business or does not conduct business which includes limited liability companies, partnership companies, other companies, State-owned enterprises or regionally owned business entities of any name or form, firm , partnerships, cooperatives, retirement funds, associations, associations, foundations, mass organizations, socio-political organizations, or other organizations, institutions and other body forms including collective investment contracts and permanent establishments.

2.2 Deferred Tax Expenses
Tax expense (tax income) is the aggregate amount of current tax and deferred tax calculated in determining profit or loss in a period. Tax expense (tax income) consists of current tax burden (current tax income) and deferred tax expense (deferred tax income). Definition of Deferred Tax Liabilities is the amount of income tax payable for the coming period as a result of differences in taxable temporary differences (taxable temporary differences). Temporary differences arise as a logical consequence of differences in standards or provisions relating to recognition (criteria and periods), and measurement or assessment of elements of financial statements that apply in tax accounting disciplines (tax provisions) to one party with standards or provisions that apply in financial accounting discipline on the other side. Presentation of Deferred Tax Liabiliies in the balance sheet must be presented separately from current tax obligations, presented in non-current liabilities. Fiscal corrections must be made because of differences in treatment of income and costs that differ between accounting standards and applicable tax regulations. For internal interests and other interests, taxpayers can use generally accepted accounting standards, while tax calculation and payment must be based on tax regulations, in this case the Income Tax Law and other related regulations. This difference can be grouped into two, namely permanent difference /permanent difference temporary difference.

- Fixed difference/permanent difference is a difference caused by differences in recognition of income and expenses between accounting standards and tax regulations. This difference causes the difference in the amount of net income before tax with taxable income or taxable income.
- Time difference/temporary difference is a difference caused by differences in time and methods of recognizing certain income and expenses based on accounting standards with tax regulations. This difference results in differences in the time of recognition of income and expenses between one tax year and another.

2.3 Tax Planning
Tax planning is the first step in tax management. At this stage, the collection and research of tax regulations is carried out, with the intention of selecting the types of tax saving measures that will be carried out. In general, the emphasis of tax planning (tax planning) is to minimize tax obligations as low as possible by utilizing existing regulations but different from the objectives of the legislators. So tax planning here is the same as tax avoidance because it is both economically intrinsic both trying to maximize income after tax, because tax is a profit deduction burden available, both to be shared with shareholders and to be reinvested. Tax planning is divided into two:

1) National tax planning,national tax planning only pays attention to Domestic Law, the election is carried out or not a transaction in the national tax planning depends on the transaction, meaning to avoid/reduce taxes, taxpayers can choose what types of transactions must be carried out in accordance with existing tax law, for example, will you get the final special tax rate or not?
2) International tax planning, in addition to paying attention to the Domestic Law, the International tax planning must also pay attention to tax treaty from the countries involved.

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2.4 Earning Management
1 Schipper (2000) in Sumomba (2010) defines earnings management as a deliberate management intervention in the profit determination process to obtain some personal benefits. The purpose of the intervention here is the effort made by managers to influence information in financial statements with the aim of tricking stakeholders who want to know the performance and conditions of the company. Often this process includes fashioning accounting reports, especially the lowest number, namely profit (Wild et al., 2004). The emergence of earnings management practices carried out by management is based on two theories, namely agency theory and positive accounting theory. Jensen and Meckling (1976) in Setiowati (2007) define agency relations as a contract in which one or more principals (owners) use another party or agent (manager) to run the company. In agency theory, what is meant by principal is a shareholder or owner who provides facilities and funds for the company's operating needs. An agent is management who has an obligation to manage the company as mandated by the principal to him. Agency theory assumes that each individual is solely motivated by his own welfare and interests. The motivated principal makes a contract to improve his welfare through dividend distribution or an increase in the company's share price. Agents are motivated to improve their welfare through increasing compensation.

2 The theory pioneered by Watts and Zimmerman (1986) explains that certain economic factors can be related to the behavior of managers or financial statement makers. Anis and Imam (2003) in Januarti (2003) stated that positive accounting theory is part of agency theory. This is because positive theory accounting recognizes the existence of three agency relationships, namely (1) between management and owners (the bonus plan hypothesis), (2) between management and creditors (the debt to equity hypothesis), and (3) between management and government (the political hypothesis). The three main hypotheses in positive accounting theory are (Watts and Zimmerman, 1986): 1. The Bonus Plan Hypothesis In companies that have a bonus plan, managers will tend to use accounting methods that can play the size of accounting numbers in financial statements. . This is done so that managers can get maximum bonuses every year, because the success of manager's performance is

measured by the level of profits obtained by the company.
2. The Debt to Equity Hypothesis (Debt Covenant Hypothesis) This hypothesis relates to the conditions that must be met by companies in debt covenants. Most of the debt agreements have conditions that must be met by the borrower during the agreement period. When a company starts to be in danger of violating a debt agreement, the company manager will try to avoid the occurrence of the debt agreement by choosing an accounting method that can increase income or profit. Violations of debt agreements can result in sanctions which will ultimately limit the actions of managers in managing the company. Therefore, management will increase profits (do income increasing) to avoid or at least delay breach of agreement.
3. The Political Cost Scott Hypothesis (2000) states that companies that are faced with political costs, tend to make a profit reduction engineering with the aim of minimizing the political costs they must bear. Political costs cover all costs that must be borne by the company related to government regulations, government subsidies, tax rates, labor demands and so forth.

3 THEORETICAL FRAMEWORK

Earnings management is earnings manipulation by management to achieve certain goals. Manipulation is done so that profits appear as expected. In addition, manipulation is also done so that investors remain interested in the company (Wedari, 2004). According to Sri Sulistyanto (2008: 6) argues that earnings management is an attempt by company managers to intervene or influence information in financial statements with the aim of tricking stakeholders who want to know the performance and conditions of the company.

Effect of Deferred Tax Expenses on Profit Management

Deferred tax expense arises due to temporary differences between accounting earnings and fiscal profits. The difference between accounting and fiscal financial statements is caused in the preparation of financial statements, accounting standards provide more flexibility for management in determining accounting principles and assumptions than are allowed according to tax regulations. Temporary differences arise from accrual components and operating cash flows. Because of the temporary differences, the deferred tax burden is influential in an effort to detect the effect of accrual engineering to minimize taxes in earnings management (Yulianti, 2005). Deferred tax is one way that managers do to engineer financial statements by doing earnings management (Sri Sulistyanto 2008: 56). Yulianti (2005) proves that deferred tax expense can be used as an alternative to prove the probability of earnings management to avoid losses. In continuing the results obtained, Philips, et al. (2003) investigated companies related to earnings management with changes in components of deferred tax assets and liabilities (net deferred tax liabilities) which are a reflection of the value of deferred tax expense in the income statement. . The research conducted by Ulfa and Budiman (2013) dependents tax burden has a positive effect on earnings management.

Effect of Deferred Tax Expenses and Tax Planning on Profit Management

The information contained in financial statements is often engineered by management to optimize company profits and also for their own interests or known as earnings management (Herdawati, 2015). There are several methods used to test earnings management and earnings management is often associated with tax planning and deferred tax expense. The company conducts tax planning as effectively as possible, not only to obtain fiscal benefits, but actually the company also benefits in obtaining additional capital from investors through the sale of company shares. Therefore, the tax which is a profit deduction available to be shared with investors or invested by the company, will be sought by management to be minimized in order to optimize the amount of the company's net profit. In this case, there is an indication of management doing earnings management in the tax planning process, as well as the deferred tax burden is one approach that can be used to detect the existence of earnings management practices carried out by company management (Herdiawati, 2015). Suandy (2011) explains that if the purpose of tax planning is to engineer so that the tax burden can be reduced as low as possible by utilizing existing but different regulations for the purpose of making laws, then tax planning seeks to maximize income after tax (after tax return) because tax is a profit deduction available, both to be shared with shareholders and to be reinvested.

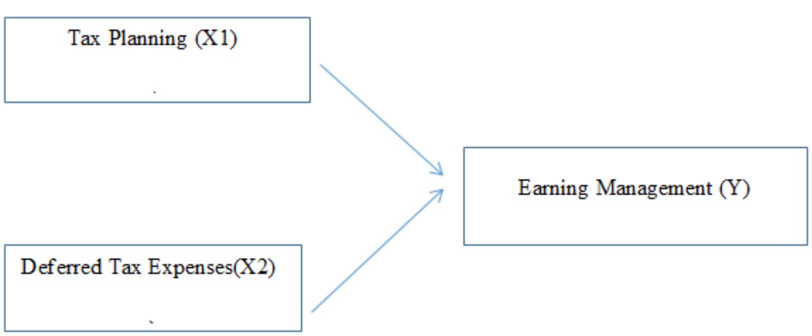

Figure 1: *Theoretical Framework*

4 Research Methodology

The research method used in this study is quantitative research methods and other research methods namely associative descriptive research. The object in this study is the Effect of Deferred Tax Expenses and Tax Planning on Profit Management (Case Study of Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2014-2017). The company which is the unit of this research is a manufacturing company that is listed on the Indonesia Stock Exchange (IDX) for the 2014-2017 period. Manufacturing companies are chosen because the company has more complex financial report information and has homogeneous characteristics. The researcher analyzes the company's financial statements that have been published on the site www.idx.co.id. To obtain the expected research results, information data is needed that will support this research. The data collection technique in this study is to use the documentary method, namely by collecting data in the form of financial report documents contained in the Indonesian capital market directory (ICMD) and IDX. This study uses library research, which is by collecting data from library sources that support this research and Internet Research, namely data collection is done by reading the literature, books on the theory of problems that researched and used internet media as a supporting media in tracing additional information about the theory and the data needed in this study. The sampling technique in this study was purposive sampling. The reason for using purposive sampling technique is because not all samples have criteria that are in accordance with what the author has done. The data sources used in this study are secondary. Secondary data sources taken are the Annual Financial Statements of food and beverages sector companies in 2014-2017. Data collection techniques carried out by the author to obtain secondary data in this study are library research. In this study, the data used is secondary data, where annual financial reports are obtained through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id.

5 RESULT AND DISCUSSION

Based on the results of the research conducted, it can be seen that the tax planning variable has a positive effect on earnings management variables, the higher the tax planning, the more likely the company is to conduct earnings management in manufacturing companies listed on the Indonesia stock exchange. Likewise with the deferred tax burden has a positive effect on earnings management, meaning that the higher the deferred tax expense, the higher the profitability of the company in managing earnings. In addition, the results of testing the coefficient of determination using the R-square also shows that the portion of the effect of tax planning and deferred tax expense on manufacturing companies listed on the Indonesia Stock Exchange is positively linear. The R-Square value in this study is only equal to 0.15 or equal to 15%, which means that variations in changes in the dependent variable (Y) can be explained by the independent variable (TRR) and (DTE) of 15.00% and the remaining 85 00% can be explained by other variables outside the model. The higher the R-Square value of the results of a regression, the relationship between the independent variable and the dependent variable in a study will also be strong. As for the results of simple linear regression analysis the value of the p value tax planning (X1) and deferred tax expense (X2) is smaller than the alpha level of significance 5% (0.05) so it can be concluded that the tax planning variable is a significant explanation of variavel profit management. Likewise, deferred tax expense is a significant explanation for earnings management variables and each independent variable influences the dependent variable with a weak correlation. Furthermore, the results of partial correlation testing that has been done, it can be seen that the tax planning and deferred tax expense have a positive effect on earnings management. meaning that the higher the tax planning, the greater the chance for the company to do earnings management. Conversely, the lower the tax planning, the smaller the opportunity for companies to do earnings management. Likewise with deferred tax expense, if the deferred tax burden increases then the probability of the company carrying out earnings management will increase. Conversely, if the deferred tax burden decreases, the probability of the company carrying out earnings management will decrease. However, the significance level shows that the value of the p value for tax planning and deferred tax expense is greater than the significant level (0.05 or 5%), which means that neither tax planning nor deferred tax expense has a significant effect on earnings management. These results indicate that tax planning and deferred tax expense can be used as indicators in detecting earnings management, although the effect is weak on earnings management. The magnitude of the mean value of earnings management variables which shows the negative numbers above, according to the theory put forward by Philips et al. (2003), shows the effort of earnings management to avoid losses. In other words, accepting the hypothesis (H1) which states tax planning has an effect on earnings management, and simultaneously accepts the hypothesis (H2) which says Deferred Tax Expenses affect earnings management. The results of this study are in line with Yulianti (2005), Pungky Lukman (2013), Yana Ulfah (Proceedings of the National Symposium on Taxation 4), and not in line with Satwika and Damayanti (2005), Ferry Aditama (2013), and this study is not in line with Hadi Kusuma Ningrat (2014).

6 CONCLUSION AND SUGGESTIONS

Conclusion

Based on the results of tests that have been conducted, it can be concluded that:

1) Tax planning has a positive and not significant influence on earnings management, the higher the tax planning, the greater the chance the company engages in earnings management (and vice versa) even though the influence is weak, meaning there are many other factors that determine the occurrence of earnings management. Therefore accepting the hypothesis that tax planning affects earnings management.
2) The deferred tax burden has a positive and not significant effect on the probability of companies conducting earnings management, meaning that every increase in deferred tax expense, then the probability of companies doing earnings management will increase (and vice versa) so accepting the hypothesis that deferred tax expense affects earnings management . The study also found that earnings management did occur with the aim of avoiding reporting losses on companies listed on the Stock Exchange in 2014 - 2017.

Suggestions

Based on the discussion and conclusions, the authors suggest the following: This study can be expanded by adding independent variables that are thought to have a strong influence in detecting earnings management. It is expected that the next researcher extends the year interval of the study, for example a period of five years. The next researcher is expected to expand or add samples such as non-manufacturing companies listed on the Indonesia Stock Exchange, so it is not only researching in manufacturing companies.

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