

## The Effect of Tax Planning and Deferred Tax Expense on Earnings Management on Manufacturing Companies Listed In The Indonesia Stock Exchange

Noviana Mulyani<sup>a</sup>, Kartika Hendra Titisari<sup>a</sup>, Riana Rachmawati Dewi<sup>b</sup>

<sup>a</sup>Universitas Islam Batik Surakarta, Jl. KH Agus Salim No. 10, Surakarta, Indonesia

<sup>b</sup>Universitas Islam Batik Surakarta, Jl. KH Agus Salim No. 10, Surakarta, Indonesia

Corresponding e-mail: [novianamulyani1@gmail.com](mailto:novianamulyani1@gmail.com)

**Abstract :** This study aims to examine the effect of tax planning and deferred tax expense on earnings management practices. Population in the study were all manufacturing companies listed on the Indonesia Stock Exchange. Sampling method used is purposive sampling method by using the criterion of research sample data, so that obtained sample of 84 annually report of manufacturing company during period of year 2014 – 2016. Data analysis method using descriptive statistical test, classical assumption test and multiple linear regression. The results of the study provide empirical evidence that earnings management is not influenced by tax planning and earnings management are affected negatively and significantly by deferred tax expense. Meanwhile, simultaneously proves that tax planning and deferred tax expense have significant effect to earnings management variable. Based on the coefficient of determination proves that 11,5% variable earnings management can be explained by variable tax planning and deferred tax expense. While 88,5% other variables which are not used in this research influence earnings management variable.

**Keywords:** Tax Planning, Deferred Tax Expense, Earnings Management

### 1. INTRODUCTION

Current technological advances, corporate finance is expected to be well managed, and capable of producing goods of the highest quality. Competitive advantage must also be owned by a company especially for manufacturing industry in Indonesia to be able to exist in global market. From this condition approach the agency theory used corporate management in responsible and manage finance.

According to Negara (2017) the agency theory approach is a theory that explains that the conflict of interest between the parties concerned (principal) with management as the party of interest (agent) affect the practice of earnings management.

The company's management tends to minimize tax payments in order to save the tax burden becomes small. Suandy (2003) reveals that the effort to minimize the tax expense in euphemism is often referred to as tax planning or tax sheltering (Negara, 2017).

Research on earnings management has been widely reviewed by several researchers with variables that vary so as to provide diverse empirical evidence. Research conducted Astutik (2016) and Ulfah (2013) show that earnings management is influenced by tax planning. While research Ifada (2015) finds empirical evidence that earnings management practices are not significantly influenced by tax planning.

Research Parsaoran (2015) show that earnings management is affected by

deferred tax expense. Other empirical research Harnovinsah (2015), Amanda (2015) and Aulia (2014) proves that earnings management is not affected by deferred tax expense.

Various background descriptions and previous research results provide empirical evidence that is still contradictory about the relationship, the authors retest by plucking the title of research “The Effect Of Tax Planning And Deferred Tax Expense On Earnings Management On Manufacturing Companies Listed In The Indonesia Stock Exchange”.

## 2. RESEARCH METHODS

This type of quantitative research is used in this study. The purposive sampling method was used in this study for sampling. Based on sampling criteria there are as many of 84 annually report manufacturing companies during the period 3 years (2014 –2016) published in [www.idx.co.id](http://www.idx.co.id).

## 3. DATA ANALYSIS METHOD

### 3.1 Descriptive Statistical Test

Descriptive statistics are to describe or give an idea of the object under study through the sample data or population as is, without doing the analysis and make conclusion that apply to the public (Sugiyono, 2010).

### 3.2 Classical Assumption Test

#### 3.2.1 Normality Test

Normality test used to test each data of research variables in the regression model has a normal distribution. This study was conducted by *Kolmogorov-Smirnov Test* used to test the interval and ratio data. Data of

normal distributed variable, if significance value  $> 0,05$  (Samrotun, 2015).

#### 3.2.2 Multicollinearity Test

This test is used to see if there are symptoms of multicollinearity in the regression model. Multicollinearity test can be seen from the tolerance and VIF values. The regression model does not occur multicollinearity, if the VIF value  $< 10$  and tolerance value  $> 0,1$ .

#### 3.2.3 Autocorrelation Test

Regression models must be met in the absence of autocorrelation. The test method is carried out by the *Durbin-Watson Test* (DW test). The accepted 0 hypothesis means that there is no autocorrelation, if the *Durbin-Watson* (DW) value lies between Upper Bound (dU) and 4-dU (Samrotun, 2015).

#### 3.2.4 Heteroscedasticity Test

A good regression model that does not occur heteroscedasticity or homocedasticity. In this study glejser test is used to measure heteroscedasticity test. Research variable is said there is no heteroscedasticity, if have significance value  $> 0,05$ .

## 3.3 Hypothesis Test

### 3.3.1 Multiple Linear Regression Analysis

In this study using multiple linear regression analysis to test the effect between independent variables is tax planning and deferred tax expense of the

dependent variable that is earnings management. Multiple linear regression model is formulated with the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Explanation:

- Y = Earnings management
- $\beta_1\beta_2$  = Regression Coefficient
- $X_1$  = Tax Planning
- $X_2$  = Deferred Tax Expense
- $\alpha$  = Constants
- $\varepsilon$  = Standard error

### 3.3.2 Model Feasibility Test (F test)

The model feasibility test (F test) is used to determine whether the dependent variable is simultaneously influenced significantly by the independent variables. Independent variables together have a significance influence on the dependent variable, if  $F_{count} > F_{table}$  with significance value  $< 0,05$ .

### 3.3.3 Hypothesis Test (t test)

Hypothesis test is used to see whether the dependent variable is partially influenced by independent variables. Partially independent variable has significance influence on dependent variable, if  $-t_{count} < -t_{table}$  and significance value  $< 0,05$ .

### 3.3.4 Coefficient of Determination Test ( $R^2$ )

In this study, the magnitude of the contribution of the influence of independent variables on the dependent variable is predicted using the coefficient of determination ( $R^2$ ). The smaller value of  $R^2$  means the weaker the influence of independent

variables on the dependent variable. In contrast, the stronger the influence, if the value of  $R^2$  is closer to 1 (Raharjo, 2017).

## 4. RESULTS AND DISCUSSION

### 4.1 Descriptive Statistics

Based on descriptive statistical test, the results obtained are presented in the following table:

**Table 1 Descriptive Statistics**

	N	Min	Max	Mean	Std. Deviasi
TRR	84	0,677	0,833	0,7556	0,0323
DTE	84	-0,007	0,008	0,0008	0,0031
SEC	84	-0,303	0,508	0,0670	0,1757
Valid N	84				

Source : data processed, 2017

From the results of descriptive statistics in table 1 above shows that the variabel tax planning minimum value of 0,677, maximum of 0,833, with a mean of 0,7556 and std. level deviation of 0,0323. Variable deferred tax expense minimum value of -0,007, maximum of 0,008, with a mean of 0,0008, and std. level deviation of 0,0031. Variable earnings management minimum value of -0,303, maximum of 0,508, with a mean of 0,0670 and std. level deviation of 0,1757.

### 4.2 Classical Assumption Test

#### 4.2.1 Normality Test

Based on the normality test, the results obtained can be seen in the table below:

**Table 2 Normality Test Results**

Variable	Sig	Standard	Conclusion
Unstandardized Residual	0,269	$> 0,05$	Data is normally distributed

Source : data processed, 2017

Based on table 2 above seen that the value of understandardized residual  $> 0,05$  is 0,256. This means that data is normally distributed.

#### 4.2.2 Multicollinearity Test

Based on multicollinearity test, then the results obtained in the table as follows:

**Table 3 Multicollinearity Test Results**

Variable	Tolerance	VIF	Conclusion
TRR	0,988	1,012	There is no multicollinearity
DTE	0,988	1,012	There is no multicollinearity

Source : data processed, 2017

From the test results in table 3 above, it can be seen that all independent variables have a tolerance value  $> 0,1$  and VIF value  $< 10$ . It was concluded that in the regression model there are no symptoms of multicollinearity.

#### 4.2.3 Autocorrelation Test

Based on the autocorrelation test, the results obtained in the table below:

**Table 4 Autocorrelation Test Results**

Model	Durbin-Watson	Certainty	Conclusion
1	1,900	$dU < DW < 4-dU$	There is no autocorrelation

Source : data processed, 2017

The above autocorrelation test results show that the *Durbin-Watson* (DW) value of 1,900 is greater than dU and less than 4-dU. This means there is no autocorrelation in this regression model.

#### 4.2.4 Heteroscedasticity Test

Based on heteroscedasticity test, then the test results can be seen in the following table:

**Table 5 Heteroscedasticity Test Results**

Variable	Sig	Standard	Conclusion
TRR	1,000	$> 0,05$	No symptoms of heteroscedasticity
DTE	1,000	$> 0,05$	No symptoms of heteroscedasticity

Source: data processed, 2017

The results of heteroscedasticity test above it is seen that all independent variables have significance value  $> 0,05$ . This means that in the regression model there are no symptoms of heteroscedasticity.

#### 4.3 Multiple Linear Regression Analysis

Based on multiple linear regression test that has been done, then presented the following results:

**Table 6 Multiple Linear Regression Analysis Results**

Variable	$\beta$ (Coefficient of Regression)	Significance
Constant ( $\alpha$ )	0,404	0,345
TRR	-0,424	0,454
DTE	-19,773	0,001

Source : data processed, 2017

#### 4.4 Hypothesis Test

##### 4.4.1 Model Feasibility Test (F test)

Based on the test of F test, then the results obtained can be seen below:

**Table 7 Model Feasibility Test Results (F test)**

Model	$F_{count}$	$F_{table}$	Sig	Standard	Conclusion
1	6,395	3,110	0,003	$< 0,05$	Significant Model

Source : data processed, 2017

The results of the analysis show that  $F_{count}$  of 6,395 >  $F_{table}$  of 3,110 < 0,05, it is concluded that earnings management simultaneously is influenced significantly by tax planning and deferred tax expense. So, the regression model meets the model feasibility test.

#### 4.4.2 Hypothesis Test (t test)

Based on t test, then the results obtained are presented in table form below:

**Table 8 Hypothesis Test Results (t Test)**

Variable	$t_{count}$	$t_{table}$	Sig	Std.	Conclusion
TRR	-0,752	1,990	0,454	<0,05	H <sub>1</sub> ditolak
DTE	-3,393	1,990	0,001	<0,05	H <sub>2</sub> diterima

Source : data processed, 2017

From the results of hypothesis 1, the value of  $t_{count}$  of tax planning variables obtained -  $t_{count}$  than  $-t_{table}$  (-0,752 > -1,990) and significance value of 0,454 > 0,05, then H<sub>1</sub> is rejected. Meaning that tax planning has no effect on earnings management. Hypothesis 2 value  $t_{count}$  variable deferred tax expense obtained  $-t_{count}$  is smaller than  $-t_{table}$  (-3,393 < -1,990) and significance value of 0,003 < 0,05, then H<sub>2</sub> accepted. Meaning that the deferred tax expense has a negative and significant effect on earnings management.

#### 4.4.3 Coefficient of Determination Test (R<sup>2</sup>)

Based on the coefficient of determination test, then obtained the results presented in the following table:

**Table 9 Coefficient of Determination Test Results (R<sup>2</sup>)**

Model	Adjusted R Square	Conclusion
1	0,115	The independent variable can explain the dependent variable

Source : data processed, 2017

The results of the coefficient of determination above shows that the variable of earnings management can be explained by tax planning variable and deferred tax expense of 11,5%, the value is derived from adjusted R square 0,115. While, 88,5% other variables outside of this research model influence earnings management variable.

## 5. DISCUSSION

### 5.1 The Effect of Tax Planning on Earnings Management.

Based on the results of hypothesis test show that the variable tax planning does not affect the earnings management. The results of this study explain that tax planning is an attempt to regulate tax payments or minimize tax obligations by not violating the applicable legislation of the amount that should be.

Whether or not tax planning has been done by the management company will not affect the practice of earnings management within the company. This is possibility because the management company that has made tax planning aims for the interest of the company's external parties.

The results of this study in line with research conducted by Aditama (2014), Ifada (2015) and Rahayu (2015) which states that the tax planning does not affect the earnings

management that is not supported by the existence of empirical evidence. But the results of this study are not in line with research conducted by Ulfah (2013), Astutik (2016), Hapsari (2016), Santana (2016), Widiatmoko (2016), and Negara (2017) which states that tax planning affects earnings management.

## **5.2 The Effect of Deferred Tax Expense on Earnings Management**

Based on results of hypothesis test show that variable of deferred tax expense have negative and significant effect to earnings management. The results of this study explain that the deferred tax expense arises due to temporary differences between accounting earnings (earnings in financial statements according to GAAP for the benefit of external parties) with fiscal profit (profit according to Indonesian taxation rules used as the basis for tax calculation). The lower the company's deferred tax expense, the less possibility it is that the company practices earnings management. This means that the deferred tax expense affects earnings management, if the smaller the tax expense paid, the greater the net profit to be generated.

Differences in accounting profit under Indonesian GAAP and tax regulations due to the difference in the time of cost recognition. In GAAP, all expenses can be a deduction of income, while under tax rules there are some costs that should not be a deduction from income. This makes the company's management practice earnings management.

The results of this study in line with research conducted by Ulfah (2013), Ifada (2015), Parsaroan (2015), Astustik (2016), Minanari (2017), and Negara (2017) which states that the deferred tax expense effect on earnings management by empirical evidence. But the results of this study are not in line with research conducted by Aulia (2014), Amanda (2015) and Harnovinsah (2015) which states that the deferred tax expense has no effect on earnings management.

## **6. CONCLUSION**

This study aims to examine the effect of tax planning and deferred tax expense to earnings management. The sample used in this study amounted to 84 annually report manufacturing companies listed on the Indonesia Stock Exchange during the year 2014-2016.

Results of hypothesis 1 states that the variable of earnings management is not influenced variable tax planning. The company's management does tax planning and the results do not necessarily affect the practice of earnings management within the company. This is because of the possibility the management company that has made tax planning aims for the interest of the company's external parties.

The results of hypothesis 2 shows that the variable of earnings management is affected negatively and significantly by deferred tax expense. The lower the company's deferred tax expense, the less possibility it is that the company practices earnings management. This means that the deferred tax expense affects earnings management, if the smaller the tax expense paid, the greater the net profit to be generated. Differences in accounting profit under GAAP and tax regulations due to the

difference in the time of recognition of costs. This makes the company's management practice earnings management.

## 7. REFERENCES

- Aditama, F., Anna P. (2014). *Pengaruh Perencanaan Pajak Terhadap Manajemen Laba Pada Perusahaan Nonmanufaktur Yang Terdaftar Di Bursa Efek Indonesia*. Modus Vol. 26 (1): 33-50.
- Amanda, F., Meiriska F. (2015). Analisis Pengaruh Beban Pajak Kini, Beban Pajak Tangguhan, dan Basis AkruaI Terhadap Manajemen Laba. *Ultima Accounting* Vol. 7 No. 1: 70-86.
- Aulia, I. F., Dwi F. P. & Herawati. (2014). *Pengaruh Beban Pajak Tangguhan, Ukuran Perusahaan, dan Tingkat Hutang Terhadap Manajemen Laba*. Universitas Bung Hatta.
- Hapsari, D. P. & Dwi M. (2016). *Pengaruh Perencanaan Pajak Terhadap Manajemen Laba dengan Arus Kas Operasi sebagai Variabel Kontrol*. Jurnal Akuntansi: Vol. 3 No. 2.
- Harnovinsah & Budisetiyawan (2015). *Pengaruh Beban Pajak Tangguhan dan Profitabilitas Terhadap Manajemen Laba*. Universitas Pamulang dan Universitas Mercu Buana. Hal: 15-39.
- Ifada, L. M., Nova W. (2015). "The Effect of Deferred Tax and Tax Planning Toward Earnings Management Practice an Empirical Study on Nonmanufacturing Companies Listed in Indonesia Stock Exchange in The Periode of 2008-2012". The International Journal of Organizational Innovation Vol. 8 No. 1: 155-170.
- Minanari, R. A. K. (2017). "Effect of Deferred Charges, Leverage and Size of Management Company Earnings (Empirical Study at Companies Jakarta Islamic Index (JII) Listed in Indonesia Stock Exchange Index Period 2012-2015)". Research Journal of Finance and Accounting, Vol. 8, No. 12.
- Negara, A.A.G.P. & I.D.G. Dharma S. (2017). *Pengaruh Perencanaan Pajak dan Beban Pajak Tangguhan Terhadap Manajemen Laba*. E-Jurnal Akuntansi Universitas Udayana. Vol. 20: 2045-2072.
- Parsaoran, L.B.M. (2016). *Pengaruh AkruaI Diskresioner dan Beban Pajak Tangguhan*. Fakultas Ekonomi: Universitas Komputer Indonesia.
- Phillips, John, M. Pincus & S. Rego. (2002). "Earnings Management: New Evidence Based on Deferred Tax Expense". The Accounting Review.
- Raharjo, S. (2017). *Makna Koefisien Determinasi R Square*. Retrieved November 16, 2017, <http://www.spssindonesia.com/2017/04/makna-koefisien-determinasi-r-square.html>.
- Trisnawati, R., Wiyadi & Destia N. (2015). "The Analysis of Information Asymmetry, Profitability and Deferred Tax Expense on Integrated Earning Management". South East Asia Journal of Contemporary Business, Economics and Law, Vol. 7 Issue 1 (Dec.), 17-24.
- Samrotun, Yuli C. (2015). *Modul Statistik Ekonomik II*. Surakarta: Universitas Islam Batik.
- Santana, Dewa K.W., Made G.W. (2016). *Pengaruh Perencanaan*

*Pajak, Kepemilikan Manajerial, dan Ukuran Perusahaan Terhadap Praktek Manajemen Laba. E-Jurnal Akuntansi Universitas Udayana 14.3: Hal 1555-1583.*

Sugiyono. (2010). *Statistika Untuk Penelitian*. Bandung: Alfabeta.

Ulfah, Yana. (2013). Pengaruh Beban Pajak Tangguhan dan Perencanaan Pajak Terhadap Praktik Manajemen Laba. *Prosiding Simposium Nasional Perpajakan 4*.