The Effect of Deferred Tax Expenses, Tax Planning, and Company Size on Earnings Management

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Abstract. This study's objective was to investigate the influence that deferred tax cost, tax planning, and the size of the company have on profits management strategies used by mining companies that are publicly traded on the Indonesian stock market throughout the period of time spanning the years 2020 and 2021. The sample for the study was selected using a purposive sampling method, and the population for the study consisted of a total of 49 different businesses. The study included a total of 46 different samples of something. The current investigation makes use of a descriptive quantitative research approach in conjunction with an examination of multiple linear regressions. The results of this research, which included applying the partial test (t test) and the simultaneous test (f test), indicate that deferred tax cost has a statistically significant adverse effect on profits management. This conclusion was reached after applying both types of tests. On the other hand, tax preparation has a statistically significant and favorably impactful beneficial affect on the management of profits. On the other hand, there is no evidence of a substantial relationship between the size of the organization and earnings management.

Keywords: Profit, Tax, Planning, and Size

1 Introduction

The assessment of a company's success often involves considering its profit attainment as a key metric. Quality profit refers to the profitability of a firm that is indicative of its ability to generate sustainable profits in the future. This measure is established by considering both the accruals and cash components, which together represent the company's real financial performance. Investors have a greater inclination to acquire shares in a firm when the profits generated by such company are of superior quality. Earnings management refers to the deliberate actions taken by firm management to manipulate earnings by selectively adopting accounting rules [1]. Tax rules govern the determination of usable life and depreciation rates for fixed assets and intangible assets, with differentiation depending on asset grouping.

Taxation serves as a significant means of generating state money, alongside non-tax state revenue and donations obtained domestically and internationally. The tax sector encompasses many sources of governmental income. One example of a tax is corporate income tax, often known as PPH Agency. The cash derived from this source is allocated towards the funding of

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development initiatives and the overall well-being of the populace, as explicitly outlined in Article 33 of the Constitution of 1945. The effective management of state income and expenditures by the government necessitates the formulation of a robust strategy aimed at optimizing the inherent potential inside the nation.

Taxation is a significant component of state income used by the government to finance ordinary expenses as well as support developmental initiatives. In Indonesia, it is mandatory for all companies to adhere to the regulations outlined in the Statement of Financial Accounting Standards (PSAK) when creating their financial reports. This requirement ensures that the resulting financial reports are both reliable and comprehensive, therefore serving as valuable sources of information for investors and creditors. Hence, it is essential for enterprises to generate revenue statements in accordance with tax requirements.

Tax planning is a determinant that has an impact on the practice of earnings management. Tax planning is a fundamental aspect of tax management, including the assessment of tax liabilities and the implementation of strategies aimed at minimizing tax obligations. The primary objective of the corporation in engaging in tax planning is to strategically use it as a means to achieve tax savings in compliance with the stipulations outlined in tax legislation. The tax planning in this research is assessed via the use of the tax retention rate formula, which evaluates the efficacy of tax management within the company's financial statements for the present fiscal year [2]. Divergent interests between taxpayers and the government hinder the effective performance of tax duties. Diverse interests lead to erroneous assumptions in tax collection, as tax officials (referred to as the fiskus) endeavor to maximize tax revenue. The taxpayer will want to minimize their tax liability [3].

Deferred tax expenditure is a kind of expense that occurs due to transitory variations between the profit reported in the financial statements for external parties and the profit utilized for tax computations. Temporary variations arise due to disparities in the timing and manner of recognizing certain revenue and costs, as dictated by accounting principles and relevant tax guidelines [4].

Tax planning, often known as tax optimization, refers to the strategic arrangement of a taxpayer's business affairs or a collective of taxpayers with the objective of minimizing their tax liabilities, including both income tax and other associated tax obligations. Tax planning and tax avoidance have similarities in their objective of maximizing after-tax returns. Both strategies aim to minimize the impact of taxes, which may reduce profits available for distribution to shareholders or reinvestment [5].

The classification of a company's size is determined by many metrics such as total assets, total revenue, share market value, and other relevant factors. The allocation of more resources leads to a higher level of capital investment, while an increase in sales results in a corresponding rise in cash flow. This, in turn, contributes to an expansion in market capitalization, enhancing the company's visibility and reputation among both the general public and potential investors [6].

Earnings management refers to the deliberate actions taken by a manager to manipulate the reported profits of a firm during a certain time, with the objective of either boosting or decreasing these earnings, without concurrently impacting the company's long-term economic gains [7]. profits management refers to the purposeful actions taken within the confines of generally accepted accounting rules to achieve a targeted level of reported profits. Frequently, this procedure entails enhancing the aesthetic appeal of financial accounts, with particular emphasis on the final figure denoting profitability [8].

1.1. Agency Theory

The concept of agency theory posits that profits management arises due to divergent economic incentives between management, acting as an agent, and the owner of the firm, acting as the principal [9]. The presence of these two entities, namely the principal and the agent, gives rise to concerns about the establishment of roles that are necessary to reconcile the divergent interests of these two parties. [10] According to Eisenhardt's study conducted in 1989, The concept of agency theory addresses two primary issues that may occur within the context of agency interactions. Principal-agent conflict arises when there is a clash between the objectives or aspirations of the principal and the agent, and it becomes arduous and costly for the principle to ascertain the actual actions undertaken by the agent. The issue of risk sharing arises when there are divergent attitudes and levels of risk between the principal and agent.

The theoretical framework of agency theory posits that there exists a divergence in motives and interests between individuals, namely the principal and the agent, leading to a fundamental conflict of interest between them. [11].

1.2. The Effect of of Deferred Tax Expenses on Earning Management

The impact of deferred tax charges on a company's revenue management effectiveness lies in its potential to diminish the company's profitability. This practice involves the deferral of income and the acceleration of spending in order to minimize tax liability, hence impacting revenue management via the burden of deferred taxes. Deferred tax expenditure is a factor that diminishes the level of profit attained, so affording managers the prospect of generating more income in future periods and mitigating the burden of income tax. This approach enables managers to exercise control over earnings by strategically adjusting the net profit level, so mitigating the tax obligations of the organization.

H1 : Deferred Tax Expenses Have a Positive Effect on Earning Management

1.3. The Effect of Tax Planning on Earning Management

Tax planning and earnings management are closely linked since they have a same objective of attaining desired profit targets. The efficacy of tax planning directly correlates with the effectiveness of revenue management inside a corporation. One aspect is determining the level of reported profit to be included in the disclosure of outcomes management strategies. Tax planning is intricately connected to the financial performance report of a firm, since substantial earnings result in a correspondingly elevated tax liability for the organization, while lower profits lead to a reduced tax burden. In order to mitigate the impact of high taxes on profitability, corporations use earnings management strategies to deliberately decrease the reported profits submitted to tax authorities, hence lowering the projected tax liability.

H2 : Tax Planning Has a Positive Effect on Earning Management.

1.4. The Effect of Company Size on Earnings Management

The concept of business size refers to the quantifiable dimensions of a corporation, often measured by factors such as total assets, total revenue, and other relevant indicators. It is often observed that huge corporations typically own substantial overall assets. This phenomenon leads to enhanced managerial flexibility in using these resources to enhance organizational performance, hence exerting a positive influence on the augmentation of corporate earnings.

H3 : Company Size Has a Positive Effect on Earnings Management

2. Research Method

The study used the statistical method of multiple linear regression analysis for data analysis. The study's sample size included 46 mining firms, selected from the period spanning 2020 to 2021. Moreover, in order to ascertain the sample size for this study, the researchers used a purposive sampling technique. The financial data used in this study sample was sourced from the preceding two years for a total of 46 organizations. Consequently, the sample data gathered included the financial information of 92 companies.

3. Result

3.1. Normality Test

The normality test's objective is to determine whether or not the residuals, confounders, or regression model have a normally distributed set of values. The t-test and the f-test both operate on the premise that the residual values adhere to a normal distribution, which is a fact that is well known. The invalidation of this premise renders the small sample statistical test [12] inconclusive. A regression model that exhibits normality or closely approximates a normal distribution is considered to be of high quality. The key lies in doing a comparative analysis between the cumulative distribution of the observed data and the cumulative distribution of data conforming to a normal distribution. Typical data has a distribution that resembles a bell curve.

The statistical test used in this research is the Kolmogorov-Smirnov test. In the context of decision making about the normality of data distribution, it is often accepted that if the p-value associated with a statistical test is less than 0.05, the data distribution may be seen as not conforming to a normal distribution. Conversely, if the p-value is more than 0.05, it is generally deemed that the data distribution can be regarded as normal. The One Sample Kolmogorov-Smirnov test was conducted and the acquired findings were based on the Asymp method. The significance level, denoted as Sig, is equal to 0.090. Based on the observation that the asymptotic significance value (Asymp. Sig) is greater than 0.05, it may be inferred that the data has a normal distribution. In order to enhance the validity of the normality test outcomes in the regression model of this study, an examination was conducted by analyzing the P-Plot of the standardized residual graph in regression.

3.2. Multicollinearity Test

The method used in this study to identify the presence of multicollinearity involves the examination of the VIF (Variance Inflation Factor) metric. When the Variance Inflation Factor (VIF) value surpasses 10, it is inferred that there are indications of multicollinearity among the independent variables. Conversely, if the VIF value is below 10, it suggests the absence of multicollinearity. The Variance Inflation Factor (VIF) values for all variables do not exceed 10. Based on the analysis conducted, it can be inferred that the regression model used for the multiconearity test does not exhibit indications of multiconearity.

3.3. Autocorrelation Test

The SPSS analysis of the provided data reveals a DW value of 2.037. According to the initial decision criteria, if the value of du is less than dw and dw is less than 4-du, it may be inferred that there is neither positive nor negative autocorrelation. In this case, it is seen that 1.7523 is less than 2.037, which is in turn less than 2.2477. Consequently, it can be concluded that there is no presence of positive or negative autocorrelation.

3.4. Heteroscedasticity Test

In order to ascertain the existence of heteroscedasticity, one must examine the Scatter Plot graph for the presence of discernible patterns. The results obtained by doing the scatter plot. The investigation uncovered the existence of patterns that are difficult to distinguish, since the data points were scattered both above and below the zero line on the Y-axis. As a result, there is no evidence of heteroscedasticity.

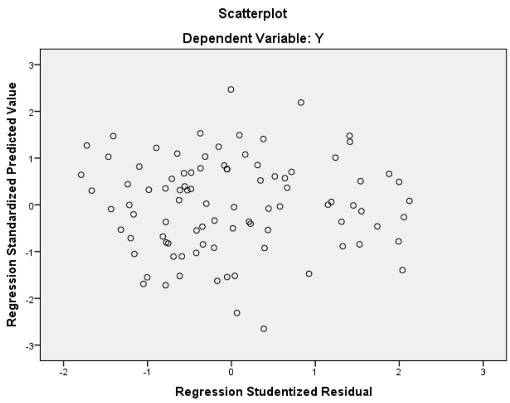

Fig. 1. Heteroscedasticity Test.

3.5 Hypothesis Testing

When the output of SPSS is analyzed, it can be demonstrated that the outcomes of the t statistical test reveal a significant association between the independent variable, deferred tax expenditure, and earnings management. This conclusion can be reached as a result of the fact that the relationship is shown to be significant. This is obvious from the estimated t-value of -2.257, which surpasses the crucial t-value of 1.98729, at a significance level of 0.026, which is lower than the set barrier of 0.05. Additionally, the significance level of 0.026 is lower than the specified threshold of 0.05. The t-value of 1.994, which is higher than the crucial t-value of 1.98729 at a significance level of 0.049, which is lower than the usual threshold of 0.05, demonstrates that the variable of tax planning has a statistically significant positive influence on profits management. This is shown by the fact that the significance level is lower than the traditional threshold of 0.05. According to the findings of the empirical study, the size of a company does not have a statistically significant influence on how profits are managed. The t-statistic of -1.160, which is less than the crucial t-value of 1.98729 when compared to the significance threshold of 0.05, lends credence to this finding.

Table 1. Multiple Linear Regression Test Results and Partial Significance of Substructure 1.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	,089	,022		4,148	,000
	X1	-,064	,028	-,229	-2,257	,026
	X2	,011	,005	,204	1,994	,049
	X3	,000	,000	-,121	-1,160	,249

a. Dependent Variable: Manajemen Laba (Y)

4. Conclusion

According to the first hypothesis (H1) posited in this study, it is argued that deferred tax costs have a notable favorable impact on the practice of profits management. The findings of this study demonstrate that there is a statistically significant negative relationship between the deferred tax burden and profits management in mining enterprises. A positive correlation exists between the magnitude of the deferred tax burden and the level of profit management. This indicates that when the deferred tax expenditure becomes a tax payment obligation, the corporation incurs a substantial tax payment, resulting in a reduction in the company's earnings.

According to the developed second hypothesis (H2) in this study, tax planning has a notable favorable impact on management. The findings of this research indicate that there is a significant and favorable impact of tax planning on the management of profits. The findings clarify that there exists a positive correlation between the extent of tax preparation undertaken and the potential for a corporation to engage in profits management.

According to the third developed hypothesis (H3) in this study, there exists a considerable positive correlation between firm size and management. The findings of this research indicate that there is no discernible impact of firm size on profits management, since the relationship between these variables is not statistically significant.

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