# THE EFFECT OF TAX PLANNING, DEFERRED TAX EXPENSE AND MANAGERIAL OWNERSHIP ON PROFIT MANAGEMENT

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***Abstract***

*This study aims to examine the effect of Tax Planning and Deferred Tax Expense on Earnings Management moderated by the Managerial Ownership variable. The object of the study is the Manufacturing Companies in the Consumer Goods Industry sub-sector listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The type of research and research approach is quantitative correlational research, a population of 55 companies with purposive sampling. with a sample size of 95 as observations. Data source fromwww.idx.co.id,in the form of company financial reports processed using SPSS version 25. The results of the study concluded as follows: (1) Tax planning has an effect on profit management practices. (2) Deferred tax burden has a positive effect on profit management practices. (3) Managerial ownership has an effect on profit management practices. (4) Managerial ownership has a moderation in the relationship between Tax Planning and Profit Management Practices (5) Managerial Ownership strengthens the relationship between Deferred Tax burden and Profit Management Practices. Further research should take a larger research sample and include other variables that affect profit management such as bonus schemes, capital structure and dividend policy.*

***Kata Kunci**: Tax Planning, Deferred Tax Expense, Managerial Ownership, Earnings Management*

## 1. INTRODUCTION

The self-assessment tax system that gives taxpayers the trust to calculate, pay and report their tax obligations. On the one hand, this tax system provides a positive side for taxpayers because the State gives full trust to taxpayers without suspecting that taxpayers are committing irregularities in calculating, paying and reporting their tax obligations. However, the negative side is that it provides opportunities for naughty taxpayers who try to use the opportunity to commit irregularities or violations. In general, management will choose an accounting policy that can report good profit information in the financial statements (Herawati, 2019). In tax accounting, this is known as the practice of profit management or profit smoothing through intervention in the preparation of financial statements that tend to benefit management (Putra, Sunarta & Haqi, 2019). Management makes efforts to reduce the tax burden by choosing an accounting method that benefits the company. The practice of profit management is a counterproductive action, for companies it is considered a positive action because it can save the company's capital while the government considers this practice to be an action that is detrimental to the government. In other facts, company management uses high profits as a measure of the company's success in achieving good performance, but on the other hand, high profits will result in a high tax burden (Yuliza & Fitri, 2020). This is a phenomenon of this research that earnings management is a practice that has positive and negative sides for companies and the government.

Profit management practices such as in the case of PT. Tiga Pilar Sejahtera Food Tbk (AISA) in 2019, the results of the 2017 financial report investigation by Ernst & Young Indonesia showed an extraordinary increase of IDR 4 trillion. Of that amount, IDR 662 billion was in the income account and IDR 329 billion in the EBITDA post (earnings before interest, taxes, depreciation, and amortization). Furthermore, there was a flow of funds of IDR 1.78 trillion to parties suspected of being affiliated with profit management. One of the company's motivations for carrying out profit management is tax motivation, namely carrying out tax management. Tax planning estimates the amount of tax to be paid by making efforts to reduce the tax burden. Tax planning is actually an effort or action to minimize the tax burden in a legal manner and does not violate the law (Devitasari, 2022). Through accounting policies that allow for an increase in income and expenses on one side and a decrease in income or expenses on the other side. This is the motivation in this study.

One offactors that can affect earnings management are deferred tax burdens. According to PSAK Number 46, deferred tax burden is the difference between current tax burden and commercial tax burden. According to (Deviyarty, Lestari & Panjaitan 2021) deferred tax burden is a burden that arises due to temporary differences between accounting profit (profit in financial statements for external parties) and fiscal profit (profit used as the basis for calculating taxes). Deferred Tax Burden is the amount of income tax for future periods as a result of deductible temporary differences and remaining loss compensation (Saragih & Manullang, 2022). The greater the deferred tax burden, the lower the tax burden for the current year period, in other words, there is a saving of cash or assets that should have been issued. Thus, the existence of a deferred tax burden is one strategy for carrying out legal earnings management.

Another factor that influences earnings management is managerial ownership, namely the ownership of shares by the company's management. Managerial share ownership can be used to fulfill the interests of shareholders and the interests of company managers (Dewi et al., 2019). As the owner of the company's shares as well as the manager of the company, the manager will directly feel the benefits of the policies taken for the company and the manager will also bear the risk if there are losses that arise as a consequence of making the wrong decision. On the other hand, managers as management and as shareholders will be able to feel the company's benefits if the policies taken have a positive effect on the company. Ownership of company shares for management aims to avoid moral hazard or opportunistic. The greater the proportion of management ownership in the company, the more it will be able to unite the interests between managers and shareholders, so that it is expected to increase the value and performance of the company (Purba & Effendi, 2019). Management share ownership is also to reduce information asymmetry so that decisions taken by the board of commissioners and the board of directors are objective decisions.

There are research results that show different results related to tax planning and deferred tax burden on earnings management. This is the motivation to conduct further research. The results of Jayanti and Sodik's (2020) research show that tax planning has a negative effect on earnings management. Deferred tax burden has a positive effect on earnings management. The results of this research are not in line with the research conducted by Anjany Pullah, Wibowo and Nurcahyono (2021). Dewi and Nuswantara's (2021) research concluded that deferred tax burden has a negative effect on earnings management. Research conducted by Bete, Sopanah and Marjani (2022) Tax planning has no effect on earnings management while Dita and Dian's (2021) research concluded that deferred tax burden has no effect on earnings management, while tax planning has no effect on earnings management. Pratomo and

Alma's (2020) research Managerial ownership has a positive effect on earnings management. This research is not in line with the research conducted by Gunarto and Riswandari (2019) which states that managerial ownership has a negative effect on earnings management. Research conducted by Cahyani and Suryono (2020) stated that managerial ownership has no effect on earnings management. In this study, managerial ownership is used as a moderating variable to differentiate it from previous studies. This is based on the idea that managerial ownership is an incentive, not part of company ownership. The portion of managerial ownership is not significant to the company's profit, in other words, managerial ownership tends to be more like a tip or gift. Is managerial ownership more directed at avoiding moral hazard or just a gift? then this study will answer this question.

The formulation of the problem in this study is how does tax planning affect earnings management practices, how does deferred tax burden affect earnings management practices, how does managerial ownership affect earnings management practices, does managerial ownership moderate tax planning on earnings management practices and does managerial ownership moderate deferred tax burden on earnings management practices. Furthermore, the purpose of this study is to empirically prove the research hypothesis related to the influence of tax planning, deferred tax burden and managerial ownership on corporate earnings management.

## 2. METHODOLOGY

The methodology section outlines the research design, population and sample, data collection methods, measurement of variables, and data analysis techniques used to achieve the study's objectives. The purpose of this study is to examine the influence of Tax Planning and Deferred Tax Expense on Earnings Management, with Managerial Ownership as a moderating variable.

## 3. RESEARCH RESULTS

### The Impact of Tax Planning on Profit Management

Based on table 4.9, the statistical figure is 0.007, where this figure is more <0.05 and the t-test value is 1.861. So it can be concluded that tax planning has a positive and significant effect on earnings management can be proven, or accepted. This means that companies that show good tax planning will improve the company's financial performance so that the company avoids earnings management practices. The results of this study are supported by researchers (Jeradu 2021, Linawati 2021, Mahsina & Hidayati 2020) who state that tax planning has an effect on earnings management. The implication of the research results is that good tax planning will encourage good company performance so that management will avoid moral hazard through earnings management practices. This means that tax planning is a management strategy to improve performance in order to provide objective profit information to investors. Companies try to reduce the tax burden with a tax planning strategy. The better the tax planning, the more it will affect earnings management practices. The implication of the research is that tax planning is part of the company's strategy to maintain the company's good name by significantly reducing earnings management actions. Investors give a more positive assessment of companies from the aspect of tax planning than earnings management actions.

**The Impact of Deferred Tax Expense on Earnings Management**

In the second hypothesis, it has been formulated that deferred tax burden has an effect on earnings management, and the results of statistical tests show that the second hypothesis has an effect on earnings management. This can be seen from the significant value of 0.000 <0.05 and the t-test value of 7.256. So it can be concluded that deferred tax burden has a significant effect on earnings management, so H2 is accepted. The results of this study are supported by the results of research (Negara & Suputra 2017, Nabil & Hadayati 2020 and Baradja et al. 2019) which state that deferred tax burden has an effect on earnings management. The results of the study show that deferred tax burden has an effect on earnings management, meaning that the company is trying to increase the burden to reduce tax debt. The implication is to increase the company's ability to pay short-term debt by increasing or delaying payment of interest. In this case, it means that management has succeeded in managing deferred tax burden to increase cash flow.

**The Influence of Managerial Ownership on Earnings Management**

The results of data processing show a significance value of 0.000 <0.05 and a t-test value of 5.501, so it can be concluded that the research hypothesis that managerial ownership has an effect on earnings management practices is accepted. This means that the higher the portion of managerial ownership, the more influence it will have on earnings management practices. Managerial ownership motivates management to carry out earnings management so that investors see earnings management as a reasonable action. When the company's profit is moderate, this indicates that financial performance is safe and stable. The results of this study are in line with and supported by the results of research (Nabil & Hadayati 2020, Pasek & Edy 2021 and Dilla Febria 2020) which state that managerial ownership has an effect on earnings management. Managerial ownership can balance the interests of management with the interests of shareholders.

**Managerial Ownership moderates the variable of Tax Planning on Earnings Management**

Table 1
Results of the 1st stage of the Moderation Test
Coefficients a.

| model | | Unstandardized Coefficient | Standard error | Standardized Coefficient Beta | t | sig |
|---|---|---|---|---|---|---|
| 1 | Constantine | 9.291 | 790 | | 10,483 | 000 |
| | Tax Planning | .168 | 0.43 | 273 | 3.390 | 000 |
| | Managerial Ownership | .690 | 031 | 136 | 2.229 | 028 |

Dependent Variable Earnings Management
Source: Research Results Processed by Researchers

Table 2
Results of the Moderation Test of Tax Planning Variables on Profit Management
Coefficients a

| model | | Unstandardized Coefficient | Standard error | Standardized Coefficient Beta | t | Sig |
|---|---|---|---|---|---|---|
| 1 | Constantine | 9.291 | 790 | | 10,483 | 000 |
| | Tax Planning | .168 | 0.43 | 273 | 3.390 | 000 |
| | Managerial Ownership | .690 | 031 | 136 | 2.229 | 028 |
| | Moderate 1 | .058 | 0.102 | .064 | 1,551 | 000 |

Dependent Variable Managerial Ownership
Source: Research Results Processed by Our Own

From the SPSS output results above, it shows that the influence of Z (KM) on Y in the first output and the moderate influence1 (Z*X1) on the second output, show a significant value (<0.05), which means that managerial ownership has a decent role to be a moderating variable. This means that managerial ownership strengthens the relationship between Tax Planning and Profit Management Practices.

Table 3
Results of the 2nd stage of the Moderation Test
Coefficients a

| model | | Unstandardized Coefficient | Standard error | Standardized Coefficient Beta | t | sig |
|---|---|---|---|---|---|---|
| 1 | Constantine | 9.291 | 790 | | 10,483 | 000 |
| | Deferred Tax Expense | .389 | 0.23 | 273 | 3.390 | 000 |
| | Managerial Ownership | .690 | 031 | 136 | 2.229 | 028 |

Dependent Variable Earnings Management Practices
Source: Research Results Processed by Researchers

Table 4
Results of the Moderation Test of the Deferred Tax Burden Variable on Earnings Management Practices Moderated by Managerial Ownership
Coefficients a

| model | | Unstandardized Coefficient | Standard error | Standardized Coefficient Beta | t | sig |
|---|---|---|---|---|---|---|
| 1 | Constantine | 9.291 | 790 | | 10,483 | 000 |
| | Deferred Tax Expense | .389 | 0.23 | 273 | 3.390 | 000 |
| | | | | | | |
| | Moderate 2 | .081 | .042 | .564 | 519 | 000 |

Dependent Variable Earnings Management
Source: Research Results Processed by Our Own

**The Effect of Deferred Tax Burden on Earnings Management Practices with Managerial Ownership as a Moderating Variable.**

From the SPSS output results above, it shows that the influence of Z (Managerial Ownership on Y (Earnings Management Practices on the second output and the moderate influence of 2 (Z*X2) on the second output, shows a significant value (<0.05), which means that Deferred Tax Burden which has an influence to strengthen the relationship of Deferred Tax Burden is worthy of being a moderating variable. This means that Managerial Ownership strengthens Deferred Tax Burden on Earnings Management Practices.

## 4. CONCLUSION

Based on the test results and discussions that have been described, the following conclusions can be drawn: (1) Tax planning has an effect on profit management practices. This means that tax planning is a strategic step taken by management to minimize burdens that do not provide added value to the company. Tax planning is part of the steps to improve the company's profit performance through tax saving. (2) Deferred tax burden has a positive effect on profit management practices. This means that an increase in deferred tax burden increases the probability of the company carrying out profit management. Temporary differences arise from the accrual component and operating cash flow so that deferred tax burden increases. (3) Managerial ownership has an effect on profit management practices, meaning that the higher the managerial ownership, the stronger the motivation to carry out profit management practices. (4) Managerial ownership has a role that is worthy of being a moderating variable. This means that Managerial Ownership strengthens the relationship between Tax Planning and Profit Management Practices. (5) Deferred Tax Burden which has an influence to strengthen the relationship between Deferred Tax Burden is worthy of being a moderating variable. This means that Managerial Ownership strengthens the variable Deferred Tax Burden on Profit Management Practices. Different motivations will result in different percentages of earnings management, such as between management who are also shareholders in the company and management who are not shareholders. Share ownership by management will also determine policies and decision-making on accounting method policies applied to the company.

The limitation of this research is that the financial reports of manufacturing companies required in the research are not all available on the website.www.idx.id.Furthermore, the results of this study are limited to the research variables that have been limited and the research year is only 5 years so that the results of the study cannot be used as a basis for generalizing companies as a whole on the Indonesia Stock Exchange. The implications of the research results are mainly for investors to try to understand the impact of tax planning, managerial ownership on earnings management practices. Earnings management has a negative impact on the image and good name of the company if evidence is found that the company is practicing illegal earnings management. The quality of company performance can be achieved optimally by reducing waste and increasing more profitable investment performance. Further research should take more research samples and include other variables that affect earnings management such as bonus schemes, capital structure and dividend policies.

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