

**THE EFFECT OF TAX PLANNING AND DEFERRED TAX EXPENSE
TOWARDS EARNING MANAGEMENT
(Empirical Study in Infrastructure, Utilities, and Transportation
Sector in Indonesia Stock Exchange Year 2018-2020)**



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*Submitted As One Of The Requirements To Get A Bachelor's Degree In
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COMPREHENSIVE EXAM APPROVAL LETTER

THE EFFECT OF TAX PLANNING AND DEFERRED TAX EXPENSE TOWARDS EARNING MANAGEMENT

(Empirical Study in Infrastructure, Utilities, and Transportation
Sector in Indonesia Stock Exchange Year 2018-2020)

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EARNING MANAGEMENT (EMPIRICAL STUDY IN INFRASTRUCTURE, UTILITIES,
AND TRANSPORTATION SECTOR IN INDONESIA STOCK EXCHANGE
YEAR 2018-2020)**

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MOTTO AND DEDICATION

"This Too Shall Pass"

"And when My servants ask you, [O Muhammad], concerning Me – indeed I am near. I respond to the invocation of the supplicant when he calls upon Me. So let them respond to Me [by obedience] and believe in Me that they may be [rightly] guided"

(Al-Baqarah :186)

"When is the help of Allah?" Unquestionably, the help of Allah is near"

(Al-Baqarah :214)

I dedicate to:

- **Allah SWT**
- **My beloved parents**
- **All my big family**
- **All my dearest friends**
- **Almamater**
- **My self**

PREFACE

Praise to Allah SWT for His mercy and grace, so that the author can completed this research entitled “The Effect of Tax Planning And Deferred Tax Expense towards Earning Management (Empirical Study in Infrastructure, Utilities, and transportation sector in Indonesia Stock Exchange Year 2018-2020)”. This script is one of the requirements for obtaining a Bachelor of economics degree of undergraduate program (S-1), Faculty of Economics, Sriwijaya University.

This script discusses about Tax planning and deferred tax expense towards earning management. The data used in this research is secondary data collected by the website of Indonesia Stock Exchange (www.idx.co.id) in Infrastucture, utility and transportation sector.

The author realizes that there are many shortcomings in the preparation and presentation of this thesis. The author apologizes if there are errors, either intentionally or unintentionally. This script can be helpful for many persons/ readers/ communities.

Palembang, January 20th 2022

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16. All parties who have help and provided support both directly and indirectly in the process of preparing this script.

May Allah SWT repay all the kindness you have given to the author in the process of completing this script.

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Telah kami periksa cara penulisan, *grammar*, maupun susunan *tenses* nya dan kami setuju untuk ditempatkan pada lembar abstrak.

Palembang, 2 Maret 2022

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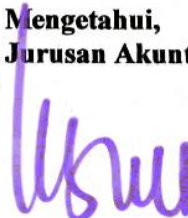
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ABSTRACT

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EARNING MANAGEMENT (EMPIRICAL STUDY IN INFRASTRUCTURE,
UTILITIES, AND TRANSPORTATION SECTOR IN INDONESIA STOCK EXCHANGE
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Tax planning is a strategy carried out by a company in reducing the tax burden so that the tax paid in accordance with the amount that has been set and does not greatly reduce the profit of the company. This research aims to analyze the influence of tax planning, deferred tax expense variable on earning management. The object of this research is infrastructure, utilities and transportation sector services companies listed on the Indonesia Stock Exchange from 2018-2020. Using the purposive sampling method and based on certain criteria, 19 companies were selected as the sample for this study. The hypotheses were tested by using multiple linear regression analysis through Eviews 9. The result of this study show that tax planning has an effect on earning management. Then deferred tax expense has no effect on earning management.

Keyword: Tax Planning, Deferred Tax Expense, Earning Management

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ABSTRAK

PENGARUH PERENCANAAN PAJAK DAN BEBAN PAJAK TANGGUHAN TERHADAP MANAJEMEN LABA (STUDI EMPIRIS PADA BURSA EFEK INDONESIA TAHUN 2018-2020)

Oleh:

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Perencanaan pajak adalah suatu strategi yang dilakukan oleh suatu perusahaan dalam mengurangi beban pajak yang terutang sehingga pajak yang dibayarkan sesuai dengan jumlah yang telah ditetapkan dan tidak terlalu mengurangi laba perusahaan. Penelitian ini bertujuan untuk menganalisis pengaruh perencanaan pajak, beban pajak tangguhan terhadap manajemen laba. Objek penelitian ini adalah perusahaan jasa sektor infrastruktur, utilitas dan transportasi yang terdaftar di Bursa Efek Indonesia tahun 2018-2020. Berdasarkan metode *purposive sampling* dan kriteria yang telah ditentukan, sebanyak 19 perusahaan yang terpilih sebagai sampel. Hipotesis diuji dengan analisis regresi linear berganda menggunakan *Eviews 9*. Hasil penelitian menunjukkan bahwa perencanaan pajak berpengaruh terhadap nilai perusahaan. Kemudian beban pajak tangguhan tidak berpengaruh terhadap nilai perusahaan.

Kata Kunci: Perencanaan Pajak, Beban Pajak Tangguhan, Manajemen Laba

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CHAPTER I

INTRODUCTION

1.1 Background

Financial statements are important information for both internal and external stakeholders in a business. A financial report is a report issued by management that seeks to communicate financial facts and firm performance over a specific time period. Financial information and company performance are things that are required by internal and external parties, each of whom has a vested interest in using financial statements. The company has a primary goal of maximizing shareholder wealth. Managers are entrusted by shareholders to control the business processes of the company. Shareholders want management to generate high income and minimize costs so that the dividends distributed are maximized. The management will try to maintain its position in the company by fulfilling the wishes of the shareholders. The company's management wants to display good financial performance by maximizing reported profits to shareholders, but on the other hand management also tries to minimize reported taxable profits for tax purposes (Fitriany, 2016).

The profit of the company is one of the data points in the financial statements. Profit is defined as the difference between the amount collected from the customer for the goods or services provided and the amount spent on natural resources or other expenses incurred in the production of the goods or services. The company will make a variety of efforts in order to maximize profits. Earnings management is one of the things that companies will do to cover their shortcomings in order to achieve high profits. The goal of management is to achieve a high profit, which is related to the bonus that will be obtained by management, because the higher the profit earned, the higher the bonus that will be given by the company to the management as the manager directly. The importance of profit information is the responsibility of management, whose performance is measured by the amount of profit earned. This situation allows managers to do deviant things known as earnings management practices (Astutik & Mildawati, 2016).

Earning management is kind of attempt of the manager to intervene or influence the information in financial statements to deceive stakeholders that want to know the company's performance (Hilmy & Sudradjat, 2020). Also Earnings management is an attempt to change, conceal, and manipulate the numbers in financial statements by tampering with the company's accounting methods and procedures. Attempts to manipulate information through earnings

management practices have become a major factor in financial statements no longer reflecting a company's fundamental values. As a result, financial statement engineering has emerged as a critical issue as a source of information misuse to the detriment of interested parties. As a result, the information conveyed is sometimes not received in accordance with the company's actual conditions. This is known as information asymmetry, which is a condition in which there is an imbalance in the acquisition of information between management as the information provider and the investor or stakeholder.

The management has the authority and discretion to maximize the company's profits, which leads to the process of maximizing personal interests at the expense of the company's owner. Efforts to increase the company's value no longer reflect management's actual performance, but have been engineered in such a way that it improves in accordance with management's wishes. This is known as the agency problem. Management activities are widely used in large corporations in order to entice market participants to invest in the company. Essentially, these activities are extremely harmful to the company as well as its issuers, because the information published is fictitious and will have a negative impact on the company's future existence. As a result, as much as possible, what the company reports is close to what actually occurred, both for tax reports and investor reports (Luhglatno & Novius, 2019).

In accounting theory, the relationship between internal parties and external parties is known as agency theory, which involves two parties, namely the agent and the principal. The agent is an internal party who is motivated to improve his welfare through increased compensation, while the principal is an external party who is motivated to improve his welfare, for example through the distribution of dividends or an increase in the company's stock price. It has been explained previously that internal parties and external parties of the company have different interests, so a conflict of interest arises between the two parties. The conflict of interest increases when the principal does not have sufficient information about the agent's performance due to the inability of the principal to monitor the agent's activities within the company, while the agent has more information about his/her capacity, work environment, and the company as a whole. This has resulted in an imbalance of information held by the principal and agent known as information asymmetry.

Information asymmetry and conflicts of interest that occur between agents and principals encourage agents to hide some information that is not known to the principal and present information that is not true to the principal (Widyaningdyah, 2001). This action is known as earnings management. Earnings management is an effort made by management to intervene in compiling and presenting financial statements with the aim of benefiting

themselves. Research on earnings management practices has been widely carried out by previous researchers with alternative approach methods, one of which is the research conducted by Phillips et al., 2003. Deferred tax expense are focused to detect earnings management practices carried out by company management. Deferred tax expense arises as a result of temporary differences between accounting profit (profit according to Financial Accounting Standards) and fiscal profit (profit of taxation rules used as the basis for calculating tax). Temporary differences are differences caused by differences in the timing and method of recognizing certain income and expenses based on Financial Accounting Standards (hereinafter referred to as SAK) with tax regulations.

There are numerous cases of earnings management in the country, with the goal of making the financial statements presented to external parties look good so that managers receive the maximum bonus. PT. PLN (PERSERO) Bali Distribution was also used as an example of management practices in previous research (Sari et al., 2019). After conducting a tax audit in 2004, the 2003-2004 fiscal income tax was reduced by Rp495 billion. Existing deferred tax in PT PLN (PERSERO) Bali decreased by Rp148 billion in 2003-2004, while deferred tax liabilities decreased by Rp27 billion. When a fiscal correction was made to the 2003 income statement, it was found that there was a difference of Rp. 57 billion more according to the fiscal report than the company's financial statements. In 2004 also found a larger difference according to the fiscal report from the company's financial statements amounting to Rp48 billion. In the financial statements of PT PLN (PERSERO) Bali Distribution (Sari et al., 2019). This shows that deferred tax is used as a loophole by management to influence the amount of income tax that should be paid.

Then in 2018, there were cases at PT Garuda Indonesia Tbk and PT. Mahata Aero Technology (Mahata) (Banjarnahor, 2019). The controversy over Garuda Indonesia's financial statements began on April 24, 2019, or during the Garuda Indonesia General Meeting of Shareholders (GMS). One of the agendas was to ratify the 2018 annual financial report. However, at the GMS there was chaos. Two commissioners expressed a dissenting opinion and did not want to sign the financial statements. It is known that in the 2018 financial report, Garuda recorded a net profit of US\$ 809.85 thousand or equivalent to Rp 11.33 billion (exchange rate of Rp. 14,000). One of the reasons for this profit was the cooperation between Garuda and PT Mahata Aero Technology(Mahata). The value of this cooperation is US\$ 239.94 million or around Rp. 2.98 trillion. Where the condition of the Fund is still receivable but has been recognized as income. As a result, the company previously made a loss and then

made a profit. This irregularity was detected by two commissioners of Garuda Indonesia. The two, Chairal Tanjung and Dony Oskaria, were reluctant to sign the 2018 financial statements.

The chaos continued until the Ministry of Finance's Financial Professional Development Center (PPPK) also audited the matter. The Indonesian Stock Exchange (IDX), the Financial Services Authority (OJK), and the BPK also carried out the audit. The PPPK and OJK finally decided that there was something wrong with the presentation of the 2018 GIAA financial statements. The company was asked to re-present its financial statements and the company was fined Rp. 100 million. Directors who sign the financial statements are required to pay a fine of Rp 100 million each. Third, collectively, minus the directors and commissioners who do not sign will be charged a collective fee of Rp. 100 million, so it is an easy responsibility. IDX as the capital market referee also imposed sanctions on the audit results of GIAA's financial statements. Sanctions for the audit given to the financial statements for the first quarter of 2019. IDX also imposed sanctions in the form of a written warning III and a fine of Rp 250 million to PT Garuda Indonesia Tbk. The sanctions are by IDX Regulation Number I-H concerning Sanctions.

In the end, Garuda Indonesia reorganized and re-presented the 2018 Financial Statements, Garuda Indonesia recorded a net loss of US\$ 175.028 million or around Rp. 2.4 trillion (exchange rate of Rp. 14,000). This report differs from previously published, which recorded a profit of US\$ 5.018 million. In the restated 2018 Garuda financial report, operating income was recorded at US\$ 4.37 billion, unchanged from the previous income report. Meanwhile, other operating income (other income) was corrected to US\$ 38.8 million from the previous US\$ 278.8 million. Meanwhile, the Garuda Indonesia restatement report in the first quarter of 2019 recorded several adjustments to the asset indicator to US\$ 4,328 million from the previous US\$ 4,532 million. The change in the total asset indicator was caused by an adjustment in the recording of other receivables to US\$ 19.7 million from the previous US\$ 283.8 million. Deferred tax assets also adjusted to US\$ 105.5 million from the previous US\$ 45.3 million.

Aside from that cases, other factors that can affect earning profit is Tax planning. Tax planning is a company's effort to minimize tax payments as long as it is still within the applicable tax rules. Efforts by the management are willing to suppress and make the tax expense as small as possible, then the earnings management tends to minimize the payment of the tax expense which is often called tax planning (Astutik & Mildawati, 2016). The higher the value of tax planning, it is considered that the greater the tax planning can detect earnings management. In previous research, tax planning affects earnings management (Lestari, 2018).

But on the other hand, tax planning does not have a significant effect on earnings management in the research by (Luhglatno & Novius, 2019).

Then, another factor that affects earnings management is deferred tax expense. Deferred tax expense arises as a result of temporary differences between accounting profit (profit according to Financial Accounting Standards) and fiscal profit (tax rule profit which is used as the basis for calculating tax). Deferred Tax occurs due to the difference between Income Tax Payable (income tax calculated based on the actual taxable income paid to the government) and income tax expense (income tax calculated based on pre-tax income) as far as the temporary differences. When a lot of profit is received by the company, the company's tax expense will also be large. Thereby reducing the profit earned (Baraja et al., 2019). Deferred tax expense is one approach whose function is to detect earnings management practices. the higher the fiscal profit and accounting profit, the higher the value of management discretion. That is, the greater management discretion will be reflected in deferred tax expense and can be applied in detecting management practices profit. And the greater the practice of earnings management, the greater the deferred tax liability recognized by the deferred tax expense (Phillips et al., 2003)

In the Statement of Financial Accounting Standards (PSAK) 46 of 2014 which regulates income tax. Income tax expense consists of current tax expense and deferred tax expense/deferred tax income. Deferred tax expense will arise the deferred tax liability. Deferred tax liabilities arose when the time difference causes a negative correction so that the tax expense according to accounting is greater than the tax expense according to tax regulations. A large amount of deferred tax expense reduces the company's profit thereby reducing the amount of tax to be paid. This makes management take advantage of loopholes to manipulate the company's deferred tax expense Referring to the statement, it can be estimated that there is a role between deferred tax expense that can be used as an indicator of earnings management. In previous research (Sari et al., 2019), deferred tax expense has a significant effect on earnings management. But in research (Anjarwi, 2019), deferred tax expense doesn't affect earnings management.

Research on earnings management uses many different proxies and variables, including this time the researcher conducted research using tax planning, and deferred tax expense as his research. According to suggestions from previous research and the cases in PT Garuda Indonesia Tbk, and PT. PLN (PERSERO), researchers will examine companies with related sectors, namely the Infrastructure, Utilities and Transportation Sector. Based on the description above, related to the phenomena and gaps of previous research regarding the effect

of tax planning, deferred tax expense on earnings management, the researchers are interested in conducting research in the Infrastructure, Utilities and Transportation sector with the title **“The Effect of Tax Planning, Deffered Tax expense, and Profitability towards Earning Management (Empirical Study in Infrastructure, Utilities and Transportation Sector in Indonesia Stock Exchange Year 2018-2020)”**.

1.2 Problem Statement

Based on the background that has been outlined, then the problems that can be formulated in this study are:

1. Does Tax Planning Affect Earning Management?
2. Does Deferred Tax Expense Affect Earnings Management?

1.3 Purpose of Research

Based on the formulation of the above problems, the research objectives that the authors want to achieve are:

1. To prove whether Tax Planning affects Earnings Management.
2. To prove whether Deferred Tax Expense affects Earnings Management

1.4 Benefits of Research

This research is expected to provide benefits to:

1.4.1. Theoretical Benefit

The results of this study are expected to expand the literature on tax planning and Deferred Tax Expense towards earning management in Infrastructure, Utilities, and Transportation companies listed on the Indonesia Stock Exchange in 2018-2020.

1.4.2. Practical Benefit

1. The results of this study are expected to provide information or input for management in increasing positive perceptions of Infrastructure, Utilities, and Transportation companies.
2. Expected to be useful for students or those who need a source of reference and knowledge for subsequent research.

1.5. Systematic Discussion

Discussion contained in this study consists of five parts or five chapters, which are as follows:

CHAPTER I INTRODUCTION

The discussion contained in this chapter is in the form of background, problem formulation, research objectives, research benefits, and systematic discussion.

CHAPTER II LITERATURE REVIEW

The discussion contained in this chapter is in the form of a theoretical basis that contains the theory used to support research as well as explanations related to research variables, previous research, frameworks, and hypotheses.

CHAPTER III RESEARCH METHODOLOGY

The discussion contained in this chapter is in the form of research scope, research design, data sources and types, population and samples, data collection methods, data analysis techniques, as well as operational definitions and measurement of variables.

CHAPTER IV RESULT AND DISCUSSIONS

The discussion contained in this chapter is in the form of a description of the research object, research results, and discussion of research results.

CHAPTER V CONCLUSIONS AND LIMITATIONS

The discussion contained in this chapter is in the form of conclusions and suggestions for research

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