Syntax Literate: Jurnal Ilmiah Indonesia p–ISSN: 2541-0849
e-ISSN: 2548-1398
Vol. 9, No. 5, Mei 2024

ANALYSIS OF CURRENT TAX, DEFERRED TAX, AND DEFERRED TAX ASSETS ON EARNINGS MANAGEMENT

Thomas Salim[1*], Yuniarwati[2]
Universitas Tarumanagara, Jakarta, Indonesia[1,2]
Email: thomas.125200018@stu.untar.ac.id[*]

Abstract

The goal of this study is to examine the impact of current taxes, deferred taxes, and deferred tax assets on earnings management. The research focuses on companies operating in the industrial sector listed on the Indonesia Stock Exchange during the years 2020, 2021, and 2022. A sample of 20 companies is selected using purposive sampling. Data processing involves multiple regression analysis assisted by Eviews 13 and Microsoft Excel. The findings indicate that current taxes have a significant positive impact on earnings management, while deferred taxes and deferred tax assets do not have a significant positive impact on earnings management. The implications of this research highlight the role of current taxes, deferred taxes, and deferred tax assets as detectors to track the movements of managers who have engaged in earnings management in the financial reports of companies, particularly in the income statement section.

Keywords: Current tax, Deffered tax, Deffered tax assets, Earnings Management

Introduction

The Income Statement is quite important for investors to assess the profits derived from a company's net earnings, making it one of the reports used for analysis by investors in decision-making. If the Income Statement shows that the revenue generated is greater than the expenses incurred, it results in a net profit for the period. Conversely, a company faces a problem if the revenue generated is less than the expenses incurred, leading to a net loss. Such losses experienced by a company make investors feel uncertain and hesitant to invest their money, potentially leading to the company being unable to secure investment funds from investors.

This issue prompts company managers responsible for earnings to engage in actions known in the financial accounting world as earnings management. This management is carried out by managers aiming to increase company profits to achieve management goals by obtaining the highest possible profits that can reflect activities within the company (Husni & Idayu, 2022).

Numerous studies indicate that the practice of earnings management often brings disadvantages to investors, such as information related to internal company matters being known only to managers who can manipulate earnings for their own benefit, while investors lack information or are unaware of ev

ents within the company from an internal perspective. Consequently, investors evaluating a company's performance through Income Statements modified by managers will influence their investment decisions.

Hence, it is necessary to conduct experiments to find ways to understand the movements of figures within financial statements that have been adjusted by company

How to cite:	Salim, T., & Yuniarwati. (2024). Analysis of Current Tax, Deferred Tax, and Deferred Tax Assets on Earnings Management. *Syntax Literate*. *(9)5*. http://dx.doi.org/10.36418/syntax-literate.v9i5
E-ISSN:	2548-1398
Published by:	Ridwan Institute

managers. Upon investigation, research journals by other researchers were found to utilize current tax, deferred tax, and deferred tax assets to determine their impact on earnings management.

This research is expected to provide input for company managers to identify factors influencing earnings management for transparency and integrity in financial statement presentation, and for investors to make informed decisions.

Theory Review

Agency Theory. Agency theory concerns contracts among members of a company or organization. The most widely used model focuses on two individuals – the principal (or superior) and the agent (or subordinate) and is viewed from both behavioral and structural perspectives (Jensen & Meckling, 2019). The principal delegates authority to the agent to make decisions, assuming that both the principal and the agent act rationally in economic terms, driven by personal interests. Although both are assumed to have similar motivations, differences may arise in preferences, trust, and the level of information held (Ghazali, 2020). According to Eisenhardt (1989), agency theory operates based on three assumptions about human nature. First, that humans tend to prioritize self-interest. Second, that humans have limitations in their thinking regarding future assumptions (bounded rationality). And third, that humans tend to avoid risk (risk-averse).

Watts and Zimmerman (1986) state that positive accounting theory relates to explaining accounting practices designed to predict which companies will and will not use certain methods, but it does not specify which methods companies should use. The theory focuses on the relationship between various individuals involved in providing resources to an organization and how accounting is used to assist in the functioning of this relationship. According to Ghozali (2020), there are three types of hypotheses indicating what motives lead managers to adopt one accounting method over another, namely the bonus plan hypothesis, political cost hypothesis, and debt-equity hypothesis.

According to Scott (2000), earnings management refers to management's efforts to determine policies on specific accounting standards with the aim of increasing management-side prosperity and/or the market value of the company. Factors motivating company managers to engage in earnings management include bonus schemes, debt agreements, political motivations, tax motivations, CEO turnover, initial public offerings (IPOs), and communication of information to investors. Earnings management practices are divided into four types: taking big bath, income smoothing, income minimization, and income maximization (Scott, 2000).

Current tax refers to the total Income Tax payable (recoverable) based on taxable profit (or tax loss) for a period. This profit refers to the profit (loss) for a tax year calculated following the regulations set by the tax authorities on the Income Tax payable (recoverable) (Indonesian Institute of Accountants, 2022). The amount of current tax must be calculated by the taxpayer based on taxable income multiplied by the tax rate, then paid and reported in the Tax Return (SPT) in accordance with applicable tax regulations. Taxable income is the result of fiscal adjustments to pre-tax net income taken from commercial financial statements. Fiscal adjustments are necessary because there are differences in the treatment of income and expenses between accounting standards and the latest tax regulations (Suandy, 2011).

Deferred Tax. Deferred tax refers to the value of deferred tax expense (or benefit) arising from the recognition of deferred tax liabilities or assets (Waluyo, 2013).

Deferred tax results in differences between the Income Tax Payable (Income Tax calculated based on actual taxable income paid to the government) and the income tax expense (Income Tax calculated based on pre-tax income) as long as it concerns temporary differences (Sibarani et al., 2015).

Deferred Tax Assets. Deferred tax assets refer to the total Income Tax realized in future periods resulting from temporary differences that can be deducted, unutilized tax losses, and unused tax credits. Temporary differences that can be deducted refer to temporary differences that generate deductible amounts in determining taxable profit (tax loss) for future periods when the recorded amount of assets or liabilities is recovered or settled (Indonesian Institute of Accountants, 2022).

Interrelationship Between Variables

Current Tax with Earnings Management. Agency theory explains that managers exhibit a Risk Averse nature, meaning they avoid risks in paying taxes by engaging in earnings management practices to manipulate company profits by decreasing earnings and increasing expenses through fiscal adjustments to reduce the Income Tax paid to the government. This is because the motivation behind managers' actions is Taxation Motivation, which prompts company management to try to reduce the reported net profit level so that the tax liability can be minimized (Scott, 2003). Positive accounting theory also explains that managers adopt the Political Cost Hypothesis method, which leads managers to reduce company profits to lessen government and public attention to the taxes paid.

Deferred Tax with Earnings Management. Deferred taxes arise due to differences in tax calculations between fiscal regulations and commercial tax provisions with Financial Accounting Standards (FAS) provisions. Agency theory explains that managers have Self Interest, where managers prefer accounting methods under FAS provisions over tax regulations when preparing financial statements (Febrianto, 2014). Therefore, if financial statements made by managers become more liberal, the greater the difference between commercial tax calculations and fiscal tax (Hawkins, 1998). This is also supported by positive accounting theory, where managers have opportunistic tendencies in using various accounting methods to gain advantages for themselves.

Deferred Tax Assets with Earnings Management. Deferred tax assets arise because fiscal tax calculations are higher than commercial taxes, resulting in deferred tax benefits included in the Income Statement, while deferred tax assets are included in the balance sheet. Agency theory explains that managers exhibit a Self-Interest nature, manipulating the size of deferred tax assets to avoid company losses (Burgstahler, 2002). If the value of deferred tax assets is higher, future tax liabilities can be minimized, ultimately increasing future company profits and receiving positive evaluations from shareholders, as well as compensation for their performance (Rahma, 2020). This is supported by positive accounting theory using the Bonus Plan Hypothesis, where managers manipulate accounting values to demonstrate good company performance to receive compensation.

Hypothesis Development

The findings of this study are supported by the research of Ningsih et al. (2019) and Amanda and Febrianti (2015), which reveal that current tax has an influence on earnings management. However, the research of Ayu and Susanto (2022) and Utami and

Malik (2015) indicates that current tax has no influence on earnings management. H1: Current tax has a positive influence on earnings management.

The findings of this study are supported by the research of Baradja et al. (2017) and Yulianti (2005), which reveal that deferred tax has an influence on earnings management. However, the research of Tartono et al. (2021) and Amanda and Febrianti (2015) suggests that deferred tax has no influence on earnings management. H2: Deferred tax has a positive influence on earnings management.

The findings of this study are supported by the research of Saijan (2017) and Ningsih et al. (2019), which reveal that deferred tax assets have an influence on earnings management. However, the research of Tartono et al. (2021) and Suranggane (2007) indicates that deferred tax assets have an influence on earnings management. H3: Deferred tax assets have a positive influence on earnings management.

Research Methods

The methodology of this research is quantitative research using secondary data obtained from the Indonesia Stock Exchange (BEI) and Annual Reports for the period of 2020, 2021, and 2022. The sampling method used is purposive sampling, involving companies from the industrial sector meeting the following criteria: 1) companies listed on the Indonesia Stock Exchange (BEI) publishing Annual Reports for the years 2020, 2021, and 2022, 2) financial statements published using the Indonesian Rupiah currency, and 3) financial statements published showing net profits for the years 2020, 2021, and 2022. The total valid sample size from a population of 63 companies is 20 companies.

Table 1. Operational Variables and Measurements

Variable	Measurement	Scale	Source
Earnings Management	$\Delta E = \frac{E_{it} - E_{it-1}}{MVE_{it-1}}$	Nominal	Amanda and Febrianti (2015)
Current Tax	$CTE_{it} = \frac{Current\ Tax\ it}{Total\ Asset\ it-1}$	Ratio	Utami and Malik (2015)
Deferred Tax	$DTE_{it} = \frac{Deferred\ Tax\ it}{Total\ Asset\ it-1}$	Ratio	Utami and Malik (2015)
Deferred Tax Assets	$DTA_{it} = \frac{\Delta\ Deferred\ Tax\ Assets\ it-1}{Deferred\ Tax\ Assets\ it-1}$	Ratio	Baradja et al. (2017)

Results and Discussion

Statistical Test Results

Classical Assumption Tests. Before hypothesis testing is conducted, classical assumption tests consisting of Normality Test, Autocorrelation Test, Heteroskedasticity Test, and Multicollinearity Test are performed. In the Normality Test using the Jarque-Bera Test, the obtained value is 0.097403, which is greater than 0.05, indicating that the data distribution is considered normal. For the Autocorrelation Test using the Durbin-Watson Test, the obtained DW value of 1.935601 falls between the dU (1.69) and 4-dU (2.32) ranges, indicating no autocorrelation. The results of the Multicollinearity Test show that the correlation values between independent variables are less than 0.85, indicating no multicollinearity. For the Heteroskedasticity Test using the ARCH test, the Chi-Square probability value of 0.3364 is above 0.05, indicating no heteroskedasticity issue.

The influence test results (t-test) are conducted after all classical assumption tests meet the requirements, and the results can be seen in the table below.

Table 2. Multiple Linear Regression Test

Dependent Variable: EM
Method: Panel Least Squares
Date: 11/14/23 Time: 23:19
Sample: 2020 2022
Periods included: 3
Cross-sections included: 19
Total panel (balanced) observations: 57

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DTE	31.32973	18.57644	1.686530	0.0976
DTA	0.159376	0.143484	1.110755	0.2717
CTE	14.06581	3.621666	3.883796	0.0003
C	0.280611	0.102280	2.743555	0.0083

R-squared	0.228456	Mean dependent var	0.596491
Adjusted R-squared	0.184783	S.D. dependent var	0.494962
S.E. of regression	0.446898	Akaike info criterion	1.294619
Sum squared resid	10.58504	Schwarz criterion	1.437991
Log likelihood	-32.89664	Hannan-Quinn criter.	1.350338
F-statistic	5.231136	Durbin-Watson stat	1.935601
Prob(F-statistic)	0.003085		

Based on the test results in the table above, the equation used for this research is as follows:

$$EM = 0.280611 + 31.32973\,DTE + 0.159376\,DTA + 14.06581\,CTE + \mu$$

Based on the regression results, current tax has a positive (Coef. = 14.06581) and significant influence (Prob. = 0.0003) on earnings management. In the study by Ayu and Susanto (2022), it is explained that current tax has a significant positive influence on earnings management, where an increase in current tax prompts managers to engage in earnings management. Current tax enables companies to engage in earnings management because it can reflect taxable income resulting from fiscal reconciliation.

As for deferred tax, it has a positive influence (Coef. = 31.32973) but is not significant (Prob. = 0.0976) on earnings management. This is contrary to the findings of Baradja et al. (2017), which explain that the influence of deferred tax on earnings management is positive, meaning that any increase in deferred tax expense will increase the likelihood of companies managing earnings. Thus, it can detect the influence of accrual manipulation to minimize taxes in earnings management.

Deferred tax assets have a positive influence (Coef. = 0.159376) but are not significant (Prob. = 0.2717) on earnings management. This contradicts the findings of Baradja et al. (2017), which explain that deferred tax assets have a positive influence on earnings management because during Income Tax calculations, there is a timing difference between accounting and tax treatment in the future, so when companies pay higher taxes now, they may potentially reduce future tax liabilities.

To understand the correlation of all independent variables with the dependent variable, a determination correlation test (R2) and an F-test are conducted. The Adjusted R2 has a value of 0.184783 or 18.47%, and the F-test indicates that the independent variables in this study have a significant influence (Prob. = 0.003085) on earnings management collectively.

Discussion

Based on the results of this research, the role of current tax can be utilized to detect movements in earnings management stemming from taxable income generated from fiscal reconciliation. However, deferred tax cannot detect movements in earnings management because when companies engage in earnings management in their commercial financial statements and transfer them to fiscal financial statements, the amount of temporary differences reflected in deferred tax is too small and insignificant, thus deferred tax cannot detect earnings management (Tartono et al., 2017). As for deferred tax assets, they cannot detect movements in earnings management because managers will avoid manipulating earnings on deferred tax assets, which could risk the evaluation of those accounts at the end of the period, where financial statement users will question the impact on deferred tax asset accounts. Additionally, if managers engage in earnings management on deferred tax assets, it will result in higher current taxes, potentially harming the company (Tartono et al., 2017).

Conclusion

The limitations of this research include the use of only current tax, deferred tax, and deferred tax asset as the independent variables studied. The research period is limited to the years 2020, 2021, and 2022. The subjects used are only companies in the industrial sector listed on the Indonesia Stock Exchange (BEI). For future research, it is possible to add other independent variables, extend the research period, and expand the subjects of the research to companies operating in other sectors.

BIBLIOGRAPHY

Amanda, F. & Febrianti, M. (2015). Analisis Pengaruh Beban Pajak Kini, Beban Pajak Tangguhan, dan Basis Akrual Terhadap Manajemen Laba. *Ultima Accounting*, 7(1), 70-86. 2015.

Ayu, R. W. & Susanto, Y. K. (2022). Earnings Management: Current Tax Expense, Effective Tax Rates, and Financial Ratio. *Jurnal Muara Ilmu Ekonomi dan Bisnis*, 6(1), 150-161. 2022.

Baradja, L. M., Basri, Y. Z., & Sasmi, V. (2017). Pengaruh Beban Pajak Tangguhan, Perencanaan Pajak dan Aktiva Pajak Tangguhan Terhadap Manajemen Laba. *Jurnal Akuntansi Trisaksi*, 4(2), 191- 206. 2017.

Burgstahler, D., Elliott, W. B. & Hanlon, M. (2002). How Firms Avoid Losses: Evidence of Use the Net Deffered Tax Asset Account. University of Washington Working Paper. 2002. doi: http://dx.doi.org/10.2139/ssrn.355780.

Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review*, 14(1), 57-74. 1989.

Febrianto, A. (2014). Pengaruh Beban Pajak Tangguhan dan Struktur Kepemilikan Terhadap Praktik Manajemen Laba Pada Perusahaan Manufaktur di BEI. *Jurnal Tekun*, 5(2), 218-229. 2014.

Ghazali, I. (2020). *Grand Theory, 25 Teori Besar Ilmu Manajemen, Akuntansi dan Bisnis* (Y. Pratama (ed.)).

Hawkins, D. F. (1998). Corporate Financial Reporting and Analysis: Text and Cases. Boston: Mc Graw Hill.

Husni, M. H. M., & Idayu, R. (2022). Pengaruh Aset Pajak Tangguhan, Profitabilitas dan Perencanaan Pajak Terhadap Manajemen Laba. *" LAWSUIT" Jurnal Perpajakan*, *1*(2), 77–91.

Ikatan Akuntansi Indonesia. (2022). Standar Akuntansi Keuangan – Bagian A Efektif 1 Januari 2022. Jakarta: IAI.

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77–132). Gower.

Ningsih, S. S., Sutadipraja, M. W. & Mardiana. (2019). Pajak Kini, Pajak Tangguhan, Aset Pajak Tangguhan, Liabilitas Pajak Tangguhan Terhadap Manajemen Laba. *Reviu Akuntansi dan Bisnis Indonesia*, 3(2), 149-162.

Rahma, H. (2020). Pengaruh Beban Pajak Tangguhan, Beban Pajak Kini, Aset Pajak Tangguhan Terhadap Manajemen Laba Dengan Kualitas Audit Sebagai Variabel Moderasi. *Jurnal Fakultas Ekonomi Dan Bisnis Islam UIN Alauddin Makassar*, 3(3), 1–15.

Saijan. (2020). Pengaruh Perencanaan Pajak, Aktiva Pajak Tangguhan, Beban Pajak Tangguhan dan Ukuran Perusahaan Terhadap Earnings Management. *Jurnal Akuntansi dan Bisnis: Jurnal Program Studi Akuntansi*, 6(2), 124-133. 2020.

Scott, W. R. (2000). *Financial Accounting Theory*. Edisi kedua. Hoboken.

Scott, W. R. (2003). *Financial Accounting Theory*. Edisi ketiga. Hoboken.

Sibarani, T. J., Hidayat, N., & Surtikanti. (2015). Analisis Pengaruh Beban Pajak Tangguhan, Discretionary Accruals, dan Arus Kas Operasi terhadap Manajemen Laba. *Jurnal Riset Akuntansi Dan Perpajakan*, 2(1), 19-31. 2015.

Suandy, E. (2011). *Perencanaan Pajak*. Edisi kelima. Jakarta.

Suranggane, Z. (2007). Analisis Aktiva Pajak Tangguhan dan Akrual sebagai Prediktor Manajemen Laba: Kajian Empiris pada Perusahaan Manufaktur yang Terdaftar di BEJ. Jurnal Akuntansi dan Keuangan Indonesia, 4(1), 77-94.

Tartono, C. L., Hidayat A. A., & Haryono, L. (2021). Effect of Tax Planning and Temporary Difference to Earnings Management. *Journal of Applied Accounting and Taxation*, 6(2), 183-195. 2021.

Utami, A. P. & Malik, A. (2015). Pengaruh Discretionary Accrual, beban Pajak Tangguhan dan Beban Pajak Kini Terhadap Manajemen Laba. *Jurnal Akuntansi*, 1(2), 44-64. 2015.

Waluyo. (2013). *Perpajakan Indonesia*. Edisi kesatu. Jakarta.

Watts, R. L. & Zimmerman, J. L. (1986). Positive Accounting Theory. Hoboken.

Yulianti, Y. (2005). Kemampuan Beban Pajak Tangguhan dalam Mendeteksi Manajemen Laba. *Jurnal Akuntansi dan Keuangan Indonesia*, 2(1), 107-129.