

## THE EFFECT OF DEFERRED TAX ASSETS, CURRENT TAX EXPENSES AND LEVERAGE ON PROFIT MANAGEMENT

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**Abstract:** *The purpose of this research is to measure and determine whether Deferred Tax Assets, Current Tax Expenses, and Leverage have an effect on Earning Management. Research objects in manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2016 - 2018. The research method uses quantitative research and purposive sampling data collection techniques according to the criteria, a sample of 74 observational data for three years. The researcher analyzed the data using Multiple Regression, using an analysis tool in the form of SPSS. From the discussion, it is found that (1) deferred tax assets have no positive effect on earnings management, (2) current tax expense has no positive effect on earnings management, and (3) Leverage has no positive effect on earnings management.*

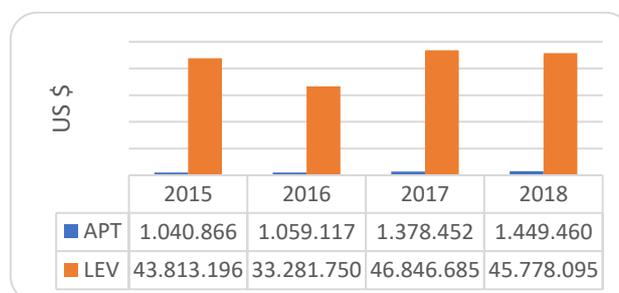
**Keywords:** *Deferred Tax Assets, Current Tax Expense, Leverage, Earnings Management*

### 1. Introduction

#### 1.1 Background

Some company management sometimes performs earnings management in relation to preparing financial statements for a specific purpose. The phenomenon behind this research is the news of Kontan.co.id (Suprayitno, 2018) PT Ever Shine TexTbk (ESTI) noted a change of more than 20% in assets and liabilities in the last year, which resulted in an increase in changes in profitability in its operations. . The company claims that the company's assets have increased 24.53% year on year from US \$ 49.43 million in 2016 to US \$ 61.56 million last year. Meanwhile, total liabilities increased from US \$ 33.28 million to US \$ 46.85 million or an increase of 40.77% year on year. The company said that the 24.53 percent increase in total assets was due to a decrease in current assets of US \$ 525,012 and an increase in non-current assets of US \$ 13.65 million. This occurred mainly due to an increase in deferred tax assets of US \$ 319,335. On the other hand, the increase was also due to an increase in debt to Bank BCA. The company withdrew the loan facility provided by Bank BCA. With an increase in deferred tax assets and an increase in debt resulted in an increase in profit.

**Graph 1. Deferred Tax Assets and Leverage at PT Ever Shine Tex.Tbk**



When viewed from the phenomenon that occurs, it can be seen that PT Ever Shine Tex. Tbk has a problem issue, namely that there has been an increase in assets and liabilities, which resulted in an increase in profit. If traced further, that management has increased deferred tax assets by 24.53%;

management has taken an income maximization pattern of earnings management actions, which resulted in an increase in the current year's profit compared to the previous period. Income maximization is the existence of high corporate debt (leverage).

In Indonesia, an entity or business entity is obliged to pay income tax from the acquisition of a year of operation, which in calculating the amount of profit on tax payable uses a separate provision. Therefore, management performs a reconciliation of taxable income based on tax regulations obtained from the commercial income statement, which is then subject to positive or negative corrections. This is to determine how much tax payable should be deposited into the state treasury or what is often known as Current Tax expense or tax owed tax expense. There are two different types of income tax when viewed in terms of tax accounting. The two types of differences are permanent differences or are called permanent differences and time differences are called temporary differences.

Statement of Financial Accounting Standards (PSAK 46, 2010) relating to tax accounting states that company management has the freedom to determine accounting policies to determine how much deferred tax assets or what is called deferred tax expense because they are used differently. Deferred tax occurs because there is taxable profit that is higher than accounting profit due to the positive impact due to temporary changes. If there is a taxable profit that is higher than commercial profit, it will have an impact on the postponement of tax payments in the coming period. The research results of (Suranggane 2007) found that deferred tax asset reserves had no effect on earnings management practices to avoid company losses, while accruals had an effect on earnings management practices to avoid losses. The research of (Timuriana, Rezwan, and Muhamad 2015) shows that deferred tax assets have an influence on earnings management and deferred tax expense has no effect on management earnings. (Amanda and Febrianti 2015) show that the results of research show that current tax expense has an effect on earnings management while deferred tax expense and accrual basis have no effect on earnings management. Result of research (Utami and Malik 2015) shows that discretionary accruals, deferred tax expenses and current tax expenses have no effect on earnings management. (Agustia 2013) shows that good corporate governance has no effect on earnings, while free cash flow and leverage have an effect on earnings management. Research by (Gunawan, Darmawan, and Purnamawati 2015) the results show that company size, profitability, and leverage do not have a significant effect on earnings management. Based on the explanation of the phenomenon found by the author and the research gaps that occur, it makes the author interesting to examine deferred tax assets, current tax burden and leverage. So the authors set the research title with the title effect of deferred assets, current tax expense and leverage on earnings management in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 - 2018.

## **1.2 Formulation of the problem**

Researchers have formulated research are:

1. Does deferred tax asset have any influence on earnings management?
2. Does the current tax expense have an influence on earnings management?
3. Does leverage have an influence on earnings management?

## **1.3 Research purposes**

The purpose of this research is to conduct this research with the aim of:

1. To test and determine whether deferred tax assets have a positive effect on earnings management.
2. To test and find out whether the current tax burden has a positive effect on earnings management.
3. To test and determine whether leverage has a positive effect on earnings management.

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## **1.4 Theoretical Review**

### **A. Agency Theory**

According to (Jensen & Meckling, 1976) in (Sutadipraja, Ningsih, and Mardiana 2019) explains that this agency relationship appears at the time of principle, one or more people collaborate with agents to

provide returns in the form of services and give the authority to make decisions on the agent. However, in the agency relationship, in practice, there are often two problems. The first problem is the possibility of information asymmetry or what is called information asymmetry. The second problem may be a conflict of interest or a conflict of interest between agent and principle. The problems that occur above are caused by differences in the objectives between the agent and the principal. The goal is that both of them wish to increase profitability in order to obtain welfare that meets psychological needs and economic needs that can be obtained by performing earnings management.

### **B. Signal Theory**

According to (Brigham & Houston, 2011) states that signal theory can provide views for managers to carry out their activities in order to convey the development of their company to company owners or investors about the viewpoint of how management sees the progress of the company being operationalized. The expression of the theory of signals that managers publish information received by users of financial statements is not the same due to information asymmetry. The explanation in signal theory is that the company can convey useful insights to users of financial statements.

### **C. Earnings Management**

According to (Yulianti 2005), in (Amanda and Febrianti 2015) defines earnings management in the narrow sense that in determining earnings, managers can behave or "play" with the discretionary accruals component. Furthermore, earnings management is defined in a broad sense that increasing or decreasing earnings in the current period is an act of company managers, where managers are responsible without impacting increasing long-term economic profitability. Performance appraisal indicators use the basis of information that occurs in a company because management has broader and more accurate information and can be accounted for compared to principals so that earnings management actions can easily be implemented. The motivation of managers to do earnings management according to (Scott, 2015) in (Oktorina and Wedari 2015) quoted (Amanda and Febrianti 2015) states that:

1. There is a bonus plan or bonus plan.
2. There is an initial public offering or what is called the initial public offering (IPO).

To attract potential investors in connection with the initial public offering, management tends to make income increasing. Meanwhile, according to (Scout, 2009) in (Suranggane 2007) related to earnings management, management seeks to transfer the Expected Future Cost to the current period to obtain the opportunity to earn profit in the future period. This can be done if:

1. The company reorganized
2. Management seeks to allocate current expenses with the aim of obtaining optimal profit opportunities.
3. The company tries to increase profits in the current period by allocating expenses in the future period.

According to (Amanda and Febrianti 2015) to be able to do earnings management there are several techniques, namely:

1. If there is a change in the accounting method applied.
2. If management changes company policy.
3. If there is a shift in the recognition of costs and revenues.

### **D. Deferred Tax Assets**

According to (Waluyo, 2008), if there is a time difference, that makes a positive correction. The impact of this difference is that the statutory tax burden is more significant than the commercial tax. Deferred tax is recorded, and an adjustment is required to estimate how likely it is that the deferred tax asset can be realized. According to (Wiyadi, Trisnawati, Sasongko & Fauzi, 2015), the emergence of deferred tax assets is due to time differences, so positive correction is needed. The reason for deferred tax liabilities or deferred tax assets, according to (Timuriana et al. 2015), is if the taxable

income is less than pretax accounting income. The tax payable is more significant, and deferred tax assets are recognized based on facts.

### **E. Current Tax Expense**

According to (Waluyo, 2012), current tax expense states that what is reported in the SPT is the same as the current tax amount. According to (Amanda and Febrianti 2015), taxable income or taxable income is obtained from the calculation of accounting profit or commercial profit. Fiscal corrections are made because there are differences, so company managers can make profits more significant. Current taxes can show the effects of fixed differences and time differences.

### **F. Leverage**

Definition of Leverage, according to (Gunawan et al. 2015), states that leverage is the amount of obligation that the company uses to fund the company for its operational activities. The formula for determining the leverage ratio is the ratio of total debt to total liabilities. It can be interpreted that how much wealth is owned by shareholders or principals compared to assets owned by creditors. To analyze the company's liabilities, managers need to determine the leverage ratio, where this ratio is beneficial for internal parties and external parties, namely investors and creditors. The benefit of the leverage ratio for company management is to measure the company's performance to obtain profit that is utilized. There are three important things in the use of leverage according to (Brigham & Houston, 2011) which states that:

1. Getting funds from debt allows shareholders to continue to supervise the company with limited investment.
2. To provide margin protection, creditors pay close attention to the capital or paid-up capital of the company owner.
3. If the company gets a return higher than the investment value.

According to agency theory (Jensen & Meckling, 1976) in (Sutadipraja et al. 2019) states that agency relations are as follows: "Agency relations as a Contract Under Which One or More Person (The principles) Engage another person (The Agent) ) to Perform Some Service on behalf Which Involves Delegating Some Decision Authority to The Agent. " However, in the implementation of the agency relationship, two problems often occur. The first problem is the possibility of creating a conflict of interest or what is called a conflict of interest of the principal and agent. Deferred tax assets occur due to positive corrective temporary differences so that the impact on the amount of fiscal tax is more significant than commercial tax. Suppose there is an increase in deferred tax assets. In that case, the commercial tax burden decreases, resulting in an increased commercial profit, increased commercial profit, needs or interests, or the agent's psychological goals are met. The results of this hypothesis are supported by research (Widiastuti and Chusniah 2011) and (Timuriana et al. 2015).

H1: Deferred tax assets have a positive effect on earnings management

The difference in treatment of revenues and expenses based on standard accounting and tax regulations must be a fiscal correction due to the differences in the guidelines used to expect differences in recognition of commercial income and taxable income. With the differences above, management can enforce policies in preparing financial reports with higher profits. From the description above, it can be concluded that the higher the difference value, indicating that management is more able to take earnings management actions. The current tax expense for a company is recognized as an expense that reduces profit, so the company must earn a more significant profit. The results of this hypothesis are supported by research (Amanda and Febrianti 2015).

H2: Current Tax Expense is Positive on Earnings Management

The existence of signal theory encourages companies to convey financial information to shareholders, besides explaining how company management shows useful signals to the company's internal and external parties as users of financial reports, which is information that can be used for decision making. However, the information received by users of financial statements often differs due to information asymmetry. Information asymmetry for investors and shareholders greatly influences

action in decision making. To carry out company operations, management requires funding from investors or in the form of loans from creditors. The leverage ratio can measure the loan interest rate's ability to be paid to creditors. A high degree of leverage ratio can indicate that the company is at risk of default. To avoid decreased profitability and avoid violation of debt contract covenants, management will play as much as possible the accounting records in the reported financial statements by taking earnings management practices. The detailed explanation above is supported by research (Agustia 2013) and research (Naftalia and Marsono 2017).

H3: Leverage have a positive effect on earnings management.

## **2. Research Method**

### **2.1 Population**

The research population used is the manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the 2016 - 2018 period.

### **2.2 Sampling Techniques**

In this research, the sampling technique used a purposive sampling technique; namely, the sample was taken from a population with specific criteria.

### **2.3 Types and Sources of Data**

Data Researchers use quantitative data, which is secondary data in the form of annual financial reports sourced from [www.idx.co.id](http://www.idx.co.id).

### **2.4 Operational Definitions**

#### **A. Earnings Management**

Earnings management variables are proxied by discretionary accruals from the Modified Jones Model, according to (Dechow et al. 2015) and (Skinner, 1996) quoted and used (Yulianti 2005) and (Widiastuti and Chusniah 2011). Positive discretionary accrual means that the pattern of earnings management by increasing earnings is called positive discretionary accruals. In contrast, the pattern of earnings management by decreasing earnings is called negative discretionary. Formula Discretionary measurement Accrual (DA) can be formulated as follows:

$$TA_{it} = NI_{it} - CFO_{it}.$$

$$NDA_{it} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV / A_{it-1} - \Delta REC / A_{it-1}) + \beta_3(PPE_{it} / A_{it-1}) + e$$

$$DA_{it} = (TA_{it}/A_{it} - NDA_{it})$$

Description:

Dait	: Company's descretionary accrual for period t
NDAit	: Nondescretionary accrual of company period t
Tait	: Total company accrual for period t
NIit	: Company net profit period t
CFOit	: Cash flow from the company's operating activities in period t
Ait-1	: Total assets of the company period t
ΔREV	: Change in the firm's income for period t
ΔREC	: Change in the company's receivables period t
PPEit	: Fixed assets of the company period t
E	: Error Term

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#### **B. Deferred Tax Assets**

The difference between current and prior period deferred tax assets is deferred tax assets. This study uses the variable deferred tax assets (DTA) as an independent variable referring to research (Widiastuti and Chusniah 2011) where the measurement of these variables uses changes in the value

of deferred tax assets at the end of period t with t-1 divided by the value of deferred tax assets at the end of period t-1.

$$DTA = \frac{\Delta \text{Deferred tax assets}}{\text{Deferred tax assets } (t-1)}$$

### C. Current Tax Expense

According to (Amanda and Febrianti 2015) states, there are several income taxes payable on taxable income in one period. The calculation of how much "the amount of previous taxable income has been taken into account by permanent differences and the existence of time differences then multiplied by the applicable tax rate. Current tax expense. Measured using a scale ratio obtained from weighting the current tax burden in the financial reporting period of a certain period (t) divided by the previous period (t-1). The measurement of the current tax expense variable refers to research (Rahmi 2013) in (Amanda and Febrianti 2015) namely:

$$CTX = \frac{\Delta \text{Current tax expense}}{\text{Total assets}}$$

### D. Leverage

Understanding leverage by (Gunawan et al. 2015) stated that the leverage utilized by a number of obligations to finance the asset management company to run the operations of the company. Leverage ratio measurement is done by comparing total liabilities with assets owned by the company. Therefore according to (Gibson n.d.) that the measurement of the leverage variable is formulated by comparing the total debt for a certain period (t) divided by the company's total assets at the end of the year.

$$\text{Leverage} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

### E. Data Analysis Techniques

Data analysis techniques in the study were conducted using SPSS for windows, while the method of data analysis researchers analyzed data using "Multiple Regression" to test Descriptive Statistics.

### F. Data Sources and Types

This type of quantitative research uses secondary data in the form of "Annual Financial Reports" on Manufacturing Companies listed on the Indonesia Stock Exchange (BEI) for 2016 - 2018. Meanwhile, the data is taken from "www.idx.co.id."

## 3. Result

Tabel 1

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients Beta		
(Constant)	.036	.017		2.117	.038
X1	-.036	.024	-.177	-1.505	.137
X2	-.432	.483	-.107	-.894	.375
X3	.078	.053	.174	1.461	.148

a. Dependent Variable: Y

### 3.1 The Effect of Deferred Tax Assets on Earnings Management

Based on the results of the discussion, it is found that deferred tax assets do not affect earnings management. From the discussion, it is found that the t table is more generous than t count, and the significant value shows more than 0.05. This shows that the size of the value of deferred tax assets does not affect management actions in earning management, so it can be concluded that the first hypothesis is rejected, and this study supports the results of research from (Suranggane 2007) which

states that deferred tax assets do not affect earnings management. In this study, researchers failed to prove that deferred tax assets have a positive effect on earnings management.

### **3.2 The Effect of Current Tax Expense on Earnings Management**

Based on the discussion, it is found that current tax expense has no effect on earnings management. This is shown from the results of the analysis, which states that t table is more generous than t count and the significant value is more than 0.05, which means that the size of the current tax burden does not affect management in taking earnings management actions, so the second hypothesis is rejected. The results of this study failed to prove that the current tax burden has a positive effect on earnings management. However, it is strengthened by research (Desy Anggraeni 2014), (Waluyo, 2012) as well as research conducted by (Utami and Malik 2015).

### **3.3 The Effect of Leverage on Earnings Management**

Based on the discussion, the results show that leverage has no effect on earnings management. The analysis result shows that the t table is greater than t count, and the significance is more significant than 0.05. From the results of the analysis, it shows that the size of the leverage does not affect management in carrying out earnings management, which is also strengthened by research (Gunawan et al. 2015) so that the third hypothesis in this study is rejected. In this case, the researcher fails to prove that leverage has a positive effect on earnings management.

## **4. Closing**

The results of this research can be concluded as follows; deferred tax assets have no effect on earnings management, current tax expenses have no effect on earnings management, and leverage has no effect on profit management. Some suggestions for further research are as follows; Further researchers can add other dependent variables such as company size, profitability, GCG and ownership structure, political cost hypothesis and CEO changes, further research is expected to expand the research by adding the number of samples not only focused on the manufacturing industry sector, so that research results can be obtained with For a higher level of generalization.

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