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# THE EFFECT OF DETERMINED TAX LOAD, TAX PLANNING AND MANAGERIAL OWNERSHIP ON PROFIT MANAGEMENT IN MANUFACTURING COMPANIES IN THE BASIC AND CHEMICAL INDUSTRY SECTOR LISTED ON IDX 2018-2020

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**Abstract:** The importance of implementing accounting policies in accordance with the provisions of the Statement of Financial Accounting Standards (PSAK) and tax rules without violating the provisions of the law can be carried out by taking into account deferred tax expense tax planning, managerial ownership in, earnings management. The population of this research is 77 industries in the lower industrial zones as well as chemicals listed on the IDX. The sample contained is 33 annual financial statements for the 2018-2020 period, with a selected sample of 11 companies. The sampling technique used is purposive sampling. The results of this observation explain that deferred tax expense and tax planning affect earnings management, while managerial ownership has no effect on earnings management.

***Keywords:*** *Deferred Tax Expense, Tax Planning, Managerial Ownership, Earnings Management.*

## 1. Introduction

Financial reporting is often used as an indicator in assessing the performance of a company. This allows earnings management behavior to occur because management knows more information and is more accurate than the principal (Rahayu and Machdar, 2019). This conflict can occur because of agency theory, where agency theory explains the existence of a work agreement between the principal (shareholder) and agent (manager) (Zakia et al, 2019). The 2017 earnings management case that occurred at PT Tiga Pilar Sejahtera Food Tbk (AISA) was suspected of having an inflated value of 4 trillion, in addition there were 662 billion inflated revenues and 329 billion other inflations in profit before tax, interest, amortization and depreciation. The report on the results of the March 12, 2019 investigation to the new management of PT Tiga Pilar Sejahtera conducted by PT Ernst & Young Indonesia (EY) shows that the inventory, fixed assets and trade receivables accounts are inflated. Another finding from the investigation of PT Ernst & Young Indonesia (EY) was that a flow of funds worth 1.78 trillion was obtained. The flow of funds uses affiliated party financing, disbursement of time deposits, transfer of funds in bank accounts and disbursement of loans from several banks. (source: cnbcindonesia).

Earnings management practices may be applied because of the flexibility of the company's management in determining accounting policies. Accrual-based Statement of Financial Accounting Standards (PSAK) provides the company management with the flexibility to determine the choice of accounting methods such as determining the cost of goods sold by depreciating fixed assets and the inventory method. In addition, the tax law no. 36 of 2008 stipulates that the allowable method of depreciation of fixed assets is the straight-line method and the declining balance method, while the allowed inventory methods are FIFO and average (Hilmy and Sudradjat, 2020).

Deferred tax expense is the amount of income tax payable to be paid in the following year due to the temporary difference between accounting and fiscal profits (Anggraini, 2018). The difference in accounting profit based on the Statement of Financial Accounting Standards (PSAK) with fiscal profit based on the tax law requires companies to make fiscal corrections. Deferred tax liability occurs if there is a time difference that causes a negative fiscal correction, as a result the tax burden based on accounting has a greater value than the tax burden based on tax provisions (Sari et al, 2019).

One of the ways used by company management in managing the tax burden is to make tax planning. By implementing tax planning effectively, the company can present the maximum net profit (Faqih and Sulistyowati, 2021). In addition, by implementing effective tax planning, company management can study existing tax regulations, so that management will have knowledge of applicable tax regulations (Hilmy and Sudradjat, 2020). Management actions in tax planning are important in managerial ownership because managers will feel the impact directly.

Managerial ownership is that the company's management holds the position of being managers and shareholders who have an active role in the decision-making process (Kurniawan, 2020). Managers as internal parties of the company will know more about information about the company's financial developments than external parties. This will lead to an information imbalance (Cahyani and Suryono, 2020). The merging of interests between managers and shareholders can reduce agency problems, therefore managers will be encouraged to grow company performance and shareholder prosperity (Pramesti and Budiasih, 2017).

Problems faced related to deferred tax burden are the existence of taxable temporary differences which result in taxes payable in the coming period (Anggraini, 2018). In addition, the difference in interests between managers who want rewards for the performance that has been done and investors who want large amounts of stock investment profits in a short time can lead to a conflict that results in earnings management practices (Aminah and Zulaikha, 2019). Therefore, this study describes the deferred tax expense, tax planning and managerial ownership related to earnings management.

## 2. Research Method

### Agency Theory

The main principle of agency theory defines the employment contract relationship between the principal (shareholder) and the agent (manager) with some decision-making authority (Maslihah, 2019). Jensen and Meckling (1976) in (Aminah and Zulaikha, 2019) explained that several problems were found due to differences in urgency between shareholders and managers:

1) Moral hazard, is a problem that arises if the manager does not carry out the agreement that has been agreed with the shareholders.
2) Adverse selection, is a problem when shareholders do not know whether the manager has made a decision according to the information obtained correctly or not.

**Profit management**

Management intervention is often carried out in the process of preparing financial statements for external parties with certain motivations (Baraja et al, 2017). Scott (2015) divides earnings management:

1) Management's opportunistic behavior to maximize utility in dealing with compensation contracts, debt contracts, and political costs (opportunistic earnings management);
2) The point of view of efficient contracting (Efficient Earning Management). Earnings management flexibility to protect against unforeseen events for the benefit of the parties involved in the contract.

**Deferred tax expense**

Deferred tax expense is the total income tax payable in the following year due to the temporary difference between accounting and fiscal profits (Anggraini, 2018). Therefore, the accounting profit sourced from commercial financial statements and the fiscal profit sourced from the current fiscal financial statements before calculating the amount of PKP must first be adjusted. This fiscal correction is to eliminate comparisons between the arrangement of financial statements based on PSAK and tax regulations, so that a fiscal profit or PKP will be obtained (Pulungan, 2020).

**Tax planning**

Tax planning is an effort issued by taxpayers in income tax management without violating applicable laws (Fadillah et al, 2021). Tax planning strategies include:

1) Tax saving (tax saving).
2) Tax avoidance (tax avoidance).
3) Deferring tax payments.
4) Optimization of tax credits as permitted.
5) Avoid tax audits by avoiding overpayments.
6) Avoid violations of tax regulations.

**Managerial ownership**

Managerial ownership is that the company's management holds the position of being managers and shareholders who have an active role in the decision-making process (Kurniawan, 2020). Managers as internal parties of the company will know more about information about the company's financial developments than external parties. This will lead to an information imbalance (Cahyani and Suryono, 2020). If managers own company shares, then managers and shareholders will tend to have the same interests. The unification of ownership can reduce agency conflicts, so managers can be motivated to improve industry performance and shareholder prosperity (Andrayani et al, 2018).

**Method**

The type of exploration used in the review is quantitative testing. Meanwhile, the source of information contained is secondary data, especially the annual report of manufacturing industry in the lower industrial zone as well as chemicals listed on the Indonesia Impact Exchange in 2018-2020 with a population of 77 companies. The sample involved is 33 annual financial reports for the 2018-2020 period, with selected tests from 11 companies. The sample selection strategy used purposive sampling.

*Variable Operational Definition*

1. Earnings management

$$\Delta \text{ E} = \frac{E_{it-Eit-1}}{MVE_{t-1}}$$

2. Deferred tax expense (DTE)

$$\text{DTE} = \frac{\text{Deferred tax expense of company i in year t}}{\text{Total assets in year t} - 1}$$

3. Tax planning/ Tax retantion rate (TRR)

$$TRR = \frac{Net\ Income}{Pretax\ Income\ (EBIT)}$$

4. Managerial ownership (MO)

$$\text{MO} = \frac{\text{total management shares}}{\text{total outstanding shares}}$$

## 3. Results and Discussion

### 3.1 Results

***Classic assumption test***

In normality test, the information analysis process uses the Kolmogorov-Smirnov (K-S) test. An associated value of 0.200 > 0.05 indicates that the information circulates regularly. Furthermore, a multicollinearity test was carried out to obtain a tolerance value > 10 and a VIF value < 10, this is intended to be free of multicollinearity. Next, in the heteroscedasticity test using a scatterplot diagram between (ZPRED) and (SRESID) it can be seen that the focus below the number 0 is conveyed haphazardly, meaning that the data is free of heteroscedasticity. The last classic assumption test is the autocorrelation test, related to the examination of the test using the run test, a critical value of 0.996> 0.05 is obtained, meaning that the results of the analysis are free of autocorrelation.

***Multiple Linear Regression Analysis***

Table 1
Multiple Linear Regression Analysis

| Coefficients[a] | |
|---|---|
| (Constant) | -,122 |
| X1_BPT | -7,553 |
| X2_PP | ,178 |
| X3_KM | -,037 |

Source: Processed Data (2022)

Regression equations based on multiple regression analysis in table 1, among others :

$$Y = -0{,}122 - 7{,}553X_1 + 0{,}178X_2 – 0{,}037X_3$$

1. The value of Constant (a) is - 0.122. If the assumption of deferred tax expense ($X_1$), tax planning ($X_2$) and managerial ownership ($X_3$) is 0 (zero), earnings management will be worth - 0.122.
2. The regression coefficient of deferred tax expense ($X_1$) is - 7.553. The regression coefficient value is negative, indicating that the deferred tax expense variable ($X_1$) has a negative relationship with earnings management (Y). It can be explained that any decrease in deferred tax expense ($X_1$) will be followed by a decrease in earnings management (Y) of -7,553.
3. Tax planning regression coefficient ($X_2$) is 0.178. The regression coefficient is negative, meaning that the tax planning variable ($X_2$) has a negative relationship with earnings management (Y), any reduction in tax planning reduction ($X_2$) will be followed by a decrease in earnings management (Y) of 0.178.
4. The coefficient of managerial ownership ($X_3$) is - 0.037. The regression coefficient is negative, thus indicating that the managerial ownership variable ($X_3$) has a negative relationship with earnings management (Y), every decrease in managerial ownership ($X_3$) there will be a decrease in earnings management (Y) of -0.037.

***Coefficient of Determination Test***

In analysis from the coefficient of determination, the value of Adjusted $R^2$ is 0.511 or 51.1%. It means that 51.1% of the variables are explained by variables that are studied freely and 48.9% are explained by other aspects that are not part of what is studied in this research.

***Partial test***

Table 2
Test Results t

| **Coefficients**[a] | |
|---|---|
| Model | Sig. |
| (Constant) | ,000 |
| X1_BPT | ,001 |
| X2_PP | ,000 |
| X3_KM | ,069 |

Source: Processed Data (2022)

The interest value of deferred tax expense ($X_1$) is 0.001 < 0.05, meaning that the main theory is recognized. The value of the importance of tax planning ($X_2$) is 0.000 < 0.05, and the second theory is recognized. The value of managerial ownership interest ($X_3$) is 0.069 > 0.05, and the third speculation is not accepted.

## 3.2 Discussion

***Effect of deferred tax expense on earnings management***

The $H_1$ test explains that the deferred tax expense affects earnings management, meaning that the first hypothesis proposed is accepted. Regarding agency theory, managers (agents) and shareholders (principals) have different interests. Managers will provide information to company stakeholders if there are personal benefits for managers (Dewi and Nuswantara, 2021). Earnings management provides an opportunity for managers to manage deferred tax burdens to avoid declining profits (Rahma, 2020). There is a relationship between the results of this study and agency theory, where managers take advantage of earnings management opportunities to regulate deferred tax burdens that are present due to time differences.

***Effect of tax planning on earnings management***

The $H_2$ test proves that tax planning affects earnings management, meaning that the second hypothesis proposed is accepted. In relation to agency theory, the relevance between managers (agents) and the government (principals) can motivate managers in tax planning (Dewi and Nuswantara, 2021). By implementing effective tax planning, the company can present the maximum net profit (Faqih and Sulistyowati, 2021). There is a relationship between the results of this study and agency theory, where managers have carried out tax planning effectively by managing the company's financial statement earnings without violating applicable laws.

***Effect of managerial ownership on earnings management***

The $H_3$ test proves that managerial ownership does not affect earnings management, meaning that the third hypothesis proposed is rejected. In relation to agency theory, the relatively low level of management (agent) share ownership causes managers to prioritize the interests of their personal goals as managers compared to shareholders (principals), this can result in a lack of participation of managers (agents) in the decision-making process to improve shareholder (principal) profit (Kurniawati and Putri, 2020)

## 4. Conclusion

Conclusions based on this research, namely:

1) Deferred tax expense affects earnings management. Managers take advantage of earnings management opportunities to manage deferred tax burdens that arise due to time differences.
2) Tax planning affects earnings management. Managers have implemented tax planning effectively by managing the company's financial statement earnings without violating existing laws and regulations.
3) Managerial ownership does not affect earnings management. The low number of management shares results in a lack of manager participation related to decision control in increasing investor profits.

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