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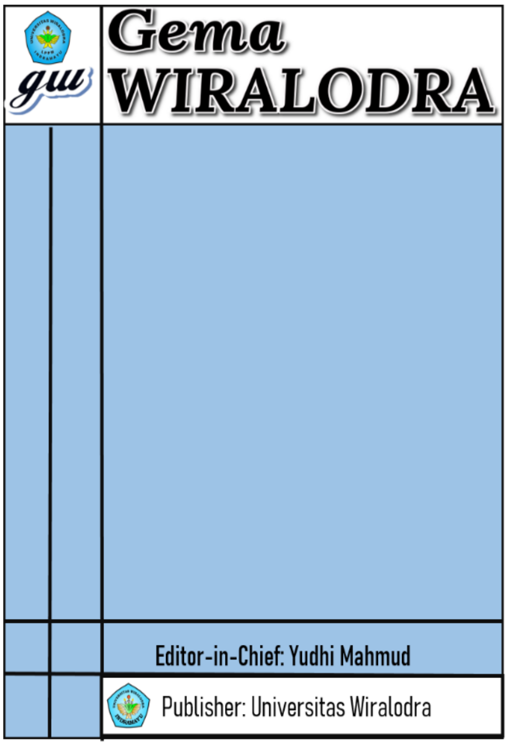

Factors affecting earnings management: current tax expenses, deferred tax liabilities, and deferred tax expenses

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Orginal Article

Factors affecting earnings management: current tax expenses, deferred tax liabilities, and deferred tax expenses

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Abstract
Previous or relevant research is fundamental in a study or scientific article. Previous relevant research strengthens the theory and phenomena of the relationship or influence between variables. This article reviews the factors influencing earnings management, namely current tax, Deferred Tax Liabilities, and Deferred Tax Expenses, a literature study on tax accounting. This article aims to build a hypothesis on the influence between variables to be used in further research thesis literature review article results in e are: 1) the current tax burden affects earnings management; 2) current tax liabilities affect deferred tax; and 3) deferred tax expense affects earnings management.
Keywords: Profit management, Current Tax Expense, Deferred Tax Liability, Deferred Tax Expense

1. Introduction

The financial reports that have been prepared by management have the aim of providing information about the company's economic condition and functioning in decision-making, both internal and external to the company (Mahariana & Samantha, 2014). The preparation of financial reports can be used due to management's obligations to utilize the resources given to them (IAI, 2017). One component of the information contained in a financial report is information about company profits. Company profit is essential for external parties because it can provide important information in decision-making.

In terms of preparing financial reports, companies in Indonesia are guided by the Statement of Financial Accounting Standards (PSAK), while for tax purposes, they are guided by the Tax Regulations. The difference between accounting principles and tax rules requires managers to prepare two types of income statements: commercial and fiscal. Commercial income statements are prepared based on Financial Accounting Standards, while fiscal income statements are based on tax rules. Tax regulations require companies to carry out fiscal reconciliation to adjust the difference between the tax and commercial accounting concepts. In the context of accounting for income taxes, these differences result in two types of differences,

Management's preparation of financial reports aims to convey information regarding the company's financial and economic conditions in a certain period. Company management sometimes gives positive signals to the market about the condition of the companies they manage. Therefore, company managers wish to increase the profits reported to shareholders and other external users.

According to (Fahmi, 2014), earnings management is an action that regulates profits by what is desired by certain parties or especially by company management. Earnings management actions are based on the various objectives and purposes contained therein. This means that earnings management actions are carried out with specific motivations because the profit or profit earned is often related to management performance. Indeed it is expected that the size of the bonus that management will receive depends on the size of the profit earned by the company. In addition to bonus motivation, motivation for tax savings is the most real motivation.

In this article, we will present articles that discuss matters that affect earnings management from a taxation perspective. This aims to make it easier for lecturers, students,

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researchers, and other functional staff to find relevant articles to strengthen the theory under study, see the relationship or influence between variables, and determine hypotheses. This article discusses the effect of current tax expense, deferred tax liabilities, and deferred tax expense on earnings management, a literature review study in tax accounting. Based on the background, the problems that will be discussed can be formulated in order to build hypotheses for further research, namely:

1) Does the current tax burden affect earnings management?
2) Does deferred tax liability affect earnings management?
3) Does deferred tax expense affect earnings management?

2. Method

Qualitative methods and library research are used as methods for writing scientific articles. Research on theories and relationships or effects between variables in books and journals both offline in libraries and online through Mendeley, Google Scholar, and other online media. The literature review should be used in qualitative research according to methodological assumptions. This means that it must be used inductively so that it does not direct the questions asked by the researcher. One of the main reasons for conducting qualitative research is its exploratory nature (Ali & Limakrisna, 2013).

3. Discussion

Based on relevant theoretical studies and previous research, the discussion of this literature review article in the concentration of Earnings Management is:

Effect of Current Tax Expense on Earnings Management

Indriani & Priyadi (2022) conducted research using a quantitative approach with a sampling technique using the purposive sampling method and data collection techniques using secondary data types. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2019 to determine the effect of deferred tax expense, current tax burden, tax planning, and CEO turnover on earnings management. The results of statistical tests show that the current tax burden has a significant effect with a positive coefficient direction on earnings management. Therefore, the second hypothesis states that the current tax burden positively and significantly affects earned earnings management. With this, it can be proven that the significant value of the current tax expense is 0.003 <0.

The results of this study show that the higher the current tax burden, the better the tax reported by the taxpayer. This was disclosed by Suandy (2011). Current tax expense is the income tax payable on Taxable Income (PKP) in one period. Taxable income is calculated from total income minus expenses. Tax regulates the deductible expense to calculate taxable income. According to accounting, expenses are not all burdens according to taxes or may become expenses, but the amounts are different. Differences between accounting profit and taxes can occur due to temporary and permanent differences. Temporary differences occur due to differences in recognition time, while permanent differences occur due to different regulatory essences. The entity will make fiscal corrections to net profit before tax to obtain taxable income based on commercial financial reports (accounting reports).

In this case, fiscal corrections must be made due to differences in the treatment of income and costs, which differ between accounting standards and applicable tax regulations, so these differences reflect the level of the manager's policy in manipulating earnings. This statement can be supported by agency theory which assumes that the current high tax burden will indicate tax regulations that have motivated companies or managers to speed up the recognition of costs and delay revenues so that a minimum profit is obtained, which has implications for low tax costs (Rahma, 2020). The entity will make fiscal corrections to net profit before tax based on commercial, financial reports (accounting reports). In this case, fiscal corrections must be made

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The results of this study are in line with the results of research conducted by Amanda and Febrianti (2015), Junery et al. (2016), and Rahma (2020), which show that the current tax burden has a positive effect on earnings management, which means that high current taxes are an indication for investors that the company is seen to have earnings management practices. However, it differs from Muzaki's research (2018) results, which show that the current tax burden has no significant effect on earnings management.

Effect of Deferred Tax Liabilities on Profit Management

Sutadipradja et al. (2019) Using quantitative research methods, this research was conducted at the Indonesia Stock Exchange (IDX) using consumer goods company data sourced as secondary data, with the research object focused on companies listed on the IDX from 2013-2017. Generate several hypotheses, including the fourth hypothesis proposed, which states that deferred tax liabilities affect earnings management. The significance value in Table 4 shows 0.320 or greater than 0.05, so the hypothesis proposed in this study is rejected. Based on the results of this study, deferred tax liabilities do not affect earnings management.

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The sample companies in the observation period do not use deferred tax liabilities as a means to carry out earnings management actions; this is possible because, in general, fiscally reconciled company profit and loss statements will result in positive corrections where expenses become lower so that the results of taxable income become higher. Compared to commercial tax expense.

The results of this study are consistent with the results of research conducted by Timuriana (2015), which suggests that taxation only recognizes tax expenses for that period and does not recognize the existence of deferred tax expenses. The results of this study are consistent with the results of research conducted by Timuriana (2015), which suggests that taxation only recognizes tax expense in that period and does not recognize any deferred tax expense. The results of this study are inconsistent with the results of research conducted by Anasta (2013), which states that deferred tax liabilities have a significant effect on earnings management actions in terms of avoiding company losses.

Effect of Deferred Tax Expenses on Profit Management

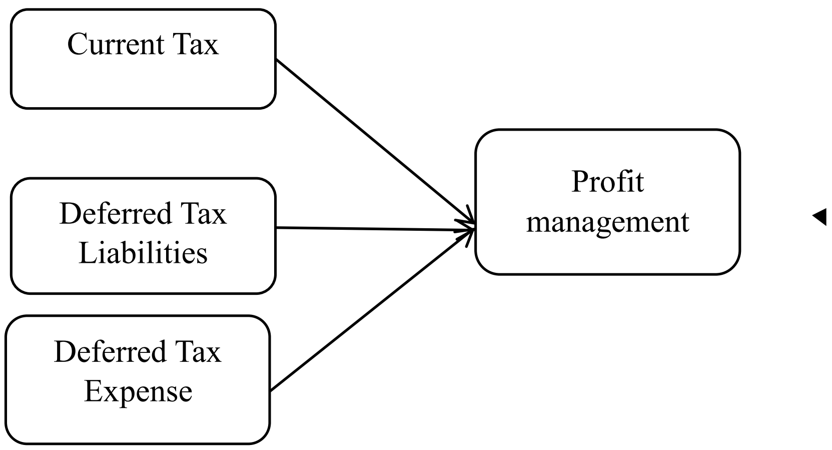
Baradja et al. (2017) Using the casual approach study method obtained the results of the study Deferred Tax Expense partially has a positive and significant effect on the disclosure of Profit Management. The calculated t value of deferred tax expense is 3.636, so this result is by the hypothesis proposed that deferred tax expense has a positive effect, so H_0 decision is rejected. Based on these results, the results of this study are by the theory, which says that the more a company's profits, the greater the tax burden. This is similar to research conducted by (Yulianti, 2005), showing that the tax burden variable significantly positively affects Earnings Management.

Conceptual framework

Based on the formulation of the problem, theoretical studies, relevant previous research, and discussion of the influence between variables, the framework for thinking about this article is processed as follows.

Figure 1

Conceptual framework



Based on the conceptual framework picture above, Current Tax Expense, Deferred Tax Liability, and Deferred Tax Expense effect on Earnings Management. Apart from these three exogenous variables that affect Earnings Management, there are many other variables that influence it including:

a) Tax Planning: (Rahmi et al., 2019), (Yuliza et al., 2020).
b) Deferred Tax Assets: (Sutadipraja et al. 2019).
c) Information Asymmetry: (Barus et al., 2015).
d) Deferred Tax Assets: (Judge et al. 2015).

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e) Company Size: (Lestari et al., 2017), (Nelza et al., 2019)
f) Leverage: (Septiawan et al., 2020).
g) Audit Quality: (Prasetyo et al., 2019)

4. Conclusions

Based on the theory, relevant articles, and discussion, hypotheses can be formulated for further research: (1) The current tax burden affects earnings management. (2) Deferred tax liabilities affect earnings management. (3) Deferred tax expense affects earnings management. Based on the conclusions above, this article suggests that many other factors influence earnings management, apart from the current tax burden, deferred tax liabilities, and deferred tax expenses at all types and levels of organizations or companies. Therefore, further studies are still necessary to look for other factors affecting earnings management besides the variables examined in this article. These other factors include tax planning, deferred tax assets, information asymmetry, deferred tax assets, company size, leverage, and audit quality.

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