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The Effect of Current Tax Expense, Deferred Tax Assets and Dividend Policy on Earnings Management

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ABSTRACT

The existence of inflation in income and accounting items, resulting in the company's efforts to engineer financial statements by managing earnings or equalising profits so that the condition of the financial statements looks stable with the previous year, so that the company's image still looks good and can attract investors. This study aims to analyse how the effect of current tax expense, deferred tax assets and dividend policy on Earnings Management in Non Cyclical Consumer Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period). This research is a type of quantitative research and uses associative methods. The data source used in this research is secondary data taken from the official website of the Indonesia Stock Exchange www.idx.co.id. and other relevant sources. The data analysis technique in this study uses statistical calculations, namely descriptive statistical analysis and panel data regression analysis adjusted based on criteria using purposive sampling method, then obtained data as many as 25 companies. Based on the results of the f test that has been carried out, it can be concluded that current tax expense, deferred tax assets, and dividend policy simultaneously affect earning management. Based on the t test partially current tax expense and deferred tax assets affect earning management, while dividend policy has no effect on earning management. The results of this study indicate that current tax expense and deferred tax assets are related to the earnings management process in a company, where if the company has good tax management it will affect the profit the company will earn.

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INTRODUCTION

The development of increasingly advanced technology can affect the treatment of financial statements. Economic growth and market share are also one of the reasons companies contribute to fulfilling these needs. The company's management tries to achieve maximum profit both for common interests and personal interests. Earnings information is important for the company's stakeholders, this is because earnings information is the basis for making decisions and all other decisions other purposes (Negara & Suputra, 2017). The form of achieving profit as much as possible is also one of the main visions in the sustainability of a company. Therefore, management as the party who manages the company is also responsible for the company's financial statements.

The phenomenon of earnings management in some cases is an accounting reporting scandal, one of the cases that occurred in the *Non Cyclical Consumer* Company, namely PT Tiga Pilar Sejahtera Food, Tbk (AISA). The company manipulates the results of financial statements because the existence of inflated funds in revenue and accounting items is the reason the company manages earnings so that the condition of the financial statements looks stable to attract the attention of investors. (http://cnbcindonesia.com, 2021)

Earnings management is assumed to be a change in the preparation of financial statements that is characterised by minimised or maximised profits by the person in charge or manager. parties who manipulate profits use methods that are illegal and prohibited by SAK. *Profit* manipulation carried out by managers will reduce the integrity of the reported profit value so that it will worsen the image and order of the financial statements owned by the company (Marbun & ismail, 2021). Efforts to process earnings management along with activities carried out by companies so that they can obtain maximum profit without having to manipulate financial statements, namely with various factors such as current tax expense, deferred tax assets and dividend policy.

LITERATURE REVIEW

Agency Theory

Jensen, M and Meckling in 1976 which gave rise to agency theory. This theory is an explanation of the relationship between management (*agent*) and owners / shareholders (*principle*) bound in an agreement delegated by the principle in a contract to the agent so that management carries out the duties and responsibilities given in accordance with the wishes of the principle (Triyuwono, 2018). Conflicts of interest arise due to differences in goals that certain parties want to achieve, the principle wants a high rate of return on its investment while the manager wants compensation or bonuses for the achievement and performance of the company.

Earnings Management

Earnings management is one of the engineering methods carried out by company managers in managing company profits, namely by increasing profits (*income icreasing*) or decreasing profits (*income decreacing*). In general, financial statement engineering actions are carried out in 2 ways, the first is accrual earnings management through *discretionary*

accruals, this is done in practice by changing the method or method of accounting records or procedures adopted by the company to recognise or record a transaction, the method has an impact on the profit figures presented in the report or information. finance. In general, the act of engineering financial statements is carried out in 2 ways, the first is accrual earnings management through *discretionary* accruals, this is done in practice by changing the method or method of accounting records or procedures adopted by the company to recognise or record a transaction, the method has an impact on the profit figures presented in the report or financial information.

Current Tax Expense

Current tax expense is the amount of income tax payable on taxable income for a period. The amount is calculated from taxable income that has previously taken into account the existence of both permanent differences and time differences, multiplied by the applicable tax rate. Taxable income or fiscal profit is obtained from the results of fiscal corrections to net profit before tax based on commercial financial statements / accounting reports (Suheri et al, 2020).

Deferred Tax Assets

In Statement of Financial Accounting Standards (PSAK) No. 46 paragraph07 where deferred tax assets are defined as the amount of income recoverable in future periods as a result:

1. Deductible temporary differences, which are temporary differences that give rise to an amount that can be deducted in the calculation of future fiscal profit when the carrying amount of the asset is recovered or the carrying amount of the liability is settled; and
2. The remaining compensated loss is the balance of tax losses that can be carried forward to future periods. If there is a possibility of smaller tax payments in the future, based on generally accepted accounting standards, it can be considered an asset. Suandi (2011). The recognition of deferred assets is based on the fact that it is probable that the recovery of an asset will result in lower tax payments in future periods as a result of the recovery of an asset that has no tax consequences.

Dividend Policy

Dividend policy is a management decision at the *shareholder's general meeting* in order to determine whether dividends will be distributed or retained as company capital in the future (Dahayani et al., 2017). Companies that consistently pay dividends can be likened to companies that manage their finances well. Thisis done to signal to the capital market about the company's future prospects. Companies with high profits can affect the distribution of dividends to*stakeholders*, so the profits generated by the company along with the high level of dividend distribution are expected by investors.

Thinking Framework

A good framework will explain theoretically the links between the variables to be studied. So, theoretically it is necessary to explain the relationship between independent and dependent variables, Sugiyono (2019: 95). A researcher must master scientific theories as a basis for argumentation in compiling a framework that results in a hypothesis. This framework is a temporary explanationof the symptoms that are the object of the problem.

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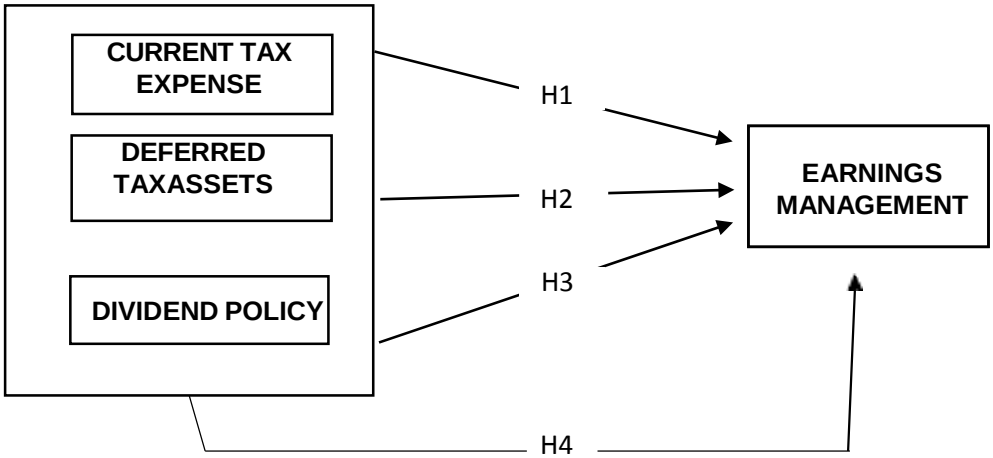

Figure 1.1
Research Thinking Framework Chart

The effect of current tax expense on earnings management

Current tax expense is the amount of income tax payable on taxable income for a period. The amount is calculated from taxable income that haspreviously taken into account the existence of fixed differences as well as time differences, multiplied by the applicable tax rate. Because the difference between accounting profit and taxable income reflects the level of manager policy in manipulating earnings to be higher (Mills in Ettredge et al., 2008), the current tax expense which shows the effect of the value of these differences (fixed difference and time difference) is also used as an independent variable in detecting earnings management. The results of research (Nabil & Hidayati, 2020) state that current tax expense has a significant effect on *earnings* management.

Based on the description of the theory and previous research, then:

H_1 : It is suspected that current tax expense affects earnings management.

The effect of deferred tax assets on earnings management

Deferred assets are defined as income tax recoverable as compensation for losses that can be deducted in the future due to temporary differences (Yahya & Wahyuningsih, 2020). If the company records income or defer expenses more quickly for accounting purposes, it affects the value of assets on taxes so that deferred taxes are higher. The higher the amount of assets from deferred tax recorded by the company, indicating earnings management occurs, also the higher the value of assets from deferred tax, the greater the opportunity to take earnings management actions (Septiadi et al., 2017).
The results of research (Putra & Kurniawan, 2019) state that deferred tax assets have a positive effect on *earnings* management.

Based on the description of the theory and previous research, then:

H_2 : It is suspected that deferred tax assets affect earnings management.

The effect of dividend policy on earnings management

According to Donaldson and Preston (1995) in (Hidayah, 2017), *stakeholder theory* states that the performance of an organisation is influenced by all *stakeholders of the* organisation, in another sense it is a managerial responsibility to provide benefits to all interested parties in the organisation. Companies with high profits can affect the distribution of dividends to *stakeholders,* so the profits generated by the company along with the high level of dividend distribution are expected by investors. The results of Jeradu's research, F (2021) state that dividend policy has a positive effect on earnings management.

Based on the description of the theory and previous research, then:

H_3 : It is suspected that dividend policy affects earnings management

The simultaneous effect of Current Tax Expenses, Deferred Tax Assets, anddividend policy on Earnings Management.

Earnings management is based on six motivations, two of which are bonus plans and tax motivation. Rankin et al. (2012) argue that there are two motivations underlying managers to carry out earnings management, among others, to provide benefits to the company through meeting investor expectations and analysis; increase stock prices and company value. Another motivation is to maximise the compensation received by managers. The results of research (Indriani, P & Priyadi, M, 2022) state that current tax expense has a positive & significant effect on earnings management. The results of research (Putra, Y & Kurnia, 2019) state that deferred tax assets have a positive effect on earnings management. Furthermore, the results of research by Wijayanti, P & Subardjo, A, 2018) state that dividend policy has a positive and significant effect on earnings management.

Based on the description of the theory and previous research, then:

H4: It is suspected that Current Tax Expense, Deferred Tax Assets, and Dividend Policy simultaneously affect Earnings Management.

METHOD

This study examines the effect of current tax expense, deferred tax assets and dividend policy on earnings management, this type of research is quantitative research. The data source used in this study is secondary data taken from the official website of the Indonesia Stock Exchange www.idx.co.id. and other relevant sources during the period 2017-2021. The research time was 6 (six) months. For the dependent variable, namely *Earnings Management* using the discretionary accruals method and for the independent variables in this study there are three, namely:

a. Current tax expense

The current tax expense referred to in this study is measured using a ratio scale, and is obtained from the current tax expense in a certain financial reporting period divided by the total assets of the previous period. The measurement of this variable refers to research (Rahmi, 2013) in Felicia Amanda (2015).

$$CTE\ it = \frac{Current\ Tax\ Expense\ t\ Periode}{Total\ Assets\ t\ Periode}$$

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b. Deferred tax assets

Deferred tax assets are measured by the change 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. (Suranggane, 2007).

$$DTA\ it = \frac{\Delta\ Deferred\ Tax\ Assets}{Deffered\ tax\ Aset}$$

c. Dividend policy

In this study, dividend policy as measured by dividend payout ratio (DPR), namely, the ratio used to measure the amount of dividend payments from earnings per share and measure the amount of retained earnings to increase the amount of own capital (Putri, (2012: 163) in Wijayanti 2018). This ratio is measured by dividing dividends per share by earnings per share, or measured by the following formulation:

$$DPR = \frac{Total\ dividends}{net\ profit\ after\ tax}$$

A population of 125 non-cyclical Consumer companies listed on the IDX in 2017-2021 obtained a sample of 25 companies that met the criteria in this study.

Data collection techniques use literature studies to collect data about research such as previous research, theories that support research, journals, papers and others. The second is with documents to document both written and non-written during the research process.

The data analysis technique in this study uses descriptive statistical tests to produce a description of the data used, thus making the information clearer and easier to understand. Panel data regression model Panel data analysis techniquesin this study can be carried out by common effect, fixed effect and random effect methods, while to determine which method is more suitable for this study, the Chow Test and Hausman Test are used. The classical assumption test also needsto be carried out in this study to determine and test the feasibility of the regression model used in this study consisting of a normality test aims to test whether the data in the regression model has met the normal distribution requirements and whether the residuals in the regression model are normally distributed. Multicollinearity test to find whether or not there is multicollinearity in the regression model can be seen from the tolerance value and variance inflation factor (VIF) value. The heteroscedasticity test has the aim of testing whether there is an inequality of variance from the residuals of one observation to another in the regression model (Ghozali, 2019). The autocorrelation test aims to test whether in a regression model there is a correlation between confounding error in period tand confounding error in period t-1 (previous).

Panel data regression analysis is a method used to model the effect of predictor variables on response variables in several observed sectors of a research object over a period of time. In addition, panel data regression is also used to perform variable forecasting.

response in each sector The panel data regression model is expressed in the form of an equation:

$Y_{it} = x'_{it}\beta + Z'_i a + \epsilon_i$

i = 1, . . . ,K; t = 1, . . . , T.

Where i denotes K *cross-section* units, while t denotes T time series. There are p independent variables at xit, excluding the constant. Individual specific effects are where Zi consists of constant and individual specific effects, both observable and unobservable. is a slope matrix of size px1.

Coefficient of Determination

Ghozali (2019: 98) states that the coefficient of determination is used to measure the ability of the independent variable to the dependent variable. A small R value indicates that the ability of the independent variable to explain the variation in the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict variations in the dependent variable.

Partial test and simultaneous test

The t test tests whether a hypothesis is accepted or rejected, where the strength of the t test is as follows:

H_0 : Means there is no significant influence of the independent variable on therelated variable.

H_1 : Means that there is a significant influence of the independent variable on the related variable.

To decide which hypothesis is accepted and which is rejected, the test is carried out by comparing the calculated t value with the t table if $t_{hit} > t_{tabel}$: then Ho is rejected Ha is accepted, which means that the independent variable (X1, X2, X3) partially has a positive effect on the dependent variable (Y) is significant. $t_{hit} >$: then Ho is accepted Ha is rejected, which means that the independent variable(X1, X2, X3) partially has a positive effect on the dependent variable (Y) is not significant.

To test this hypothesis, the F statistic is used with the following decision-making criteria:

a. If the F value is greater than 4 at the 5% confidence level, then Ho is rejected or in other words the alternative hypothesis is accepted. So that all independent variables simultaneously and significantly affect the dependent variable.
b. Comparing the calculated F value with the F value according to the table. If the calculated F value is greater than the F table value, then Ho is rejected and Ha is accepted.

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RESULT AND DISCUSSION

Classical Assumption Test

1. Normality test

The normality test aims to test whether the independent variables, independent variables or both have a normal distribution or not (Ghozali, 2017). One way to see the normality of residuals is if the Jarque-Bera (JB) value is greater than 5% or 0.05, the data is normally distributed.

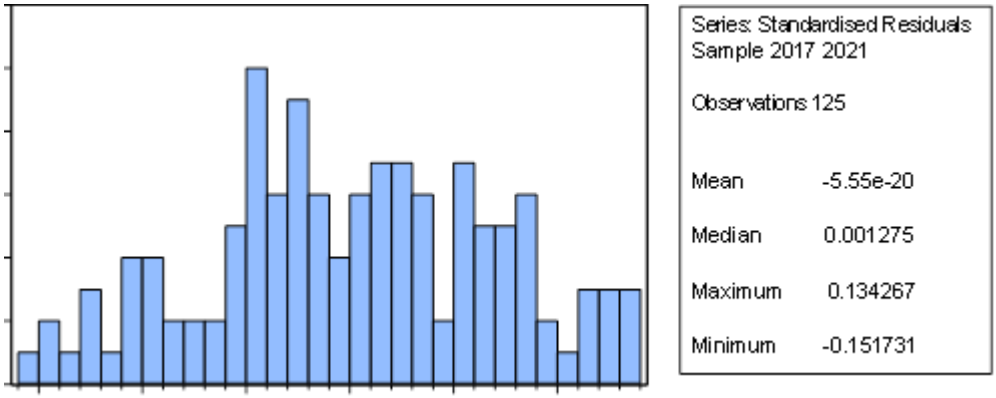

Table 1.1

Based on the normality test using Jarque-Bera in the picture 1.1 It can be seen that the Jarque-Bera probability value is 0.294186greater than 0.05 or 0.294186> 0.05 so it can be concluded that this studyis normally distributed.

2. Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation between the independent variables in the regression, if there is a correlation then there is a multicollinearity problem (Ghozali, 2017). How to detect whether there is a multicollinearity problem by doing the *correlation* matrix test which is calculated in a way that if the correlation
<0.90 independent variables, there is no multicollinearity, otherwise if the *correlation* value> 0.90, it can be concluded that there is multicollinearity between the independent variables.

CPC	APT	DIV
1.000000	-0.027894	0.181286
-0.027894	1.000000	0.003514
0.181286	0.003514	1.000000

Table 1.2

Based on testing the correlation coefficient value in the table, it can be seen that each independent variable, namely current tax expense, deferred tax assets, and dividend policy,

produces a coefficient valuesmaller than 0.90 or <0.90 so it can be concluded that this study does not have a multicollinearity problem.

3. Heteroscedasticity Test

Detecting the presence or absence of heterosdasticity can be done with the Glejser test by regressing the *absolute* value of the *residual* with the independent variable with a probability level of 0.05. If the probability value is more than 0.05, there is no heteroscedasticity (Ghozali, 2017).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.074885	0.009489	7.891347	0.0000
CPC	-0.203102	0.191893	-1.058410	0.2920
APT	-0.000256	0.006460	-0.039700	0.9684
DIV	-0.002645	0.007180	-0.368320	0.7133

Table 1.3

Based on results test heteroscedasticity test at table shows the probability value of each variable is greater than0.05 so it can be concluded that this study does not have a heteroscedasticityproblem.

4. Autocorrelation Test

The Autocorrelation test aims to see whether or not there is arelationship between the residuals of one observation and the residuals of another observation. This is because *errors* in individuals tend to affect the same individual in the next period (Ghozali, 2017). Autocorrelation detection in panel data can be done through the Godfrey test. Autocorrelation detection in panel data can be through the Godfrey test with the following decision making:

a. If the Chi Square probability is greater than 0.05 then there is noautocorrelation problem
b. If the Chi Square probability is smaller than 0.05 then there is anautocorrelation problem
c.

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.362734	Prob. F(2,119)	0.6965
Obs*R-squared	0.757429	Prob. Chi-Square(2)	0.6847

Table 1.4

Based on the results of the autocorrelation test using the Godfreytest in table 4.12 shows the Chi Square probability value of 0.6847 more greater than 0.05 or 0.6847> 0.05 so it can be concluded that this study has no autocorrelation problem

Coefficient of Determination

The coefficient of determination aims to measure how far the model's ability to explain variations in dependent variables (Ghozali, 2017). The coefficient of determination essentially measures how far the model's ability to explain variations in the dependent variable. The coefficient of determination is between zero and one. A small coefficient of determination means that the ability of the independent variables to explain the dependent

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variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the variation in the dependent variable.

R-squared	0.773795	Mean dependent var	-0.006953
Adjusted R-squared	0.710831	S.D. dependent var	0.009632
S.E. of regression	0.005180	Akaike info criterion	-7.493712
Sum squared resid	0.002603	Schwarz criterion	-6.860170
Log likelihood	496.3570	Hannan-Quinn criter.	-7.236337
F-statistic	12.28944	Durbin-Watson stat	2.171111
Prob(F-statistic)	0.000000		

Table 1.5

Based on the results of the coefficient of determination test in table 4.13, it can be seen that the result of the Adjusted R-Squared is 0.710831, so these results indicate that the independent variable can explain the dependent variable by 71%, and the remaining 29% can be explained by other variables not included in the research model.

Hypothesis Test

1. F Statistical Test

The F statistical test or simultaneous regression coefficient test is used to determine whether the independent variables simultaneously affectthe dependent variable (Ghozali, 2017).

R-squared	0.773795	Mean dependent var	-0.006953
Adjusted R-squared	0.710831	S.D. dependent var	0.009632
S.E. of regression	0.005180	Akaike info criterion	-7.493712
Sum squared resid	0.002603	Schwarz criterion	-6.860170
Log likelihood	496.3570	Hannan-Quinn criter.	-7.236337
F-statistic	12.28944	Durbin-Watson stat	2.171111
Prob(F-statistic)	0.000000		

Table 1.6

Based on the results of the F statistical test in table 4.15, it can be seen that the $_{Fcount}$ $_{i\ s}$ 12.28944 and the *F-statistic* probability is 0.000000, while to find $_{Ftable}$ with the number of samples (n) = 125 so that the $_{Ftable}$ is 2.68. Based on the $_{Ftabel}$ value obtained, it can be concluded that $_{H0}$ is rejected and $_{H1}$ is accepted that current tax expense, deferred tax assets,and dividend policy simultaneously affect *earning management*.

2. Statistical Test t

The t statistical test is used to test or determine whether there is a relationship or partial influence of each independent variable (Ghozali, 2017). Partial testing in this study is as

follows:

Variable	Coefficien	Std. Error	t-Statistic	Prob.
C	-0.002742	0.000640	-4.285974	0.0000
CPC	1.440273	0.162945	8.839007	0.0000
APT	0.040436	0.011198	3.611148	0.0005
DIV	0.010859	0.052436	0.207089	0.8364

Table 1.7

Based on the results of the t statistical test in table 4.16 which is carried out partially to test the effect of each independent variable. To find the $_{t}$ table, namely by looking at the number of sample data of 125, the t statistical test is carried out by comparing the tcount with the t $_{table\ with\ a}$ significance of 5% or 0.05 with degrees of freedom (^{df} 2) = n-k-1, namely 125-3-1 = 121 where (n) is the number of samples and (k) is the number of independent variables. From this test, the $_{ttable}$ result $_{i\ s}$ 1.97976, so the t statistical test results can be explained as follows:

a. The effect of current tax expense on *earning management*
Based on the results of the t statistical test in table 4.16, the probability of the current tax expense variable is 0.0000 <0.05 and the tcount $_{i\ s}$ 8.839007 and has a positive value, while the $_{ttable\ is}$ 1.97976, so from these results it means that tcount> $_{ttable,}$ namely 8.839007> 1.97976, so it can be concluded that $_{H0}$ is rejected and $_{H2}$ is accepted, meaning that partially thecurrent tax burden has an effect on *earning management*.

b. The effect of deferred tax assets on *earning management*
Based on the results of the t statistical test in table 4.16, the probability of the deferred tax asset variable is 0.0005 <0.05 and the results are obtained.
The $_{t\ count}$ is 3.611148 and has a positive value, while the ttable is 1.97976, then from these results it means that the tcount> $_{ttable,}$ namely 3.611148> 1.97976, so it can be concluded that $_{H0}$ is rejected and $_{H3\ is}$ accepted, meaning that partially deferred tax assets affect *earning management*.

c. The effect of dividend policy on *earning management*

Based on the results of the t statistical test in table 4.16, the probability of the dividend policy variable $_{i\ s}$ 0.8364> 0.05 and the tcount $_{i\ s\ 0\ .}$ 207089 and has a positive value, while the $_{ttable\ is}$ 1.97976, so from these results it means that $_{tcount}$ < $_{ttable,}$ namely 0.207089 < 1.97976, so it can be concluded that $_{H0}$ is accepted and $_{H4}$ is accepted, meaning that partially dividend policy has an effect on *earning management*.

DISCUSSION

Based on the results obtained from the F statistical test results to test whether the independent variables simultaneously affect the dependent variable and the t statistical test which tests whether the independent variables partially affect the dependent variable, the results can be explained as follows:

1. The Effect of Current Tax Expense on *Earning Management*

Based on the results of the t statistical test in table 4.16, the probability of the current tax expense variable is 0.0000 <0.05 and the tcount is 8.839007 and has a positive value, while the $_{ttable\ is}$ 1.97976, so from these results it means that tcount> $_{ttable,}$ namely

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8.839007.> 1.97976, so it can be concluded that $_{H0}$ is rejected and $_{H2\ is}$ accepted, meaning that partially current tax expense affects *earning management*.

2. The Effect of Deferred Tax Assets on *Earning Management*

   Based on the results of the t statistical test in table 4.16, the probability of the deferred tax asset variable is 0.0005 <0.05 and the tcount$_{i\ s}$ 3.611148 and has a positive value, while the $_{ttable\ is}$ 1.97976, so from these results it means that tcount> $_{ttable,}$ namely 3.611148> 1.97976, so it can be concluded that $_{H0}$ is rejected and $_{H3\ is}$ accepted, meaning that partially deferred tax assets have an effect on *earning management*.

3. The Effect of Dividend Policy on *Earning Management*

   Based on the results of the t statistical test in table 4.16, the probability of the dividend policy variable is 0.8364> 0.05 and the $_{tcount\ i\ s\ 0\ .}$ 207089 and has a positive value, while the t table is 1.97976, so from these results it means that $_{tcount}$ < t $_{table,}$ namely 0.207089.< 1.97976, so it can be concluded that $_{H0\ is}$ accepted and $_{H4}$ is accepted, meaning that partially dividend policy has no effect on *earning management*.

4. The Effect of Current Tax Expense, Deferred Tax Assets, and Dividend Policy on *Earning Management*

   Based on the results of the F statistical test in table 4.15, it can be seen that the $_{Fcount\ i\ s}$ 12.28944 and the *F-statistic* probability is 0.000000, while to find $_{Ftable}$ with the number of samples (n) = 125 so that the $_{Ftable}$ is 2.68. Based on the $_{Ftabel}$ value obtained, it can be concluded that $_{H0}$ is rejected and $_{H1}$ is accepted that current tax expense, deferred tax assets,and dividend policy simultaneously affect *earning management*.

CONCLUSIONS AND SUGGESTIONS

Conclusion

This study aims to determine how much influence current tax expense, deferred tax assets, and dividend policy have on earning management in *non- cyclical consumer* companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. Based on the results of research and hypothesis testing that has been carried out, it can be concluded as follows:

1. Current tax expense affects earnings management so that the second hypothesis is accepted.
2. Deferred tax assets affect earning management so that the third hypothesis isaccepted.
3. Dividend policy has no effect on earning management so that the fourth hypothesis is rejected.
4. Current tax expense, deferred tax assets, and dividend policy affect earning management so that the first hypothesis is accepted.

Advice

1. For investors
   Investors are expected to be selective in assessing the company's financial statements, especially in terms of the company's consistency in generating profits. Investors can see

information on liquidity capabilities, debt levels and inflation rates that occur in predicting profits.

2. For the Company
   Companies are expected to improve inventory management, and analyse current market economic conditions so that they can be used as well as possible in order to avoid losses that can reduce investor confidence.
3. For Future Researchers
   This research can be further developed by examining outside the variables of this study or outside these criteria and the time period used is more extended so that the results obtained are better.

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