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**THE EFFECT OF DEFERRED TAX ASSETS, DEFERRED TAX  
EXPENSE, TAX PLANNING AND MANAGERIAL OWNERSHIP  
OF EARNINGS MANAGEMENT**  
(Empirical Study of the LQ45 Company Listed on the Indonesia  
Stock Exchange in 2014-2017)

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**Abstract**

*This study aims to Determine the effect of deferred tax assets, deferred tax expense, tax planning and managerial ownership of earnings management. The independent variables in this study are deferred tax assets, deferred tax expense, tax planning and managerial ownership. The dependent variable in this study is earnings management. The Data used in this study comes from the financial statements of LQ45 companies listed on the Indonesia Stock Exchange for the period 2014-2017. The sampling technique uses purposive sampling method, so the number of samples Obtained is 60 companies. The used method of data analysis is hypothesis testing using multiple linear regression. The results Showed that the burden of deferred tax and tax planning had a significant effect on earnings management. Meanwhile, deferred tax assets and managerial ownership have no effect on earnings management.*

**Keywords:** *deferred tax assets, deferred tax expense, tax planning, managerial ownership, and earnings management.*



## **A. Introduction**

Developments in the business world requires companies to create a competitive advantage in their businesses. The company's resources are used for operating activities help the company to soothe competition competition in the market effectively and efficiently. One of the measuring instruments used to determine the performance of the company is the amount of income earned figures. The higher the earnings numbers from year to year, it is assumed the company is able to manage resources optimally in profit. The preparation of the financial statements by management intended to convey information about the company's financial and economic conditions in a particular period.

Earnings management can be described as a condition where the management to intervene in the process of preparation of financial statements for external parties. Earnings management is done by leveling, raising and lowering the profit. Earnings management practices can affect the relevance of financial statements, so that the financial statements are not helping but instead provide appropriate information to users. This resulted in the financial statements may not be reliable, because the information contained in it does not do not show the actual information(Amijaya & Prastiwi, 2013).

Taxation rules continue to use the data and accounting information which has been regulated by the Financial Accounting Standards as the basis for determining the corrections based on the rules applicable taxes. Difference in commercial income and taxable income (book-tax differences) can inform you about the discretion of management in the process of accrual. The difference is called the fiscal correction in the form of negative and positive corrections correction. Negative correction willproduce Deferred tax liabilities while positive correction would result in deferred tax assets(Jamaluddin 2008),Deferred tax assets are assets that occurred when the time difference causes a positive correction that resulted in the tax burden according to commercial accounting smaller than the tax burden under the Act tax (Waluyo, 2008),According to



(Fitriany, 2016) that the deferred tax assets had a significant influence on earnings management.

Deferred tax expense arising from temporary differences between accounting profit is profit in the financial statements for the benefit of ekstrernal taxable income (income that is used as the basis for calculating tax). Differences between the financial reporting and fiscal accounting in the financial statements due to accounting standards give more flexibility for management in determining accounting principles and assumptions than those fixed by tax rules (Yulianti, 2005). According to (Rendi & Suranta, 2017) that the deferred tax expense has no effect on earnings management.

The Company is a taxpayer (hereinafter referred to by WP Agency) who have an obligation annually to repay Income Tax (hereinafter referred to Income Tax) to the government (tax authorities) taxable income (hereinafter referred to PKP). For a company, the tax on an element that reduces the cost of corporate profits, because the higher the tax borne by an enterprise means the smaller the profit will be obtained of the company, causing a tendency to minimize tax payments. Efforts to minimize tax is often referred to tax planning (tax planning) or tax sheltering (Suandy, 2011). According to (Fitriany, 2016) that tax planning has a significant influence on earnings management.

Earnings management action also depends on the motivation of the manager of the company, in this case related to the managerial ownership. Managerial ownership is ownership of shares owned by management and actively participate making decisions (Catherine, 2014). Profit information that is part of the financial statements was often the target of engineering management to maximize his personal gain, it can be detrimental to shareholders or investors. According to (Pratiwi, 2016) shows that ownership manejerial positive effect on earnings management.



## B. Research Methods

### 1. Definition and Operationalization of Variables

#### Deffered Tax Asset

Deferred tax assets are measured by changes in the value of deferred tax assets at the end of period t with 1 divided by the value of deferred tax assets at the end of the period t. According to (Waluyo, 2008) the formula for deferred tax assets

$$DTA_{it} = \frac{\Delta \text{Deferred Tax Asset}_{it}}{\text{Deferred Tax Asset}_{t}}$$

#### Deferred Tax Expense

Calculation of deferred tax expense is calculated using indicators that burden the deferred tax burden with total assets or total assets. This is done to weigh the deferred tax expense with total assets in the period t-1 to obtain a value calculated proportionally. According to (Harnanto, 2013) the formula for deferred tax expense

$$DTE_{it} = \frac{\Delta \text{Deferred Tax Expense}_{it}}{\text{Total Asset}_{t-1}}$$

#### Tax Planning

Tax planning is measured by a tax retention rate, which analyzes a measure of the effectiveness of tax management referred to in this study which measures the effectiveness of tax planning. According to (Suandy, 2011) the formula for the tax retention rate

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



## Managerial Ownership

Managerial ownership in this study is measured using a ratio scale by calculating the percentage of shares held by management to the total number of shares of the company's outstanding shares. According to (Catherine, 2014) managerial ownership by formula

$$MO = \frac{\text{Number of shares owned by management}}{\text{Number of shares outstanding}}$$

## Earnings Management

Earnings management is given the symbol DA (Discretionary Accruals). The calculation of discretionary accruals of the company begins with the calculation of total accruals. A company's accruals are separated into non discretionary accruals (normal accrual rates) and discretionary accruals (abnormal accrual rates). Calculation of earnings management developed by (Dechow, Richard, & Amy, 1995)

1. Determine the total value of accrual (TA) with the formulation:

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

2. Determine the parameter values  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  with the formulation:

$$TA_{it}/A_{it-1} = \beta_1(1/A_{it-1}) + \beta_2(\Delta Rev_{it}/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1})$$

3. Calculating the value of accrual of nondiscretioner with formulation:

$$NDA_{it} = \beta_1 (1/A_{it-1}) + \beta_2 (\Delta Rev_{it}/A_{it-1} - \Delta Rec_{it}/A_{it-1}) + \beta_3 (PPE_{it}/A_{it-1})$$

4. Determining the value of discretionary accruals which is an indicator of accrual profit management, that is by:



## 2. Population and Sample Research

The population in this study are all companies LQ45 listed in Indonesia Stock Exchange 2014-2017 period. The samples in this study using purposive sampling method sampling technique with certain criteria. Sampling criteria are as follows:

- a. LQ45 companies listed on the Stock Exchange.
- b. LQ45 companies successively publish an annual report (annual report) in 2014-2017.
- c. LQ45 companies listed on the Stock Exchange during the period from 2014 to 2017 that did not provide data terkaid the study variables.
- d. LQ45 companies who do not suffer losses during the period 2014-2017.

**Table 3.1 Criteria Sampling**

Criteria Sampling	total
LQ45 companies listed on the Stock Exchange per-2014	45
LQ45 companies which did not publish the full annual financial statements and successively during the period 2014-2017	(8)
LQ45 companies listed on the Stock Exchange during the period from 2014 to 2017 for which data do not provide data associated with research varabel.	(95)
LQ45 companies that suffered losses during the period 2014 to 2017	(5)
The study sample (18 x 4)	72
Data outlier	(12)
Companies are being sampled	60

## 3. Data analysis method

This study using multiple linear regression analysis to test the hypothesis. Regression model used for this study are as follows:

$$DA = \alpha + \beta_1 APT + \beta_2 DTE + \beta_3 TRR + \beta_4 KM$$



## C. Research Finding

### 1. Descriptive Statistics

**Table 4.1**  
**Results Descriptive Statistics**

Descriptive Statistics					
	N	Minimum	maximum	mean	Std. deviation
DA	60	-.084	.356	.07908	.078100
STAMP	60	-5586	1,000	-.06818	.984108
DTE	60	-.020	.016	.00008	.005927
TRR	60	.146	1,286	.73107	.158152
KM	60	.000	.716	.02922	.113950
Valid N (listwise)	60				

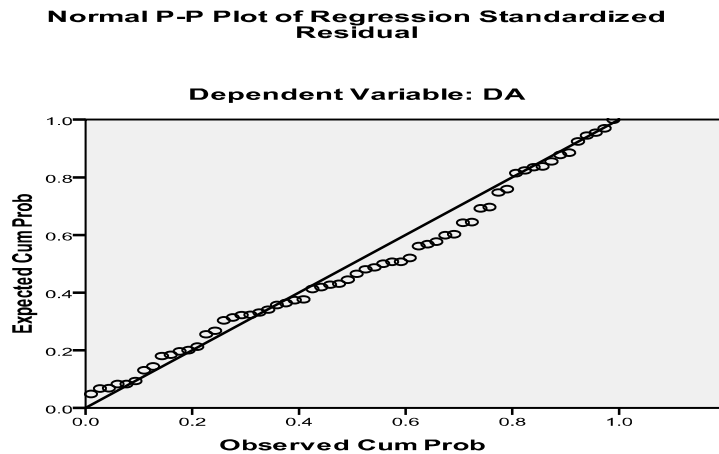
*Source: Data processed in 2019*

Based on the results of descriptive statistics in Table 4.1 above can be seen that the earnings management variable minimum value of -0.084, the maximum value of 0.356, the mean value of 0.07908, and the standard deviation value of 0.078100. Variable deferred tax assets amounting to -5.586 minimum value, maximum value of 1.000, the mean value of -0.06818, and the standard deviation value of 0.984108. Variable deferred tax expense amounting to -0.020 minimum value, maximum value of 0,016, the mean value of -0.00008, and the standard deviation value of 0.005927. Tax planning variable minimum value of 0,146, the maximum value of 1.286, the mean value of 0.73107, and the standard deviation value of 0.158152. Managerial ownership variable minimum value of 0.000, the maximum value of 0.716, the mean value of 0.02922, and the standard deviation value of 0.113950.



## 2. Classic Assumption Test

### Normality Test



**Figure 4.1**  
**Normality graph by graph PP Plot**

Based on the chart above can be seen that the normal chart display visible Plot PP meet the assumptions of normality test, since data spread around the diagonal line and follow the direction of the diagonal line. This means that the regression model to meet the assumptions of normality. Normality test results with statistical test of 1-Sample KS are presented in the following table:

**Table 4.2 Normality test**

One-Sample Kolmogorov-Smirnov Test		
		Residual unstandardized
N		60
Normal Parameters a, b	Mean	.0000000
	Std. Deviation	.06654061
Most Extreme Differences	Absolute	.095





	Positive	.095
	Negative	-.047
Kolmogorov-Smirnov Z		.739
Asymp. Sig. (2-tailed)		.646
a. Test distribution is Normal.		
b. Calculated from data.		

Source: Data processed in 2019

Based on Table 4.4 above shows that the value Asymp. Sig. (2-tailed) of 0.646 is greater than 0.05 and in accordance with the basic guidelines in making decisions, this means that the data are normally distributed.

### Test Multicollinearity

**Table 4.3 Test Results Multicollinearity**

Model	Coefficients <sup>a</sup>							
	Coefficients		standardize		T	Sig.	collinearity	
	unstandardized	Std. Error	Beta	d			tolerance	VIF
1 (Constant)	.230	.042			5408	.000		
STAMP	.011	.011	.136	.941	.351		.636	1,573
DTE	3,585	1,553	.272	2,308	.025		.950	1,053
TRR	-.212	.057	-.429	-3725	.000		.997	1,003
KM	.154	.098	.225	1,582	.119		.650	1,538

a. Dependent Variable: DA

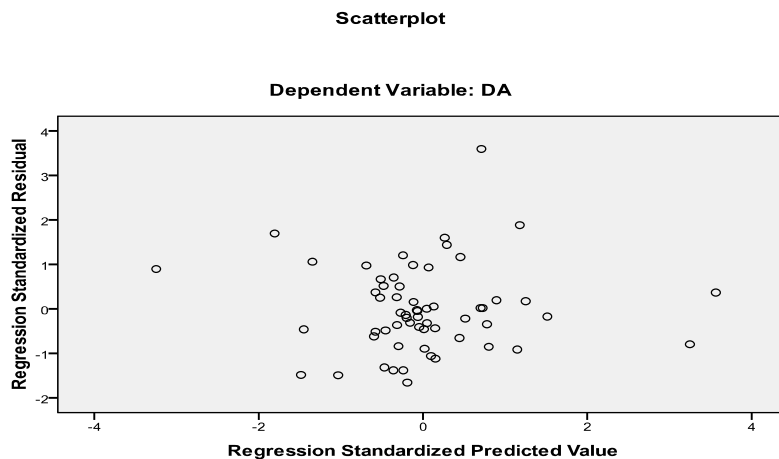
Source: Data processed in 2019

Based on the test results in Table 4.3 multikolinearitas can be concluded that the independent variables used in this study no symptoms



multikolinearitas, because all independent variables have a tolerance value > 0.10 and VIF < 10.

### Test Heteroskedastisitas



**Figure 4.2**  
**Graph Test Results Heteroskedastisitas**

Based on the test results heteroskedastisitas graphic images in the form above scatterplot graph shows that the points spread above and below the number 0 on the Y axis and otherwise not occur heteroskedastisitas so good for the regression model.

### Autocorrelation Test

**Table 4.4 Autocorrelation Test Results**

<b>Model Summaryb</b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.524a	.274	.221	.068918	1,988

a. Predictors: (Constant), KM, TRR, DTE, CAP



<b>Model Summaryb</b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.524a	.274	.221	.068918	1,988
a. Predictors: (Constant), KM, TRR, DTE, CAP					
b. Dependent Variable: DA					

*Source: Data processed in 2019*

For the total sample of 60 with a number of independent variables 4 (k = 4) obtained dL = 1.4443 and 1.7274 so dU dU = <DW <4-dU = 1.7274 <1.988 <2.2726 declared no autocorrelation.

### 3. Multiple Linear Regression Analysis

#### Regression Model

Based on the test results of multiple linear regression analysis, the regression equation as follows:

$$Y = 0.230 + 0.011 X_1 + 3.585 X_2 - 0.212 X_3 + X_4 + e$$

The regression equation above have the following definitions:

1. A constant value of 0.230, it can be concluded that if all the independent variables have a value of 0, the management profit of 0.230.
2. Regression coefficient value of deferred tax assets amounting to 0,011. It can be concluded that if the variable deferred tax assets rose by 1 percent, assuming other variables remain, it will be followed by a rise in earnings management amounted to 0,011.
3. Regression coefficient value of deferred tax expense amounted to 3,585. It can be concluded that if the variable deferred tax expense rose by 1 percent, assuming other variables remain, it will be followed by a rise in earnings management amounted to 3,585.
4. Tax planning regression coefficient of -0.212. It can be concluded that if the variable tax planning to rise by 1 percent, assuming other variables remain, it will reduce earnings management by 0.212.



5. Managerial ownership regression coefficient value of 0.154. It can be concluded that if the variable managerial ownership rose by 1 percent, assuming other variables remain, it will be followed by a rise in earnings management amounted to 0,154.

### Model Conformance Test (Test F)

**Table 4.5 F Test Results**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	mean Square	F	Sig.
1	Regression	.099	4	.025	5192	.001a
	residual	.261	55	.005		
	Total	.360	59			

a. Predictors: (Constant), KM, TRR, DTE, CAP

b. Dependent Variable: DA

Source: Data processed in 2019

Based on F test results in table 4.5 above can be seen that the value Fhitung 5.192, whereas Ftable value of 2.540, which means the value of F count > F table and the significant value of 0.001, which means that the significance value < 0.05, it can be concluded that the regression model deserves to used.



## Hypothesis Test (t test)

**Table 4.6 T Test Results**

Model	Coefficients		standardized		Sig.
	unstandardized		Coefficients		
	B	Std. Error	beta	t	
1(Constant)	.230	.042		5408	.000
STAMP	.011	.011	.136	.941	.351
DTE	3,585	1,553	.272	2,308	.025
TRR	-.212	.057	-.429	-3725	.000
KM	.154	.098	.225	1,582	.119

a. Dependent Variable: DA

Source: Data processed in 2019

Based on the above t test, hypothesis testing steps are as follows:

1. Variable deferred tax asset has a value of 0.941 t and a significance value of 0.351, which means  $t < t_{table}$  and the significance value  $> 0.05$ , it can be concluded that the deferred tax assets have no effect on earnings management, then the hypothesis 1 is rejected.
2. Deferred tax expense variable has a value of 2,308 t and a significance value of 0.025, which means  $t > t_{table}$  and the significance value  $< 0.05$ , it can be concluded that the deferred tax expense effect on earnings management, the second hypothesis is accepted.
3. Variable tax planning has tcount of -3.725 and significance value of 0.000, which means  $-t_{hitung} > -t_{tabel}$  and the significance value  $< 0.05$ , it can be concluded that tax planning effect on earnings management, the third hypothesis is accepted.
4. Managerial ownership variable has a value of t at 1.582 and 0.119 significance value, which means  $t < t_{table}$  and the significance value  $> 0.05$ , it can be concluded that managerial ownership has no effect on earnings management, the fourth hypothesis is rejected.



## Test Coefficient of Determination

**Table 4.7 Results The coefficient of determination (R2)**

<b>Model Summaryb</b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.524a	.274	.221	.068918	1,988

a. Predictors: (Constant), KM, TRR, DTE, CAP

b. Dependent Variable: DA

*Source: Data processed in 2019*

Based on the test results the coefficient of determination (R2) in table 4.7 above obtained coefficient of determination value Adjusted R Square of 0.221. This suggests that the variation in earnings management variables that do LQ45 companies listed in Indonesia Stock Exchange amounted to 22.1% can be explained by the variable deferred tax assets, deferred tax expense, tax planning, and managerial kepeemiiikan, while the remaining 77.9% is explained by other factors outside the model studied.

## D. Discussion

### Effect of Deferred Tax Assets on Earnings Management

Based on the hypothesis test can be concluded that there is no influence of the deferred tax assets to earnings management. The results support the research conducted by Widiyatmoko and Barry (2016) which states that the deferred tax assets have no effect and no significant effect on earnings management. Because, theoretically deferred tax assets can be used as an entry point for earnings management. But the consequences on the financial statements of fiscal ie the amount of tax paid by larger companies.

### Effect of Deferred Tax Burden on Earnings Management



Berdasarkan hypothesis test can be concluded that there are significant between deferred tax expense on earnings management. The results support the research conducted by Ram and Suranta (2017) showed that the deferred tax expense berpengaruh and significant impact on earnings management. This is because if the deferred tax expense increased possibilities for companies to manage their corporate profits will decline. Any increase in the deferred tax expense, the probability of earning management company will increase.

#### **Effect of Taxes on Earnings Management Planning**

Based on the hypothesis test can be concluded that there are significant between deferred tax expense on earnings management. The results support the research conducted by Fitriyani (2016) show that tax planning and significant effect on earnings management. This is due to the change in corporate income tax rates may affect the behavior of the company in managing its finances by reducing the amount of taxable income, so that companies can reduce the amount of tax paid.

#### **Effect of Managerial Ownership on Earnings Management**

Based on the hypothesis test can be concluded that there is no influence of the deferred tax assets to earnings management. Results penelitian supports research conducted by the Goddess and Khoiruddin (2016) showed that managerial ownership has no effect and no significant effect on earnings management. This is due to that the shares held by the managers are not comparable with the shares owned by the company or an outside party.

### **E. Conclusion**

Based on the results of multiple regression analysis has been done, it can be concluded from this study as follows. Deferred tax expense and tax planning effect on earnings management, while the deferred tax assets and managerial ownership no effect on earnings management.

Some of the limitations on this study, among others:

1. The theory is still very low and not so much to test this relationship, so that researchers encounter limitations in interpreting the results.



2. The period of observation in this study is relatively short, ie during the years 2014-2017
3. The number of companies which used as a sample in this study is relatively small, the 12 companies.

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