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EARNINGS MANAGEMENT: CURRENT TAX EXPENSE, EFFECTIVE TAX RATES, AND FINANCIAL RATIO

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ABSTRAK

Penelitian ini untuk membuktikan secara empiris pengaruh biaya pajak kini, tarif pajak efektif, profitabilitas, leverage, perputaran sediaan, dan ukuran perusahaan terhadap manajemen laba. Penelitian menggunakan 49 perusahaan yang terdaftar pada perusahaan manufaktur di Bursa Efek Indonesia dari 2016 sampai 2018 yang dipilih dengan metode purposive sampling. Pengujian menggunakan regresi logistik. Hasil penelitian menunjukkan bahwa profitabilitas menyebabkan terjadinya manajemen laba. Semakin tinggi profitabilitas perusahaan maka semakin tinggi pula kecenderungan perusahaan melakukan manajemen laba untuk meningkatkan kepercayaan investor. Manajemen juga termotivasi melakukan manajemen laba agar mendapatkan bonus yang lebih besar. Sedangkan biaya pajak kini, tarif pajak efektif, leverage, perputaran sediaan, dan ukuran perusahaan tidak berpengaruh terhadap manajemen laba.

Kata Kunci: Biaya pajak kini, tarif pajak efektif, rasio keuangan, manajemen laba

ABSTRACT

The objective of this study is to get empirical evidence about the influence of current tax expense, effective tax rate, and profitability, leverage, inventory turnover, and company size on earnings management. This research used 49 companies listed in manufacturing companies in Indonesia Stock Exchange since 2016 until 2018 selected by purposive sampling method. The research data analysis uses a logistic regression. This research shows the results that profitability has positive influence to earnings management. The higher the company's profitability, the higher the company's tendency to carry out earnings management to increase investor confidence. The management is also motivated to do earnings management to get a bigger bonus. While current tax expense, effective tax rate, leverage, inventory turnover, and company size have no affect to earnings management.

Keywords*: Current tax expense, effective tax rate, financial ratio, earnings management*

1. INTRODUCTION

Earnings management research is still very interesting. Earnings management can be opportunistic or efficient depending on the management's purpose of doing earnings management. The theory that underlies earnings management is agency theory. Management acts on behalf of the shareholders. Shareholders expect management to manage the company in accordance with shareholder interest. Shareholders pay attention to management performance seen from the ability of management to manage the company by generating earnings (Susanto et al., 2019). The existence of these differences in reporting, can lead to a manager's creativity in making financial reports. In financial statements, earnings tends to be an indicator that can be used to assess the financial performance. Managers also have the freedom to choose accounting methods or policies in reporting earnings. Therefore, managers will take actions in the form of increasing or decreasing earnings to be able to maximize their personal interests, to achieve the company's earnings targets, and to convince interested parties of the financial statements. Actions taken by managers are usually known as earnings management (Amanda and Febrianti, 2015).

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Earnings management can be interpreted as a form of the company's efforts to exert influence through the information contained in the financial statements which aims to deceive shareholders into knowing the current condition of the company (Sari, 2015). This earnings management practice has occurred in many countries, including Indonesia. One of the cases experienced by PT Tiga Pilar Sejahtera Food Tbk in 2017. PT Tiga Pilar Sejahtera Food Tbk did earnings management practice of IDR 4 trillion by the old management in the company's financial statement in 2017, which occurred in several accounts, which are accounts receivable, inventories, and fixed assets of the AISA group. Based on the cases that occurred and previous research that has been done, researchers are motivated to develop research on the presence or absence of the influence of several factors in conducting earnings management. The case above proves that earnings management is opportunistic. This is detrimental to the shareholders. Companies that report small profits tend to do earnings management. This will reduce the transfer of wealth from the company to shareholders.

This study is a modification of the research by Amanda and Febrianti (2015). There are several differences from the current study with previous research, namely (1) not using deferred tax expense and accrual basis. However, adding independent variables, namely effective tax rate, profitability, leverage, inventory turnover, and company size; (2) The object of research used today is all sectors of manufacturing companies listed on the Indonesia Stock Exchange. Previous research used the research object of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange. The reason for using manufacturing companies as the research sample is that most of the companies listed on IDX are manufacturing companies. In addition, the case of companies that often occur in conducting earnings management is a manufacturing company. The purpose of this study was to obtain empirical evidence of the effect of current tax expense, effective tax rates, profitability, leverage, inventory turnover, and company size on earnings management.

Current Tax Expenses

Fiscal corrections must be made because there are differences in the treatment of income or costs that different between accounting standards and applicable tax regulations (Amanda & Febrianti, 2015). These differences can be categorized into two, namely permanent or permanent differences, and time or temporary differences. The difference between accounting and taxable income illustrates the manager's policy in profit manipulation to be higher, then the tax costs will show the effect of the value of the difference (fixed difference and time difference). Current tax costs have a positive effect on earnings management. This shows that the current tax burden allows the company to carry out earnings management, because it can reflect the taxable income resulting from the reconciliation between the fixed difference and also the time difference to profit according to accounting. Rahmi (2013) states that current tax costs have no affect to earnings management. Companies that offer additional shares have a higher current tax amount than commercial taxes. Corporate tax expense is the result of current tax and deferred tax expense. If the current tax is small, the deferred tax for future periods will be large. This study is in line with Utami and Malik (2015) which state that current tax expense has no affect to earnings management. The proposed hypothesis is:

$\boldsymbol{H_1}$**:** Current tax expense increases, the probability of earnings management decreases

Effective Tax Rates

The effective tax rate is defined as the company's effective tax rate which can be calculated from income tax expense divided by earnings before tax (Sjahril, 2020). The value of the effective tax rate illustrates that the company has succeeded in carrying out tax planning. Tax planning is

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concerned with reporting corporate earnings. If the company's profit is large, then the company's tax burden is large. Management within the company will perform earnings management techniques in order to achieve the target. Tax planning and earnings management have the same goal, namely achieving profit targets by manipulating the earnings contained in the financial statements. Actions taken by companies with the aim of embezzling taxes show that tax planning is carried out through manipulation of the company's operational activities (Astutik & Mildawati, 2016). Khotimah (2014) states that tax planning has a positive effect on earnings management. This shows that the higher the value of the effective tax rate achieved by the company indicates the achievement of the desired earnings by the company is also high. This study is in line with Lubis and Suryani (2018) which states that effective tax rates affect earnings management. The proposed hypothesis is:
$\boldsymbol{H_2}$: Effective tax rates increases, the probability of earnings management increases.

Profitability
Profitability can determine the bonus that will be obtained by management. Management is motivated to practice earnings management so that management can get bonuses. The greater the profitability of a company, the greater the bonus that will be obtained by management and can increase investor confidence if the profitability of a large company means that the company's performance is good (Riana & Diyani, 2016; Purnama, 2017; Dewi & Fachrurrozie., 2021).Tala and Karamoy (2017) which state that profitability has a positive effect on earnings management. This shows that in manufacturing companies in the basic and chemical industrial sectors, there are profitability values that tend to be high. This high profitability encourages managers to carry out earnings management. This research is in line with Arifin and Destriana (2016), Napitupulu (2012), Firnanti (2017) which state that profitability has a positive effect on earnings management.

Aprina and Khairunnisa (2015) state that profitability has a negative effect on earnings management. This shows that low profitability will make management worried about a change of management. Therefore, the company's management will carry out earnings management to be able to present high income and management performance can be assessed as good. Suhartanto (2015) states that profitability has no effect on earnings management. This shows that the greater the value of profitability, the more attention the public will pay to the company. So the company will not carry out earnings management which can damage the company's credibility. This research is in line with Gunawan, Darmawan, and Purnamawati (2015), Wardani and Isbela (2017), Almalita (2017) which state that profitability has no effect on earnings management. The proposed hypothesis is:
$\boldsymbol{H_3}$: Profitability increases, the probability of earnings management increases.

Leverage
The greater the company's funding, which is obtained from debt, the greater the company's tendency to carry out earnings management. The higher the leverage value, the higher the debt in the company. Companies with a high level of leverage from the ratio of total debt to total assets are suspected of carrying out earnings management because the company cannot fulfill its debt repayment obligations on time or in other terms is a default. Companies will use policies that can increase income to avoid being threatened by default (Azlina, 2010). Arifin and Destriana (2016) state that leverage has a positive affect to earnings management. This shows that the greater the debt obtained for company funding, the greater the possibility of the company doing earnings management. This research is in line with Wardani and Isbela (2017), Suwanti and Wahidawati

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(2017), Almalita (2017), Darmawati (2003) which state that leverage has a positive affect to earnings management.
Napitupulu (2012) states that leverage has a negative effect on earnings management. This shows that a smaller leverage will be preferred by investors because of the low risk that will be accepted so that companies are encouraged to do earnings management. This study is in line with Guna and Herawaty (2010) which state that leverage has a negative affect to earnings management. Jao and Pagulung (2011) stated that leverage has no effect on earnings management. This shows that the risk of default can occur if the company's leverage is high, but this default risk cannot be overcome by doing earnings management. Fulfillment of company obligations must be carried out and cannot be avoided by carrying out earnings management. This research is in line with Gunawan, Darmawan, and Purnamawati (2015), Azlina (2010), Yunietha and Palupi (2017), Tala and Karamoy (2017) who state that leverage has no affect to earnings management. The proposed hypothesis is:
$\boldsymbol{H_4}$: Leverage increases, the probability of earnings management increases.

Inventory Turnover
Errors in determining the amount of investment or the allocation of capital in inventory will suppress company profits. The high inventory turnover that occurs in one year shows that the inventory management carried out can be said to be effective. Meanwhile, low inventory turnover indicates that there is a lack of effectiveness in inventory control (Janrosl, 2015). Rachmawati and Wisayang (2018) state that inventory turnover has a positive effect on earnings management. This shows that the inventory turnover rate will pose a small risk of loss due to changes in tastes and prices. This finding is different from Janrosl (2015) states that inventory turnover has a negative affect to earnings management. This shows that the high inventory turnover that occurs in one year indicates that the inventory management carried out can be said to be effective. While the low inventory turnover indicates that the lack of effectiveness in inventory control.

Riana and Diyani (2016) stated that inventory turnover has no affect to earnings management. The greater the inventory turnover that occurs in the company that can generate sales will not affect the company's earnings management. Suwanti and Wahidahwati (2017) which states that inventory turnover has no effect on earnings management. The proposed hypothesis is:
$\boldsymbol{H_5}$: Inventory turnover increases, the probability of earnings management decreases.

Company size
The small size of the company is convinced that it will carry out more earnings management than the size of a large company. In this case, it is because small companies want to show good performance and also good conditions in the company so that investors want to invest in the company. Meanwhile, large companies will do less earnings management because they are paid more attention by the public, so companies must be more careful in compiling and presenting their financial statements. Aprina and Khairunnisa (2015) state that company size has a positive affect to earnings management. The large companies have great incentives in earnings management, because there are high expectations from investors or shareholders, so the company must be able to meet these expectations. This study is in line with Azlina (2010), Yuliana and Trisnawati (2015) which proves that company size has a positive affect to earnings management.

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Firnanti (2017) states that company size has a negative affect to earnings management. The higher the size of the company, it means that the company will be more careful in presenting financial statements because the public pays more attention to it. This study is in line with Jao and Pagalung (2011), Kusumawardhani (2012) which states that company size has a negative affect to earnings management. Arifin and Destriana (2016) state that company size has no affect to earnings management. This shows that the size of a company, both large and small, cannot be an indication of a company to do earnings management because large and small companies still have opportunities to do earnings management. Gunawan, Darmawan, and Purnamawati (2015), Almalita (2017), Guna and Herawaty (2010), Yunietha and Palupi (2017), Wardani and Isbela (2017) which state that company size has no affect to earnings management. The proposed hypothesis is:

$\boldsymbol{H_6}$: Company size increases, the probability of earnings management increases.

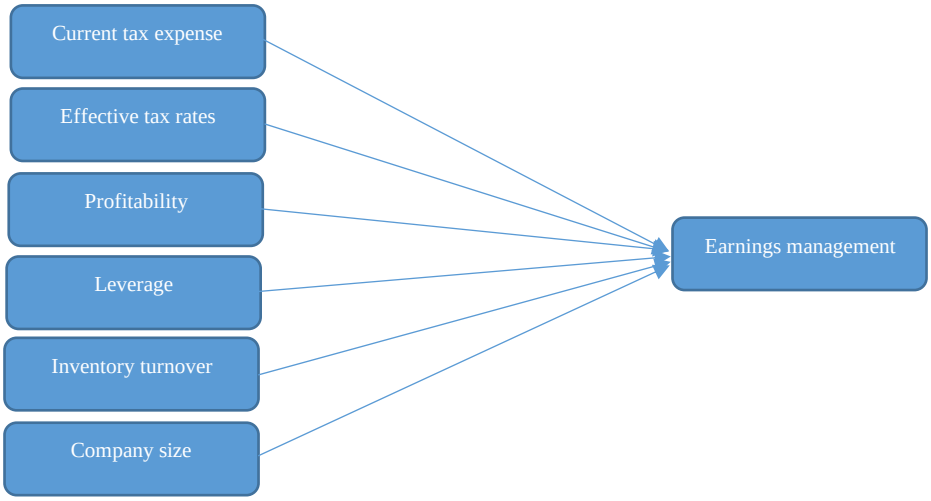

Figure 1. Research model

2. RESEARCH METHOD

The sampling method in this study is the purpose sampling method

Table 1. Sampling procedure

Criteria	Firm	Data
Manufacturing companies listed on the IDX in 2016-2018	138	414
Manufacturing companies that do not issue financial statements as of December 31	(6)	(18)
Manufacturing companies that do not use Rupiah	(26)	(78)
Manufacturing companies that do not have data on the variables	(7)	(21)
Manufacturing companies that do not have Scaled Earning Change values in the range 0 to 0.06 and -0.09 to 0	(50)	(150)
Total	**49**	**147**

Source: Collected data

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Earnings management is a method practiced by managers in an accounting practice that affects earnings so as to achieve the goal of providing income statement (Scott, 2015). Earnings management can be interpreted as a form of the company's efforts to exert influence through the information contained in the financial statements which aims to deceive shareholders into knowing the current condition of the company (Sari, 2015). The probability of the company in carrying out earnings management can be obtained by scaled earning change. Earnings management is measured on a nominal scale using dummy variables, namely variables that are categorical or dichotomous, where earnings management will be given a value of 1 (one) if the company belongs to the group of small profit firms and 0 (zero) if the company belongs to the group of small profit firms. into the small loss profit group. Companies in the range 0 to 0.06 are categorized as small profit firms, while companies in the range -0.09 to 0 are categorized as small loss firms. The measurement of this variable refers to Amanda and Febrianti (2015). The following is the formula used to obtain the measurement scale for the company's probability variables in conducting earnings management:

$$Scaled\ Earning\ Change = \frac{\Delta\ Net\ Income}{Market\ Value\ of\ Equity\ i\ (t-1)}$$

Based on PSAK No. 46, current tax is the amount of income tax payable against taxable income in a period. The amount of tax that must be paid by the taxpayer is the current tax burden (Sutadipraja, Ningsih, & Mardiana, 2019). Current tax costs are measured from current tax expense in a certain period divided by total assets of the previous period (Amanda & Febrianti, 2015). The effective tax rate is the division between tax costs and profit before taxes (Khotimah, 2014). Profitability is a performance indicator used by management for the management of company wealth, which is reflected in the income generated. Sales and investments made by the company is a source of income generated (Sudarmadji & Sularto, 2007). Profitability measured by the Return on Assets (ROA) ratio scale can show the rate of return on assets which refers to Yuliana and Trisnawati (2015).

Leverage is debt used to finance company assets in order to carry out its operational activities (Gunawan, Darmawan, & Purnamawati, 2015). The ratio that compares total liabilities and total assets is called leverage (Yuliana & Trisnawati, 2015). Inventory turnover is a ratio used to measure how much the company's ability to generate sales from existing inventory in the company (Janrosl, 2015). The measurement of inventory turnover is the result of the division between the cost of goods sold and inventory (Janrosl, 2015; Rachmawati & Wisayang, 2018). Total assets, sales, and market capitalization can state the size of the company (Sudarmadji & Sularto, 2007). In this study, company size is measured by looking at the Natural logarithm of the total assets owned by the company which refers to Almalita (2017). Measurements for each variable can be seen in table 2 below. The statistical analysis uses logistic regression, the regression equation model used is as follows:

$$\mathbf{Ln}Ln\frac{EM}{1-EM} = \beta\beta_0 + \beta_1 CTE + \beta_2 ETR + \beta_3 ROA + \beta_4 DAR + \beta_5 ITO + \beta_6 Size + e$$

Where: $\mathrm{Ln}\frac{EM}{1-EM}$ Natural logaritma probability of earnings management, β0 constant, $\beta_{1\text{-}6}$ regression coefficient, CTE current tax expense, ETR effective tax rate, ROA *return on Assets*, DAR *debt to assets ratio*, ITO *inventory turnover*, Size company size, e *error*

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Table 2. Measurement of variabel

Variable	Measurement	Scale
EM	Dummy variable, 1 (one) if the company belongs to the group of small profit firms and 0 (zero) if the company belongs to the group of small profit firms	Nominal
CTE	Current tax expense in a certain period divided by total assets of the previous period	Ratio
ETR	Division between tax costs and profit before taxes	Ratio
ROA	Return on Assets	Ratio
LEV	Compares total liabilities and total assets	Ratio
ITO	Division between the cost of goods sold and inventory	Ratio
SIZE	Natural logarithm of the total assets	Ratio

Souce: Reference journal

3. RESULT AND DISCUSSION

Table 3. Descriptive statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
EM	0	1	0,62	0,487
CTE	0.0000000000	0.1986415172	0.0288406384	0.0374274705
ETR	-0.812666749	2.202107428	0.2538019650	0.3139538968
ROA	-0.110546046	0.9647839397	0.0985789094	0.1474121559
LEV	0.768938022	3.202040323	0.4219866458	0.2876375373
ITO	0.5577607891	24.05729059	4.329617511	3.559780518
SIZE	25.79571050	33.47372750	28.67649820	1.678350539

Souce: Statistics output

From the results presented in table 3, it is known that the current tax expense (CTE) has a minimum value of 0 originating from several companies, namely Yana Prima Hasta Persada Tbk, Trias Sentosa Tbk, Tri Banyan Tirta Tbk, Sunson Textile Manufacturer Tbk, and Grand Kartech Tbk. . Current Tax Expense has a maximum value of 0.1986415172 originating from the Multi Bintang Indonesia Tbk company. Then the mean value is 0.0288406384 with a standard deviation of 0.0374274705. Effective Tax Rate (ETR) has a minimum value of -0.812666749 originating from companies and a maximum value of 2.202107428. Then the mean value is 0.2538019650 with a standard deviation of 0.3139538968. Profitability (ROA) has a minimum value of -0.110546046 originating from the Grand Kartech Tbk company and a maximum value of 0.9647839397 originating from the Siantar Top Tbk company. Then the mean value is 0.0985789094 with a standard deviation of 0.1474121559.

Leverage (DAR) has a minimum value of 0.0768938022 originating from the Sido Muncul Herbal & Pharmaceutical Industry company and a maximum value of 3.202040323 originating from the Siantar Top Tbk company. Then the mean value is 0.4219866458 with a standard deviation of 0.2876375373. Inventory Turnover (ITO) has a minimum value of 0.5577607891 originating from the Grand Kartech Tbk company and a maximum value of 24.05729059 originating from the Nippon Indosari Corporindo Tbk company. Then the mean value is 4.329617511 with a standard deviation of 3.559780518. Company Size (Size) has a minimum value of 25.79571050 originating from the Pyridam Farma Tbk company and a maximum value

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of 33.47372750 originating from the Astra International Tbk company. Then the mean value is 28.67649820 with a standard deviation of 1.678350539.

In table 3, information obtained from observations that are estimated to carry out earnings management is 91 out of 147 observations, with a percentage of 62%. While the remaining 56 observations or 38% are not expected to do earnings management. This indicates that there are still many companies that are expected to practice earnings management. Likelihood (L) test is used to prove that the hypothesized model fits the data. The initial -2LogL value is 195,371, which is a model that only includes constants. The -2LogL value at the end is 174,640, which is a model that includes independent variables, namely current tax costs, effective tax rates, company size, leverage, profitability, and inventory turnover. From the value between the initial -2LogL which is 195.371 and the final -2LogL which is 174,640, there is a reduction in the value. This shows that the hypothesized model fits the data.

The value of Nagelkerke R^2 is 0.179 which indicates that the variation of the independent variables, namely current tax costs, effective tax rates, company size, leverage, profitability, and inventory turnover is only able to explain the variation in earnings management by 17.9%. The remaining 82.1% is explained by other factors not tested in this study. The statistical value for Hosmer and Lemeshow's Goodness of Fit is 11,833 with a significance value of 0.159, which is greater than 0.05. This shows that the model is able to predict the value of its observations or it can be said that the model can be accepted because it matches the observation data.

In the column there are two predictive values of the dependent variable, estimated to do earnings management (1) and estimated not to do earnings management (0). The line provides an overview of the actual observed value of the dependent variable which is estimated to perform earnings management (1) and is estimated not to perform earnings management (0). The following are the results of testing the accuracy of the model classification:

Table 4. Model classification

		Predicted		
		EM		
Observed		Not earnings management	earnings management	*Percentage Correct*
EM	Not earnings management	21	35	37.5
	earnings management	9	82	90.1
Overall Percentage				70.1

Source: Statistics output

From the results presented in table 4, it shows that the regression model predicts the probability of practicing earnings management is 90.1%. In the regression model, there are 82 observations that are estimated to do earnings management from 91 observations. The strength of the regression model predicts the probability that the company will not practice earnings management by 37.5%. This reflects that by using the regression model there are 21 observations that are not expected to perform earnings management from a total of 56 observations that are predicted not to do earnings management. The total percentage of the overall strength of the regression model is 70.1%. The following are the results of testing the significance of individual parameters:

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Table 5. Individual parameter significance

Variable	B	S.E.	*Wald*	df	Sig.	Exp(B)	Result
Constant	-1.659	3.412	.236	1	.627	.190	
CTE	-9.364	12.057	.603	1	.437	.000	H_1 not supported
ETR	.684	.602	1.288	1	.256	1.981	H_2 not supported
ROA	11.442	4.684	5.967	1	.015	93123.219	H_3 supported
LEV	1.037	1.349	.591	1	.442	2.820	H_4 not supported
ITO	-.030	.053	.324	1	.569	.970	H_5 not supported
SIZE	.037	.126	.087	1	.768	1.038	H_6 not supported

Source: Statistics output

From the results presented in table 5, it is found that the regression coefficient value for the current tax burden is -9.364 with a significance value of 0.437. The significance value of the current tax expense is greater than 0.05 which means that the current tax expense has no affect to earnings management. The current tax burden is not able to reflect in real terms the earnings management. The result is supported to Rahmi's (2013) which states that current tax expense have no affect to earnings management.

The regression coefficient value for the effective tax rate is 0.684 with a significance value of 0.256. The significance value of the effective tax rate is known to be greater than 0.05 which means that the effective tax rate has no affect to earnings management. Companies can defer tax costs to future periods, so the company does not need to do earnings management and can pay small taxes. The result is not supported to Khotimah (2014) which states that effective tax rates affect earnings management.

The regression coefficient value for profitability is 11.442 with a significance value of 0.015. The significance value of profitability shows a value smaller than 0.05 which means that profitability has a positive influence on earnings management. The higher the profit recorded by the company, the higher the indication of the company in carrying out earnings management in order to increase investor confidence. The management is also motivated to do earnings management in order to get a bigger bonus. The result is supported to Purnama (2017) which states that profitability has an affect to earnings management.

The regression coefficient value for leverage is 1.037 with a significance value of 0.442. It is known that the significance value of leverage is greater than 0.05 which means that leverage has no affect to earnings management. That is, the higher the debt owned by manufacturing companies to acquire assets, which later the acquisition of these assets can generate high income in the future, will not make the company perform earnings management. The result is supported to Gunawan, Darmawan, and Purnamawati (2015) which prove that leverage has no affect to earnings management.

The regression coefficient value of inventory turnover is -0.030 with a significance value of 0.569. The significance value of inventory turnover is greater than 0.05 which means that inventory turnover has no affect to earnings management. Inventories owned and stored by the company have not yet made a profit, so the company will not carry out earnings management. The result is supported to Riana and Diyani (2016) who prove that inventory turnover has no affect to earnings management.

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The regression coefficient value for company size is 0.037 with a significance value of 0.768. The significance value of company size is greater than 0.05 which means company size has no effect on earnings management. The size of the company is not an indication of a company doing earnings management. This means that large and small companies have the same proportion or have the same opportunities in conducting earnings management. The result is supported to Arifin and Destriana (2016) states that company size has no affect to earnings management.

4. CONCLUSIONS AND SUGGESTIONS

Conclusions that can be drawn that there is profitability which has a positive effect on earnings management. While current tax expense, effective tax rates, leverage, inventory turnover, and company size have no effect on earnings management. There were several limitations found, namely (1) the object of research used only on manufacturing companies; (2) The research period used is relatively short, which is only 3 years. Based on the limitations that have been described, the researcher would like to provide recommendations that are expected to help in further research, namely (1) further research is expected to expand the object of research such as non-financial companies; (2) Future research is expected to extend the research period such as five years and to add corporate governance that affect to the relationship between tax and earnings management.

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