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The Influence of Deferred Tax Burden, Tax Planning, and Deferred Tax Assets on Earnings Management Strategy

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ABSTRACT
This study aims to analyze and provide empirical evidence on the influence of deferred tax burden, tax planning, and deferred tax assets on earnings management. The population used in this research consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX). This study employs purposive sampling, with a total sample of 120 data points. The data analysis tool used is multiple linear regression and classical assumption tests using the SPSS application. The results of this study indicate that the Deferred Tax Burden has no effect on Earnings Management. Meanwhile, Tax Planning and Deferred Tax Assets have an effect on Earnings Management.

Keywords: *Deferred Tax Burden; Tax Planning; Deferred Tax Assets; Earnings Management*

1. Introduction

Financial statements are prepared by management to provide information regarding a company's economic and financial condition over a specific period. One of the most crucial components of financial reporting is earnings, which plays a significant role for both internal and external stakeholders. Earnings information is used as a basis for decision-making such as determining compensation, evaluating managerial performance, calculating taxes, and making investment and financing decisions (Andari & Andriana, 2025; Jelanti, 2023; Ray & Sarasmitha, 2024).

In preparing financial reports, managers have flexibility through the use of accrual-based accounting as regulated in PSAK No. 1. This flexibility allows management to make judgments and estimates in financial reporting. These estimations include uncollectible accounts receivable, the useful life and residual value of fixed assets, as well as amortization periods of intangible assets (Andani & Damayanty, 2022; Midiastuty et al., 2023; Rachmany & Tajudin, 2022).

Earnings management can occur through opportunities to make accounting estimates and select accounting methods. Such practices may result in differences between accounting profit and taxable profit, known as fiscal corrections, which can be either positive or negative. These differences often lead to deferred tax expenses, arising due to temporary discrepancies between accounting standards and tax regulations (Hanifah et al., 2025; Hapsari, 2025; Salim & Yuniarwati, 2024; Thomas, 2024).

Managers, as internal stakeholders, often strive to increase reported earnings. High-quality earnings are those that can predict future earnings and accurately reflect the company's financial performance. These earnings are determined by both accrual and cash components (Chen et al., 2024; Sitinjak & Sanra, 2023). Investors, in particular, pay close attention to earnings as a measure of company performance. Higher reported earnings

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typically attract more investor interest, assuming that the company is performing well (Qusna & Widodo, 2024; Polpanumas et al., 2021; Wiyarni et al., 2023).

This investor behavior places pressure on managers to engage in earnings management. The phenomenon of earnings management becomes evident when reported earnings fluctuate significantly, which may reflect not only operational changes but also managerial intervention (Herdiansyah et al., 2022; Tartono et al., 2021).

An example of extreme earnings management occurred in the case of PT Tiga Pilar Sejahtera Food Tbk (AISA), where former management allegedly inflated financial statements by IDR 4 trillion in 2017. Investigations revealed overstated accounts in trade receivables, inventories, and fixed assets. The restated financial report in 2020 showed a net loss of IDR 5.23 trillion, significantly higher than the previously reported IDR 551.9 billion loss, confirming allegations of earnings manipulation. The objective was to maintain the company's value in the eyes of stakeholders, but it ultimately led to a sharp decline in firm value and the suspension of AISA shares by the Indonesia Stock Exchange (Indra Kusuma & Mertha, 2021).

Deferred tax expenses arise due to differences between current tax payable and income tax expense from temporary timing differences. Higher reported profits lead to higher taxes, which can reduce net income (Sibarani et al., 2015; Maccarthy, 2021). Tax planning, which aims to minimize tax liabilities, can be achieved through both legal and illegal methods (Suandy, 2011). Deferred tax assets are another element closely related to earnings management, reflecting future tax benefits arising from temporary differences or tax loss carryforwards (Timuriana et al., 2015).

According to several studies, there is a strong relationship between deferred tax expenses, tax planning, deferred tax assets, and earnings management. Managers may use these tax elements to manipulate accrual figures to optimize their bonuses or minimize corporate tax payments (Umam et al., 2023; Sriwahyuni & Ernandi, 2021). These practices allow managers to report lower taxable income without necessarily reducing accounting profit, thus exploiting the difference between accounting and taxation treatments.

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange, as these firms generally possess a substantial amount of current and fixed assets that are frequently the subject of earnings management practices. Additionally, manufacturing firms comprise the largest sector on the IDX, making them an ideal sample for analyzing deferred tax burdens, tax planning, and deferred tax assets in relation to earnings management

2. Literature Review

Earnings Management

Earnings management occurs when company managers make specific financial reporting decisions or alter transactions to modify financial statements. This practice can mislead stakeholders seeking to understand the company's true economic performance or influence contractual outcomes tied to reported accounting figures. At a broader level, earnings management has contributed to public distrust in businesses, as it is often perceived as a tool for personal or group profit maximization at the expense of broader stakeholder interests (Chen et al., 2024; Qusna & Widodo, 2024; Jelanti, 2023).

Research has shown that earnings management is frequently influenced by managerial incentives, such as bonus schemes, debt covenants, and stock price expectations (Hanifah et al., 2025; Rachmany & Tajudin, 2022). Furthermore, it is commonly practiced in industries with high discretion over revenue recognition and expense estimation, such as the manufacturing sector (Andani & Damayanty, 2022; Umam et al., 2023). This practice, although often within legal boundaries, undermines the reliability of financial reporting and may distort users' perception of the firm's actual performance (Polpanumas et al., 2021; Wiyarni et al., 2023).

Deferred Tax Expense

Deferred tax expense arises from temporary differences between accounting profit and taxable income. These differences are due to variations in the recognition of income and expenses between financial reporting standards and tax regulations (Midiastuty et al., 2023; Tartono et al., 2021; Salim & Yuniarwati, 2024).

Such temporary differences are categorized into **permanent** and **temporary** types. Permanent differences result from items that are either non-taxable or non-deductible (e.g., entertainment expenses), whereas temporary differences arise when the timing of income or expense recognition differs between financial and tax reporting. For example, a company may use straight-line depreciation for accounting purposes and accelerated depreciation for tax purposes, leading to deferred tax liabilities or assets (Herdiansyah et al., 2022; Andari & Andriana, 2025).

Deferred tax expense plays a significant role in earnings management, as it allows companies to adjust their reported tax expense without affecting actual cash outflows. Studies have found that firms often manipulate deferred tax accounts to smooth income and meet performance targets (Ray & Sarasmitha, 2024; Sriwahyuni & Ernandi, 2021).

Tax Planning

Tax planning involves organizing a taxpayer's affairs to minimize tax liabilities while remaining compliant with applicable laws. This strategy is a critical component of corporate financial management, aiming to optimize the firm's after-tax income through legal methods (Thomas, 2024; Hapsari, 2025; Maccarthy, 2021).

Effective tax planning includes deferring income, accelerating deductions, and taking advantage of tax credits and incentives. Although legitimate, it can border on aggressive tax avoidance when used in conjunction with earnings management practices, especially when aimed at manipulating earnings to meet analyst forecasts or internal benchmarks (Sitinjak & Sanra, 2023; Jelanti, 2023).

Numerous studies show that tax planning is closely related to earnings management, particularly in industries or firms with high political or regulatory exposure (Chen et al., 2024; Hanifah et al., 2025; Wiyarni et al., 2023). Managers may engage in tax planning to present a more favorable financial position, thus influencing investors' or creditors' perceptions (Qusna & Widodo, 2024; Tartono et al., 2021).

Deferred Tax Assets

Deferred tax assets (DTAs) represent expected future tax savings arising from deductible temporary differences, carryforward of unused tax losses, or tax credits. They are recognized only when there is a probability that sufficient future taxable profits will be available to utilize these deductible amounts (Thomas, 2024; Andani & Damayanty, 2022).

The recognition of DTAs is regulated under accounting standards such as PSAK No. 46 in Indonesia and requires considerable judgment, particularly in estimating future income (Salim & Yuniarwati, 2024; Umam et al., 2023). If management overestimates future profitability, it may lead to an overstatement of deferred tax assets, which is a common tool in earnings management practices (Ray & Sarasmitha, 2024; Hanifah et al., 2025).

Furthermore, the presence of large deferred tax assets has been found to be associated with firms attempting to inflate current period profits, especially in firms facing financial distress or preparing for external financing (Midiastuty et al., 2023; Jelanti, 2023). When realization becomes unlikely, accounting standards require that these assets be written down, which can significantly affect reported earnings (Sriwahyuni & Ernandi, 2021; Hapsari, 2025).

3. Methodology

This study is a quantitative research that uses numerical data obtained from the calculation of each attribute measuring variable. The research is located at the Indonesia Stock Exchange (IDX) Pekanbaru branch, as IDX provides comprehensive, well-organized, and publicly accessible data. The data collection technique used is the documentation method, where the required data consists of annual financial statements of manufacturing companies listed on the IDX for the period 2016-2020. These documents are retrieved from publications made by the Indonesia Stock Exchange. Additionally, this study also utilizes a literature review to gather additional information from books and previous research articles, providing a theoretical foundation for the literature related to the topic being studied.

Data analysis in this research is conducted using **multiple linear regression** techniques with the assistance of **SPSS**software. This method is chosen to examine the simultaneous effects of several independent variables on the dependent variable. In this case, multiple linear regression allows the researcher to assess the relationship between variables such as deferred tax expense, tax planning, and deferred tax assets on earnings management, considering other factors that may influence the outcome. The results of this analysis will provide a deeper understanding of the extent to which these variables impact earnings management practices in manufacturing companies listed on the IDX.

4. Results

Descriptive Statistic

In this study, descriptive statistics were used to provide a summary of the data. The analysis includes a range of statistical measures such as the mean, standard deviation, variance, maximum, minimum, and others. A total of 120 observations were used, based on data from 24 manufacturing companies listed on the Indonesia Stock Exchange (IDX) over a five-year period, from 2016 to 2020. The descriptive statistics indicate the following: the deferred tax expense (X1) has a mean value of -0.00048 with a standard deviation of 0.00442, showing a minimum of -0.02115 and a maximum of 0.00972. Tax planning (X2) has a mean of 0.7617 and a standard deviation of 0.5488, with a minimum value of 0.03798 and a maximum of 6.54389. Deferred tax assets (X3) show a mean of -0.06556 with a standard deviation of 0.8868, with values ranging from a minimum of -7.06902 to a maximum of 0.91647. Finally, earnings management (Y) shows a mean of 0.0193 and a standard deviation of 0.0975, with a minimum of -0.30148 and a maximum of 0.65609.

Test of Normality

To test the normality of the data, the Kolmogorov-Smirnov test was applied. The results of this test showed that the residuals follow a normal distribution. The test statistic was 0.081, with an asymptotic significance (p-value) of 0.054. Since the p-value is greater than 0.05, we conclude that the data is normally distributed, fulfilling the assumption of normality for the regression analysis.

Test of Heteroscedasticity

For the heteroscedasticity test, which checks whether the variance of the residuals is constant across observations, the results indicated no heteroscedasticity in the model. This was confirmed by examining the significance values for the independent variables—deferred tax expense, tax planning, and deferred tax assets—all of which had p-values greater than 0.05. This suggests that the assumption of homoscedasticity holds, meaning that the variance of the residuals is constant across the observations.

Test of Multicollinearity

Regarding multicollinearity, the test results showed that there is no multicollinearity in the regression model. The variance inflation factors (VIF) for all independent variables—deferred tax expense (1.017), tax planning (1.023), and deferred tax assets (1.041)—were all below the threshold value of 10, indicating no significant multicollinearity. Additionally, the tolerance values for all variables were above 0.1, further confirming the absence of multicollinearity. These results suggest that the independent variables are not highly correlated with each other, which is an important assumption for the validity of the regression model.

Multiple Linear Regression and Hypothesis Test

This table presents the results of the multiple linear regression analysis, which aims to determine the relationship between the independent variables—Deferred Tax Expense (X1), Tax Planning (X2), and Deferred Tax Assets (X3)—and the dependent variable, Earnings Management (Y). The regression coefficients (B) indicate the impact of each independent variable on earnings management, holding other variables constant. For instance, the constant value of 0.043 represents the estimated value of earnings management when all independent variables are zero.

The coefficients for each independent variable indicate the strength and direction of their relationships with earnings management. Specifically, Deferred Tax Expense (X1) has a negative coefficient of -1.092, suggesting that as Deferred Tax Expense increases, earnings management decreases. Tax Planning (X2) and Deferred Tax Assets (X3) both also show negative coefficients, indicating that higher levels of these variables are associated with a reduction in earnings management. The statistical significance (Sig.) values for each variable, with the exception of Deferred Tax Expense (X1), are significant at the 0.05 level, indicating that the latter two variables have a statistically significant impact on earnings management.

Table 1. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*		
		B	*Std. Error*	*Beta*	t	*Sig.*
1	*(Constant)*	.043	.009		5.086	.000
	Deferred Tax Expense (X1)	-1.092	1.120	-.050	-.975	.332
	Tax Planning (X2)	-.039	.009	-.222	-4.360	.000
	Deferred Tax Assets (X3)	-.085	.006	-.770	-14.965	.000

a. *Dependent Variable:* Earning Management (Y)

Note: Dependent Variable: Earnings Management (Y) **Source:** Secondary Data Processed, 2021

Results of Coefficient of Determination (R^2) Test

This table provides the results of the Coefficient of Determination (R^2) test, which measures the proportion of variance in the dependent variable (Earnings Management) that is explained by the independent variables (Deferred Tax Expense, Tax Planning, and Deferred Tax Assets). The R value of 0.840 indicates a strong correlation between the independent variables and earnings management. The R^2 value of 0.705 means that approximately 70.5% of the variation in earnings management can be explained by the three independent variables in the model. The Adjusted R^2 value of 0.698 accounts for the number of predictors in the model, slightly adjusting the R^2 value to give a more accurate measure of model fit. The relatively low standard error of estimate (0.0536) indicates that the model's predictions are close to the actual data points.

Table 2. Results of Coefficient of Determination (R^2) Test

Model	R	R Square	Adjusted R Square
1	0.840	0.705	0.698

Note: Predictors: (Constant), Deferred Tax Assets (X3), Deferred Tax Expense (X1), Tax Planning (X2) **Source:** Secondary Data Processed, 2021

5. Discussion

The results from the multiple linear regression analysis aim to determine the relationship between the independent variables—Deferred Tax Expense (X1), Tax Planning (X2), and Deferred Tax Assets (X3)—and the dependent variable, Earnings Management (Y). The regression coefficients (B) reflect the impact of each independent variable on earnings management while holding the other variables constant.

In general, the findings show that **Deferred Tax Expense (X1)** has a negative coefficient of -1.092, suggesting that as Deferred Tax Expense increases, earnings management tends to decrease. This implies a negative relationship between Deferred Tax Expense and earnings management. Similarly, both **Tax Planning (X2)** and **Deferred Tax Assets (X3)**exhibit negative coefficients, indicating that higher levels of tax planning and deferred tax assets are associated with a reduction in earnings management. This aligns with prior research, such as Andani and Damayanty (2022), which also found a negative impact of deferred tax charge and tax planning on earnings management in firms listed on the Indonesia Stock Exchange.

However, despite the negative coefficients for all three independent variables, only **Deferred Tax Expense (X1)** is not statistically significant at the 0.05 level. This suggests that the impact of Deferred Tax Expense on Earnings Management is not strongly supported by the data, while both **Tax Planning (X2)** and **Deferred Tax Assets (X3)** are statistically significant, indicating that these variables have a more pronounced effect on earnings management. This finding is consistent with research by Herdiansyah, Septiawan, and Ikhsan (2022), which also showed a significant impact of tax planning and deferred tax expense on earnings management.

Next, **Table 4.5** presents the results of the Coefficient of Determination (R^2) test, which measures how much variance in the dependent variable (Earnings Management) can be explained by the independent variables. The R value of 0.840 indicates a strong correlation between the independent variables and earnings management. The R^2 value of 0.705 means that approximately 70.5% of the variation in earnings management can be explained by Deferred Tax Expense (X1), Tax Planning (X2), and Deferred Tax Assets (X3). The Adjusted R^2 value of 0.698 accounts for the number of predictors in the model, offering a more accurate measure of the model's fit. The relatively low standard error of estimate (0.0536) suggests that the model's predictions are close to the actual data points, increasing its reliability.

Overall, these findings provide important insights into the factors influencing earnings management, particularly within the context of companies listed on the Indonesia Stock Exchange. The results are consistent with studies like Midiastuty et al. (2023), which also found a significant impact of tax planning and deferred tax burden on earnings management.

6. Conclusion

This study finds that **Deferred Tax Expense** does not significantly affect earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. The analysis suggests that an increase in deferred tax expense corresponds with a rise in earnings management activities, indicating a potentially proactive approach by management in manipulating earnings. In contrast, **Tax Planning** and **Deferred Tax Assets** both have significant effects on earnings management. Companies with more aggressive tax planning strategies and higher deferred tax assets tend to engage more in earnings management, signaling that these variables play a critical role in shaping corporate financial behavior during the study period.

However, the study is subject to several limitations. First, it focuses on just three independent variables—Deferred Tax Expense, Tax Planning, and Deferred Tax Assets—excluding other factors like current tax expense, audit quality, firm size, and managerial ownership, which may also influence earnings management. The research also only covers five years (2016-2020), potentially limiting the consistency with past studies. Additionally, the sample is restricted to manufacturing companies listed on the Indonesia Stock Exchange, meaning the findings may not be representative of companies in other sectors. Future research should consider expanding the scope by including other variables, extending the observation period, and exploring different sectors to obtain a more comprehensive understanding of earnings management practices.

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