EARNINGS MANAGEMENT AT THE COMPANY THROUGH DEFERRED TAX ASSETS RESERVES

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Abstract : *Earnings management is the company's actions taken so that the company reaches a certain level of profit. Many ways can be done by companies in the framework of earnings management, one of which is to change the method or conduct a backup policy that has not been or not regulated how and the amount. One way for a company to carry out its profit management is by reserving deferred tax assets. Uncertainty over the income tax that must be paid by the company causes the regulator to allow management to make allowances with each other's valuation. Therefore, this can be one of the ways companies do profit management. This study uses non-financial companies listed BEI in 2016-2018 as research samples. The sample used must recognize deferred tax assets or deferred tax liabilities in their financial statements. Samples that pass the criteria will be tested with multiple linear regression to find out what accounts affect the reserves and whether there are indications that the company is doing earnings management. The results show that the provision for deferred tax assets themselves is affected by deferred tax assets from both fiscal losses and other records. This study also shows an indication of earnings management through the provision of deferred tax assets carried out by the company.*

1 INTRODUCTION

The company's financial statements are produced and prepared as a form of corporate responsibility to reflect the company's activities. This obligation is not only limited to internal company parties and stakeholders but also for tax purposes. The needs in Financial Accounting Standards cannot always fulfill the needs desired by the tax authorities. Therefore, the Indonesian Institute of Accountants responded to this difference by issuing a Statement of Financial Accounting Standards (PSAK) No. 46 Revised 2012 to meet the need for the enactment of income tax regulations issued by the tax authorities. In PSAK No. 46 itself, there are several statements indicating that management is given the freedom to determine the amount of allowance for income tax. This is often associated with the issue of earnings management by companies to present financial reports to their stakeholders. PSAK No. 46 also states that the carrying amount of deferred tax assets should be reviewed (at balance sheet date). The company must reduce the carrying amount if the taxable income is not sufficient to offset part or all of the deferred tax assets. The decrease must be readjusted if it is probable that the taxable profit is adequate (Indonesian Institute of Accountants, 2010). With the obligation to always conduct a review on the balance sheet date, each year management must conduct a revaluation to determine the balance of deferred tax assets and deferred tax asset reserves, while management's assessment is to determine the balance of tax asset reserves.

Accounting / Faculty of Business and Economics 87 the deferment can be subjective (Bauman et al, 2001). Therefore, accountants must be able to improve their judgment (judgment) in determining past and future income which will affect the valuation of deferred tax assets which can be used as an indicator of earnings management.

This study aims to see whether there is earnings management that occurs when there is a change in the company's deferred tax assets. This research is expected to increase knowledge and development about earnings management through the provision of deferred tax assets and accounts that affect the provision of deferred tax assets.

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2   LITERATURE REVIEW

Agency Theory

Agency theory emerged with the aim of solving this problem. The heart of agency theory itself is the conflict of goals inherent in individuals with different preferences who are involved in the same job (Eisenhardt, 1989). Agency theory is one part of games theory that studies contract design to motivate rational agents to act on behalf of the leader when the agent's interests conflict with the leadership's.

Profit management

Earnings management itself can be seen from 2 perspectives, namely from the financial reporting side and the contract perspective. From a financial reporting perspective, managers use earnings management to avoid reporting losses or to meet analysts and investors' expectations that are expected to prevent companies from reputational damage and negative stock price reactions. In terms of financial reporting, earnings management can also be used as a means of communication between management and investors. From a contractual perspective, earnings management can be used as a way to protect companies from unexpected events when contracts are rigid or incomplete. (Scott, 2015).

Earnings management itself can be interpreted as behavior carried out by company managers to increase or decrease earnings in the external financial reporting process with the aim of benefiting the company (Belkaoui and Riahi, 2007). Earnings management can also be defined as a collection of managerial decisions that result in not reporting short-term earnings and maximizing value as known by management (Ronen and Yaari, 2008). According to Cohen and Zarowin (2010), earnings management can be measured using two integrated approaches, namely accrual-based earnings management and real activities management. In this study, it is more focused on accrual-based earnings management because in this study a lot is related to the recording methods and accounting policies used.

Deferred Tax Assets and Deferred Tax Asset Reserve

Deferred tax assets are the amount of income tax recoverable (recovable) in future periods as a result of deductible temporary differences and the remaining compensation for losses (Indonesian Institute of Accountants, 2010). Deferred tax assets can also be interpreted as a consequence of deferred tax caused by temporary differences that can be deducted (Kieso et al., 2018). This deferred tax asset arises because of differences in the company's recording of taxable profit and commercial profit. This is due to differences in the IFRS adopted in Indonesia with tax regulations that cause companies to frequently calculate financial income before tax and taxable income. Deferred tax asset itself occurs when the commercial profit is less than the taxable profit. Because deferred tax assets arise from smaller commercial profits than taxable profits, company profits will tend to increase due to the recognition of deferred tax assets. A business should make a provision for valuation for deferred tax assets if there is a more than 50% chance that the company will not realize part of the assets.

These allowances should be recorded as income from continuing operations in the income statement. The need for provision for valuation is most likely if a business has a history of leaving expired items unused, or expects losses in the next few years. The tax effect of any valuation allowance used to offset deferred tax assets may also affect the estimated annual effective tax rate. The amount of this allowance must be reassessed periodically (Bragg, 2019). With this revaluation obligation, each year management must make an assessment to determine the balance of deferred tax assets and provision for deferred tax assets, while management's assessment to determine this is subjective (Burgstahler et al., 2001 in Suranggane, 2007). Therefore, an accountant must have the ability of judgment to determine past and future income which effect on the valuation of deferred tax asset reserves. The enactment of PSAK No. 46 concerning Income Tax Accounting provides the managerial freedom to determine the accounting policies used for the valuation of deferred tax assets which are used to indicate the existence of earnings management in the company.

PSAK No. 46

PSAK No. This 46 was issued for the purpose of regulating the accounting treatment for income tax. The main problem to be answered with this provision is to account for the tax consequences in the current and future periods for the recovery of recognized asset values or settlement of the recorded liabilities on the company's balance sheet and transactions in the current period that are recognized in the company's financial statements. In PSAK No. 46 This requires companies to treat the tax consequences of transactions and other events the same way they treat these transactions and incidents. For transactions that are recognized in the income statement, the tax consequences should also be recognized in the profit or loss.

Hypothesis

H_1: Changes in deferred tax assets from tax loss have a positive effect on earnings management.
$H2_2$: Changes in deferred tax assets from other records have a positive effect on earnings management.
$H3_3$ Changes in the company's earnings per share have a negative effect on earnings management.

3 METHODOLOGY

This research is a research with a quantitative approach. The sample used is non-financial business entities listed on the IDX in 2016-2018. This study uses a multiple regression analysis model to test the hypothesis. The multiple regression model used is:

$$\Delta DTVAt = \beta 1 \Delta NOLDTAT + \beta 2 \Delta ODTAT + \beta 3 \Delta DTLt + \beta 4 \Delta HEPSt + \beta 5 \Delta EPSt + \beta 6 \Delta MTBt + \beta 7 SIZE + \beta 8 EPS + \beta 9 DUMYEAR + \beta 10 DUMYEAR \times \Delta NOLDTA + \beta 11 DUMYEAR \times \Delta ODTA + \beta 12 DUMYEAR \times \Delta EPS + \varepsilon i$$

Information :
$\Delta DTVAt$: change of provision for deferred tax assets as earnings management
$\Delta NOLDTAt$: change in deferred tax assets from tax losses
$\Delta ODTAt$: change in deferred tax assets from other income
$\Delta DTLt$: change in deferred tax liability
$\Delta HEPSt$: changes in income before tax per share for the year before and 2 years before the sample year.
$\Delta EPSt$: changes in income before tax per share for the sample year and the previous year.
$\Delta MTBt$: the difference from the proportion of market value and book value of equity for the sample year and the previous year.
SIZE: company size
EPS: income before tax divided by the number of shares outstanding
DUMYEAR: value of 1 if the observation year 2018, value 0 otherwise
DUMYEAR x ΔNOLDTA: DUMYEAR multiplied by ΔNOLDTA
DUMYEAR x ΔODTA: DUMYEAR multiplied by ΔODTA
DUMYEAR x ΔEPS: DUMYEAR multiplied by ΔEPS
εi: error

The dependent variable in this study is ΔDTVA, which is the change in reserves for deferred tax assets as earnings management which can be found using the formula:

$\Delta DTVAt = (DTVAt - DTVAt - 1) CSHOt$
The independent variables used in this study are NOLDTA which is the recording of deferred tax assets from tax loss, ΔODTA which is the recording of other deferred tax assets, and ΔEPS which is the change in earnings per share whose formula can be defined as follows.
$\Delta NOLDTAt = (NOLDTAt - NOLDTAt - 1) CSHOt$
$\Delta ODTAt = (ODTAt - ODTAt - 1) CSHOt$
$\Delta EPSt = EPSt - EPSt - 1 \ EPSt = PItCSHOt$
The control variables used are as follows, followed by the search formula.
$\Delta DTLt = (DTLt - DTLt - 1) CSHOt$ DUMYEAR: 1 if year 2018, 0 other than 2018

$\Delta HEPSt = EPSt - 1 - EPSt - 2\ \text{DUMYEARx}\Delta\text{NOLDTA: DUMYEAR x } \Delta\text{NOLDTA}$
$\Delta MTBt = MVEtBVEt - MVEt - 1BVEt - 1\ \text{DUMYEARx}\Delta\text{ODTA: DUMYEAR x } \Delta\text{ODTA}$
$SIZEt = \ln MVEt\ \text{DUMYEARx}\Delta\text{EPS: DUMYEAR x } \Delta\text{EPS}$
$EPSt = PItCSHOt$

Furthermore, the dependent, independent and control variables will be analyzed using E-Views 10 using multiple linear regression.

The object of research in this research is all business entities listed on the Indonesia Stock Exchange (IDX) in the 2016-2018 period which are in accordance with predetermined criteria, namely business entities that report the amount of deferred tax assets and deferred tax liabilities in 2016, 2017, and 2018, is not included in the financial sector (category of banks, financial institutions, securities companies, and insurance), and uses the Rupiah as the functional currency in the consolidated financial statements. The number of issuers registered on the IDX in 2016 was 539 companies, in 2017 there were 555 companies, and in 2018 there were 659 companies. The total of the three years will be the population of this study. From the existing population, sample screening is carried out according to the criteria of the object of research.

4   FINDINGS AND DISCUSSION

The first result is the result of descriptive statistics which shows the maximum, minimum, and average values for each variable used.
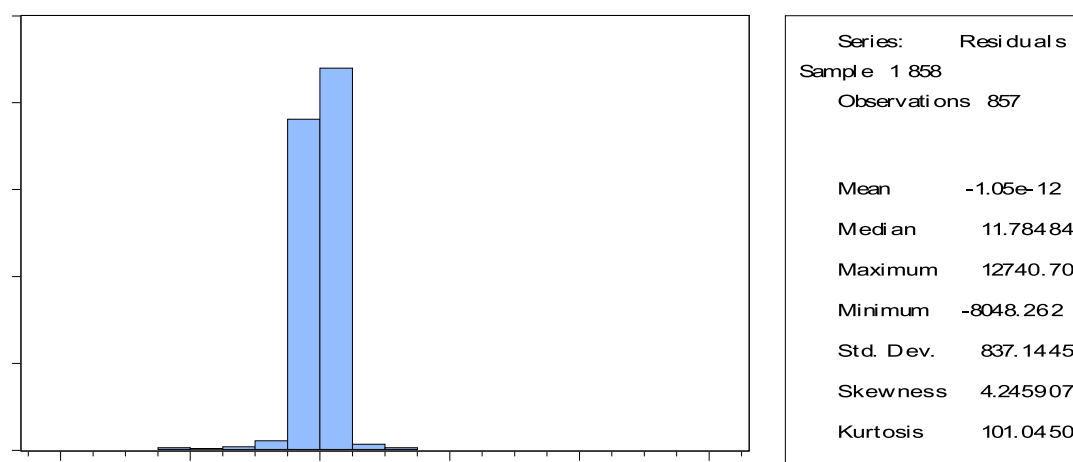

Series: Residuals	
Sample 1 858	
Observations 857	
Mean	-1.05e-12
Median	11.78484
Maximum	12740.70
Minimum	-8048.262
Std. Dev.	837.1445
Skewness	4.245907
Kurtosis	101.0450

Figure 1. Normality Test Results

Although the test results show that the distribution is not normal, Central Limit Theorem states that for large samples, n > 30, regardless of shape distribution of individual values, can be transformed into a normal distribution approach (Gujarati, 2004). Therefore, the distribution of data in this regression model can be said to be close to normal, because the sample data used in this study were 857 samples.

In this study, the multicollinearity problem for these four variables can be ignored because the data to come from related accounts. For the other variables, they are free from the multicollinational problem because the VIF is below 10.

The autocorrelation test results show a Chi-Square probability value of 0.5820. By using the Breusch-Godfrey Serial Correlation LM Test, it can be said that there is no autocorrelation in the regression model because the Chi-Square probability value is greater than α, namely 0.05.

The results of this heteroscedasticity test indicate that the regression model is free from heteroscedasticity problems. This can be seen from the Probability F value which is greater than α 0.05 for the two tests used to see the heteroscedasticity problem.

To test the three hypotheses, samples from 2016, 2017, and 2018 were used. This research has gone through several regression models with variations in control variables, namely with all control variables, without DUMYEAR control variables, without EPS control variables, without EPS control variables and DUMYEAR, and without the control variables DUMYEAR, EPS, and SIZE.

From the simultaneous significance test (Test F) for all regression models from the first to the fifth test, it shows the prob value. below 0.05, which means that all independent variables, namely changes in deferred tax assets from tax losses, changes in deferred tax assets from other records, and changes in profit before tax per share have a simultaneous effect on changes in the company's deferred tax asset reserves.

From the results of the first regression, it is known that the coefficients that are positive (+), such as ΔDTL, ΔHEPS, ΔMTB, EPS, DUMYEARxΔNOLDTA, DUMYEARxΔODTA, and DUMYEARxΔEPS indicate a unidirectional relationship between dependent variables and these variables. Suppose that ΔDTL has increased by 1 unit, then ΔDTVA will also increase by 0.438 units. Whereas for negative coefficients (-) as in ΔNOLDTA, ΔODTA, ΔEPS, SIZE, and DUMYEAR, it shows that there is an inverse relationship between the dependent variable and these variables. The variables ΔNOLDTA, ΔODTA, ΔHEPS, ΔEPS, SIZE, EPS, and DUMYEARxΔEPS have a significant effect on ΔDTVA as the dependent variable, where prob. of the seven variables are below 0.05. Meanwhile, the variables ΔDTL, ΔMTB, DUMYEAR, DUMYEARxΔNOLDTA, and DUMYEARxΔODTA have prob. above 0.05 which indicates that this variable does not have a significant effect on ΔDTVA as the dependent variable.

The second regression result shows that the positive coefficients (+) are ΔDTL, ΔHEPS, ΔMTB, and EPS, while the negative coefficients (-) are ΔNOLDTA, ΔODTA, ΔEPS, and SIZE. All variables have a significant effect on ΔDTVA as the dependent variable except for ΔMTB where the value of prob. is below 0.05 and only the ΔMTB variable is above 0.05 which indicates that the variable does not have a significant effect on the ΔDTVA variable as the dependent variable.

The regression results of the three coefficients that are positive (+) are ΔDTL, ΔHEPS, ΔMTB, SIZE, DUMYEARxΔNOLDTA, DUMYEARxΔODTA, and DUMYEARxΔEPS, while the negative coefficients (-) are ΔNOLDTA, ΔODTA, ΔEPS, and DUMYEAR. The variables ΔNOLDTA, ΔODTA, ΔDTL, ΔHEPS, ΔEPS, and DUMYEARxΔEPS have a significant effect on ΔDTVA as the dependent variable where prob. is below 0.05. Meanwhile, the variables ΔMTB, SIZE, DUMYEAR, DUMYEARxΔNOLDTA, and DUMYEARxΔODTA have prob values. above 0.05 which indicates that this variable does not have a significant effect on ΔDTVA as the dependent variable.

In the fourth regression, the positive coefficients are ΔDTL, ΔHEPS, and ΔMTB. The negative coefficients are ΔNOLDTA, ΔODTA, ΔEPS, and SIZE. The variables ΔNOLDTA, ΔODTA, ΔDTL, ΔHEPS, and ΔEPS have a significant effect on ΔDTVA as the dependent variable where prob. is below 0.05. Meanwhile, the ΔMTB and SIZE variables have prob values. above 0.05 so it does not have a significant effect on ΔDTVA as the dependent variable.

In the last regression, the positive coefficients are ΔDTL, ΔHEPS, and ΔMTB and the negative ones are ΔNOLDTA, ΔODTA, and ΔEPS. The variables ΔNOLDTA, ΔODTA, ΔDTL, ΔHEPS, and ΔEPS have a significant effect on ΔDTVA as the dependent variable where prob. is below 0.05. Meanwhile, the variable ΔMTB has a prob value. above 0.05 so it does not have a significant effect on ΔDTVA as the dependent variable.

The first hypothesis in this study states that changes in deferred tax assets from tax losses have a positive effect on corporate earnings management. When viewed from the results of the partial test (t-test), the result is that changes in deferred tax assets from tax losses have a negative and significant effect on corporate earnings management. This means that if the company's deferred tax asset reserves are large, then the earnings management is small and vice versa. This is contrary to research conducted by Bauman and Bowler (2018) which states that changes in deferred tax assets from tax losses have a positive effect on earnings management. This result is supported by research conducted by Miller and Skinner (1998) which states that tax losses are recognized as assets Deferred tax is an important component in explaining the company's earnings management. This difference is due to the company's deferred tax asset reservation is the judgment made by the accountant so that the accountant can make an assessment other than the deferred tax asset account from tax loss. Another factor is also based on the fact that the tax loss can be recognized only from the last 3 years of fiscal loss, if it is more than 3 years then it cannot be recognized. Because these factors cause the direction of the effect of change, contrary to research conducted by Bauman and Bowler (2018).

The second hypothesis states that changes in deferred tax assets from other records have a positive effect on corporate earnings management. When viewed from the partial test (t-test) for the five regression models, the result is a significant negative effect. This is also contrary to research conducted by Bauman and Bowler (2018) which states that changes in deferred tax assets from other recordings have a positive effect on earnings management. This is supported by research conducted by Schrand and Wong (2003) which proves that there is a negative relationship between changes in other deferred tax assets on earnings management. This result is also supported by the research of Miller and Skinner (1998) which also shows that an important indicator in determining the provision of deferred tax assets as earnings management is the deferred tax asset itself which indicates the significance of the relationship between the two. The different results of this research may be due to the existence of several accounts that only experience temporary differences and there are several accounts that experience permanent differences so that it could be that the provision is bigger to anticipate temporary differences in the future even though the recognized deferred tax assets are smaller.

The third hypothesis is that changes in earnings per share have a negative effect on changes in reserves for deferred tax assets. This is supported by research conducted by Bauman and Bowler (2018) which has results that are in line with the results of the partial test (t-test) from the first to fifth regression models. The negative relationship here means that if the change in earnings per share is large, then earnings management is small. This result is also supported by research conducted by Bauman, Bauman and Hasley (2001) which proves that companies do not use deferred tax asset reserves to increase company profits. In other words, the company carries out earnings management with the aim that changes in company profits do not fluctuate, but rather increase slowly from year to year. This is in line with the results of research on the first to fifth regression models which prove a negative relationship between changes in earnings per share and provision for deferred tax assets. However, the significant effect on this hypothesis indicates that there is an indication that the company conducts earnings management through provision for deferred tax assets. This is in line with the research of Phillips, Pincus and Rego (2003) who also found that provision for deferred tax assets can be used as a predictor for companies conducting earnings management.

Changes in the provision for deferred tax assets as earnings management are not only affected by changes in deferred tax assets from tax loss and other records, but can also be affected by changes in deferred tax liabilities or other factors. It is proven in the first to fifth regression models, changes in deferred tax liabilities also have a significant effect on changes in the company's deferred tax asset reserves. Company size is also one of the factors that influence changes in the company's deferred tax asset reserves as evidenced by the negative significant results in the first and second regression models.

5   CONCLUSION

Based on the results of testing and data analysis that has been carried out by researchers on the hypothesis, the conclusion of this study is that changes in the company's deferred tax asset reserves are influenced by changes in deferred tax assets themselves, both from tax losses and from other records. Changes in the deferred tax asset reserves also significantly affect changes in the company's earnings per share. This matter shows that the provision for deferred tax assets can be used as a predictor for analyzing corporate earnings management. There are other factors that affect the company's deferred tax asset reserves, one of which is the company's own deferred tax liability. Company size is also one of the factors that affect the company's deferred tax asset reserves. Small-scale companies tend to reserve more deferred tax assets than large-scale companies. The results of this study indicate that the provision of deferred tax assets as corporate earnings management is influenced not only by changes in deferred tax assets, both from tax losses and other records, but also from corporate deferred tax liabilities. Company size can also affect the provision of deferred tax assets, although under certain conditions, company size does not have a significant effect. Deferred tax asset reserves can be a predictor of whether a company does earnings management or not.

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TABLE

Table 1. Number of Research Objects

Information	Total
Business entities listed on the IDX 2016-2018	1753
Sample Selection Criteria	
Financial sector business entities	273
Business entities that do not present LK in full on the IDX	128
Business entities registered on the IDX for the 2016-2018 period	110
Business entities that do not use Rupiah as currency	237
Functional	148
Business entities that do not recognize deferred tax assets on	**857**

Table 2. Descriptive Statistics Results

Variable	N	Maximum	Minimum	Mean	Std.Deviasi
ΔDTVA	857	516244.8	-516244.2	-0.3815	24954.29
ΔNOLDTA	857	107324.4	-4479.495	121.5268	3669.833
ΔODTA	857	4483.422	-623565.2	-715.683	21301.86
ΔDTL	857	974.5624	-684.4611	2.584681	60.717
ΔEPS	857	588389.3	-243844.1	404.17	21770.68
ΔHEPS	857	588389.3	-344596.1	-52.6856	24770.99
ΔMTB	857	13081	-1050	18.56741	453.4748

SIZE	857	35.12316	20.497	28.05768	2.136351
EPS	857	243923.1	-6045.114	408.9874	8345.785
DUMYEARxΔNOLDTA	857	157.1655	-67.53331	0.4882	9.547755
DUMYEARxΔODTA	857	176.4821	-394.7719	-0.73303	17.44451
DUMYEARxΔEPS	857	2681.94	-3662.411	-2.35079	186.5386

Table 3. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
ΔNOLDTA	0.284444	4621.112	4616.044
ΔODTA	0.008924	4884.967	4879.453
ΔDTL	0.383072	1.704783	1.701696
ΔHEPS	1.18E-05	8.733963	8.733924
ΔEPS	0.000145	82.76374	82.73519
ΔMTB	0.004113	1.020962	1.019251
SIZE	209.9409	200.5376	1.154577
EPS	0.004009	337.2750	336.4660
DUMYEAR	3781.886	1.517261	1.012687
DUMYEARxΔNOLDTA	15.93736	1.407723	1.403140
DUMYEARxΔDODTA	3.763040	1.382305	1.379865
DUMYEARxΔEPS	0.029004	1.216316	1.216122

Table 4. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.541599	Prob. F(2,842)	0.5820
Obs*R-squared	1.101079	Prob. Chi-Square(2)	0.5766

Table 5. Heteroscedasticity Test Results

Heteroskedasticity Test: *Breusch-Pagan-Godfrey*			
F-statistic	0.334876	Prob. F(12,844)	0.9828
Obs*R-squared	4.061076	Prob. Chi-Square(12)	0.9823
Scaled explained SS	196.6477	Prob. Chi-Square(12)	0.0000

Table 6. Regression Results

Variabel	Koefisien	*Prob*	Koefisien	*Prob*	Koefisien	*Prob*	Koefisien	*Prob*	Koefisien	*Prob*
C	1576.922	0.0001 *	1865.973	0.0000 *	40.616	0.9221	71.244	0.8717	23.537	0.4786
ΔNOLDTA	-2.381	0.0000 *	-2.378	0.0000 *	-4.225	0.0000 *	-4.757	0.0000 *	-4.753	0.0000 *
ΔODTA	-1.246	0.0000 *	-1.189	0.0000 *	-1.828	0.0000 *	-1.905	0.0000 *	-1.905	0.0000 *
ΔDTL	0.438	0.4797	1.319	0.0362 *	2.458	0.0001 *	4.371	0.0000 *	4.37	0.0000 *
ΔHEPS	0.008	0.0257 *	0.008	0.0190 *	0.01	0.0054 *	0.012	0.0022 *	0.012	0.0021 *
ΔEPS	-2.074	0.0000 *	-2.071	0.0000 *	-2.043	0.0000 *	-2.029	0.0000 *	-2.03	0.0000 *
ΔMTB	0.021	0.7457	0.024	0.7137	0.002	0.9795	0.002	0.9829	0.001	0.9941
SIZE	-58.317	0.0001 *	-69.829	0.0000 *	0.077	0.9958	-1.701	0.9136		
EPS	0.756	0.0000 *	0.889	0.0000 *						
DUMYEAR	-41.916	0.4957			-43.916	0.5088				
DUMYEARxΔEPS	1.343	0.0000 *			1.857	0.0000 *				
DUMYEARxΔNOLDTA	4.016	0.3147			4.589	0.2876				
DUMYEARxΔODTA	0.887	0.6476			2.463	0.2392				