DEFERRED TAX EXPENSES AS EARNING MANAGEMENT INDICATOR

Louis Yosen Primsa Tarigan
Universitas Pelita Harapan
primsa.tarigan@uph.edu

ABSTRACT

This study aims to examine the benefit of using deferred tax expenses to detect the practice of earning management. Data is gathered from companies listed in Bursa Efek Indonesia (BEI) in automotive and components sub-sector for the years 2006 – 2018. Data source are secondary data from www.idx.co.id. Statistical test is the analysis tool used in this research. Writer decides to have some requirements of data, which are normal distribution fulfilled, existing outliers removed, assessed for its multicollinearity and heteroscedasticity. It is found that from this research, the deferred tax expenses influence earning management.

Keywords:
earning management; deferred tax expenses

INTRODUCTION

The existence of company is to create the wealth increase to its shareholder. To achieve this purpose, company often uses the financial report as a tool to take proper financial decision. In the point of view of investor, financial report must show how the company manage its earning. This earning indicates how well the operation was done by the top-management. This is also the reason why earning management plays critical role in strategic decision making by company.

Earnings become the central attention of investor, as they already put investment in the company. Through financial statements, investor analyze the performance of the company, and in other side, company try its best to present a promising figure. The balance of these two needs leads to the importance of presenting a relevant and reliable financial statement. Related with the fulfillment of this needs, academic discourses have been long investigating the earning management.

Conceptual framework of financial reporting establishes the objective of general purpose of financial reporting. The framework focuses on the information to be presented to potential shareholders, lenders and other creditors about the reporting entity. When managers are assigned to provide this information, there are some assumptions used, which are economic entity, going concern, monetary unit, periodicity and accrual. Other than assumptions, managers are also applying some principles, which are measurement, revenue recognition, expense recognition and full disclosure. The existence of assumptions and principles as listed above means that to a certain degree, management are

having discretion when preparing the financial statements. As they are already appointed to run the company, the given discretion is assumed to be the tool to manage the daily operation of the company. However, there can be personal interest from management interfering the quality of financial statements.

To encourage their performance, management are usually assigned through incentive-scheme assignment. Every financial period, management are given performance indicator to achieve. Should they cannot meet the expectation, then their position is in danger. In other condition, while they are able to exceed the target, then they are compensated with the incentive. This condition lead management to higher motivation to perform better, while the end result is the satisfied stakeholders.

In terms of financial measurement, the performance of management is firstly known from commercial net income. This figure is reflecting the value of business decision making executed by the managers. The commercial net income is than corrected through fiscal correction to ensure each of the revenues and expenses items are already according to tax regulation.

Based on Undang-undang Nomor 28 Tahun 2007 Tentang Ketentuan Umum dan Tata Cara Perpajakan, company fulfils its tax obligation as a taxpayer based on the prevailing tax rule. Company is obliged to do regular recording to collect financial data and information covering assets, liabilities, capital, revenues and expenses, also for the acquisition cost and price of delivered goods or service, which cycle is closed through preparation of financial statements.

The result of fiscal correction is fiscal net income, which will be the base to calculate the corporate income tax expenses. Fiscal correction, which is the bridge from commercial net income and fiscal net income, consists of permanent and temporary difference. The latter is the source of deferred tax calculation, either making deferred tax expenses or deferred tax income. Since it comes from temporary difference, thus there will be the future event expected to realize the current difference.

When company recognized deferred tax item within its financial statement, it means that there will be future recognition of deferred tax recovery. Thus, the presence of deferred tax item in the financial statement open the room of managing its future recovery, which can be useful in managing the earnings of the company as a whole. In other words, there is a likelihood that the presence of deferred tax in financial statement can indicate the earning management by the company. This earning management has two possible settings, which are to avoid an earning decline and to avoid loss (Burgstahler and Dichev, 1997). Focusing on deferred tax expenses as an impact of fiscal reconciliation in financial statement preparation with the possible settings in earning management, the writer proposes the title for this journal as “Deferred Tax Expenses are Earning management Indicator”.

LITERATURE REVIEW

Agency Theory

Jensen and Meckling (1976) were the scholars who firstly introduced agency theory. They promoted a theory suggesting a potential conflict of interests between three parties within a company, which are the shareholders, managers and major providers of debt. It is said to be a conflict because these three parties maintain different interests. Shareholders expect the increase in their wealth, managers expect salary without considering the future income for shareholders, while providers of debts expect sound financial management that can guarantee the payback of the financial assistance provided by them.

Jensen and Meckling made the definition of agency relationship in the form of a formal contract between the company's owners as the principal and company's managers as the agent. Based on the contract, principal appoints an agent to manage the company based on the interest of the principal.

Basically, a person acts as an agent when he takes decision and makes action on behalf of the other person, which in their relationship has the role as principal. A sales promotion officer of product does canvassing, he is acting as the agent of the company he is working for, tries to convince the potential customer about the benefit of having and using the product. Regularly, he will go back to his office to report his achievement and be rewarded based on the agreement between him as the agent and his office as the principal.

In formal entity like a corporation, the relationship between agent and principal is very clear. In terms of injected capital, principal is a party that invest their money in form of share capital in a company. A party here can be in the form of individual or company. Agent is defined as the individual who manage the utilization of the invested money.

When firstly established, business owners are usually the managers. They manage the business financed by their own money. As company steps into more complex situation, having higher net income, dealing with more vendors and customers, subject to more regulations, the it is certain that companies must be managed by a more competent person. The double role as principal and agent requires the business owner to upgrade their competence, but not in all case the upgrading process takes place smoothly. The latter condition suggests that business owner plays his role as the principal only.

Due to limitation in experience, knowledge, time or energy, the principal does not run the business himself. He assigns other persons as an agent to manage the business day by day. Very common, the principal sets a range of target to push the performance of the agent, to eventually generate the expected profit by principal.

Along with the target set by the principal, reward and punishment scheme are given to the principal. The existence of these reward and

punishment is arranged to direct the performance of the management within its corridor. Explicit reward and punishment scheme are very helpful for the agent in splitting the target into small attainment in shorter period. Whenever they think that they are underperform for a month, then they know the lag to be recovered in the upcoming month.

Reward is formalized through compensation scheme. While most of the compensation schemes are in forms of monetary unit like bonus, share ownership or car ownership, there is also non-monetary form given like holiday trip already paid by principal or the simple case is the additional granted leave for the performing agent.

Punishment is imposed by principal on the agent that can not meet the set target. It is very clear that the principal expects an optimum return from the money they already invest. When the actual result does not satisfy the target, fairly the principal will feel disappointed and rethink twice about using the service of the same agent in the future.

Earning management

Financial statement is prepared by management using the conceptual framework of financial reporting, which consists of three levels. The third level details the implementation guidance, covering assumptions, principles and constraint in preparing financial reporting. There are some assumptions and principles that become the foundation of a financial report. To a particular extent, these assumptions and principles can be an entrance for the management in managing the earnings of the company. Management as the agent are supposed to fight the interest of business owner as the principal. However, due to the result of the company will give impact to the welfare of the managers, it is not guaranteed that managers will always put his best when serving the company. The integrity is in doubt should there is an area in managing the earnings which manager can exploit for his own benefit.

The selection of depreciation method is one example of possible exploitation area of manager. Having single line method means that company will have fixed amount of depreciation every year. Applying double declining method will result higher depreciation amount during the early years, then decrease in the forthcoming years. Assume that principal does not provide bonus scheme for manager based on net income of the company. When company just acquired a machine, it is no difference for the manager to apply single line or double declining method. Contrast with this condition, the second condition assumes that managers are compensated based on the net income of the income. For this instance, applying single line method will be preferred by managers because the statement of profit loss will have higher net income compared to depreciating using the double declining method. The later consequence will be the distribution

of bonus to managers as expected by him.

Based on Burgstahler and Dichev (1997), there are two objectives addressed by management when they manage the earnings, which are to avoid earning decline and to avoid losses. The objective of avoiding earning decline and loss means that for managers, it is important to have a good image in the eye of investor. Having a decrease in the net income generated by the company lead into a limitation of dividends to be distributed to principals. If company suffers loss, the worse condition exists, which reduce the balance of retained earning. If not well anticipated, continuing loss in long-run will convert the retained earning to accumulated deficiency. For creditor, seeing the loss in debtor will harm its confidence on the company, asking more supervision to safeguard the loan that is still outstanding from the company. Of course, being supervised tightly is not convenient for the management. Thus they try to avoid this consequence by managing their income.

Earning management has its peak concern when Enron Corporation collapsed in 2001. Before its bankruptcy was uncovered, Enron seemed to be a very promising investee. It showed a strong financial position, wide networking worldwide and already obtained energy contract with some big companies. In fact, the management of Enron managed the earnings by setting the timeframe of revenue recognition, not based on the GAAP (Generally Accepted Accounting Principles), but based on the personal interest of the management. To hide their hidden agenda, management cooperated with the auditors to guarantee the investor about the quality of their financial statements. This cooperation makes the coverage of the earning management made by Enron were safe for years. Once uncovered, not only the company, but also the accounting firm lose their trust from the public. Both company and the accounting firm are no longer exist after that.

Deferred Tax Expenses

For commercial purpose, preparation of financial statements are done using the accounting standards. Accounting standards require company to prepare financial statements using some assumptions, which are economic entity, going concern, monetary unit, periodicity and accrual. One of the assumptions, which is accrual basis, drives the difference between financial statements prepared by commercial basis and tax regulation. Accrual basis state the requirement for the company to do the accounting record based on its occurrence, not referring to the existence of cash transfer.

Assume that company has provision of employee benefit obligation. This account is used to record company' obligation for the services provided by employees. The calculation of this provision depends on actuarial assumptions that may change from year to year. Actuary makes assumptions regarding mortality, retirement and interest rate which

later makes impact to the provision that need to be provided by the company. The actual payment of the provision will take place in the future, depending on the retirement condition per employee. In the year when company makes the payment to employee, then company will debit the provision, means that the provision is reduced.

The accrual basis is not followed by tax authority regarding the provision of employee benefits obligation. Instead of accrual basis, tax regulations only allow the record of expenses not based on cash basis. It means that during the years of making provision, when company records expense in debit and provision in credit side, tax regulations will classify this expense as non-deductible expense. Non-deductible expense has to be excluded from the list of expense to substract the revenues. Thus, the net income will be higher, leading to higher corporate income tax expense.

When company eliminate the non-deductible expense from the list of expense, it can be categorized either as permanent difference or temporary difference. Permanent difference exists when a correction is made on a revenue and expense and there is no future recovery of it. Revenue is corrected permanently if its taxation is categorized as final income tax as regulated in Income Tax Provision (Undang-undang Pajak Penghasilan) Number 36 Year 2008 article 4 point 2 or not classified as a tax object based on Income Tax Provision article 4 point 3. Correction of expense is permanent when it is not backed by the supporting evidence, or there is no direct relationship between the existence of the expense and business activities.

When there is future recovery of an expense, it is classified as temporary, which will lead to deferred tax expenses. The deferred tax expense is a component of a firm's total income tax expenses and reflects the tax effects of temporary differences between book income and taxable income that arise primarily from accruals for revenue and expense item that affect both book and taxable income, but in different periods (Phillips et al., 2003).

The sample of temporary difference is the recorded expense as the impact of future employee benefit obligation. The years when company recorded its provision, its accompanying expense will be eliminated from list of deductible expense in the respective year, leading the record of deferred tax asset in debit side and deferred tax income in credit side. However, if later company distribute the provision to employee, there is no more expense recorded per commercial, only debiting the provision of employee benefit obligation. Per fiscal, there is recognition of expense in that year, making more deductible expense to be recorded per fiscal, lowering the net income per fiscal, thus company will have lower corporate income tax expense. At this point, company will record the deferred tax expense in debit side and deferred tax liability in credit side.

In Indonesia, the presentation of deferred tax is provisioned in PSAK

(Pernyataan Standar Akuntansi Keuangan) or Generally Accepted Accounting Principles (GAAP) Number 46. This standard regulates that the company must distinguish the presentation of current income tax expense and deferred income tax expense. When there is deferred tax assets or deferred tax liabilities, PSAK 46 also put focus on how the recoverability or settlement upon the deferred tax assets or deferred tax liabilities.

Yulianti (2005) said that the increase of deferred tax expense to income tax expense of a company show the more liberal application of accounting standard. The liberal state is according to more assumption and judgment that lead to higher accounting income, while assumption and judgment itself is an effort to implement earning management by company. Thus, the deferred tax expenses can be placed as an indicator of earning management.

Deferred Tax Expenses to Influence Earning Management

There were some researches to propound the influence of deferred tax expenses toward earning management. The famous research in this area was the investigation made by Philips et al. (2003) who tried to uncover how deferred tax expense functions in detecting earning management. The basic assumption of managers behavior is that they are assumed to improve their performance in the company. Having the better earning is crucial for them to continue working or to climb up in company hierarchy. As they are aware there is loophole in managing the earnings through financial reporting preparation, managers try to interfere the reporting earnings.

Managers fiddled with the figures in the financial statements and thus not reflecting the true condition of the company. According to Burgstahler and Dichev (1997), the management of the earning is addressed to arrive to two possible conditions, either to avoid earning decline or to avoid losses. They hypothesize that management manage earnings because they do not want to report earning decline or report a loss. Phillips et al. (2003) hypothesize that discretion in preparing the financial statements allow managers to manage earnings in a positive manner but in ways that also do not increase taxable income. This discretionary earning management has created the timing difference that resulting the increase in deferred tax expenses amount.

By nature, deferred tax expenses could come from recognized expenses per fiscal is higher than per commercial, or recognized revenues per fiscal is lower than per commercial. Assume for fixed assets, company set the useful life of a machine is five years. It means that in its commercial report, company will have the annual depreciation expense at 20% of the machine' acquisition cost. Fiscal regulation, based on Income Tax Provision, classifies this machine into category 1 non-building asset, so the useful life is four years. Per fiscal, the machine will have depreciation expense at 25% of the machine' acquisition cost. Comparing

the depreciation expenses per commercial and fiscal base, we will have annual depreciation expense for the first four years higher for fiscal depreciation. The net book value per fiscal has already been zero at the end of the fourth year, while commercial base still records the net book value equivalent to 20% of the machine' acquisition cost. In the fifth year, there is no more depreciation expense per fiscal, while for commercial base, there is depreciation expense coming from the remaining net book value of the machine at the end of the fourth year.

During the first four years of its useful life, assuming ceteris paribus, the recognized expenses per commercial will be lower compared to deductible expenses per fiscal base, leading to higher commercial net income. After fiscal correction, particularly due to depreciation item, fiscal base shows higher expenses, driving lower net income to be taxed. The difference in this net income comes from difference in recognized expenses, which is by nature temporarily different until the end of the fifth year where for both commercial and fiscal base, there is no more net book value remains for future depreciation. Thus, company will have lower current income tax expense recorded during this period. By accumulating the income tax expenses using commercial and fiscal in five years, there is no difference per total, only in yearly calculation.

In the first four years, fiscal reconciliation leads the company record deferred tax expense, having lower taxable net income, thus decreasing current income tax expenses. Cash flows of the companies seems better during this period. This is the period where company records deferred tax expenses in debt side, and deferred tax liabilities in credit side.

In the last year of its useful life, the fiscal correction brings zero depreciation expense for the machine, making higher taxable net income, thus increasing current income tax expense. In its fifth year, company has to pay higher current income tax expense as the accumulated deferred current income tax expenses during the first four years.

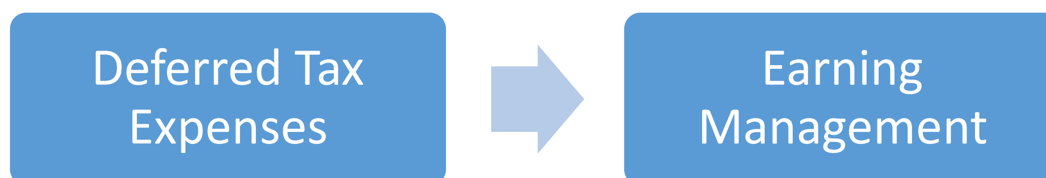
Periodicity of recording expenses are the aspect that need to be highlighted when discussing deferred tax expenses. Management considers how the impact from the current and future deductible expenses into the calculated current and future taxable income is. To the degree which is manageable, management will try to smooth out the earning management. Related with deferred tax expenses, it is considered as an indicator of earning management.

Based on the explanation above, writer concludes the research having hypothesis as below:

H0: Deferred Tax Expenses does not have influence on Earning management on companies listed in Automotive and Components sub-sector

H1: Deferred Tax Expenses has influence on Earning management on companies listed in Automotive and Components sub-sector

Figure 1 Research Model



Source: Prepared by writer (2019)

RESEARCH METHODOLOGY

Research Design

This research design applies quantitative method to examine the influence of independent variable (which is deferred tax expenses) to dependent variable (which is earning management). It uses secondary data taken from Bursa Efek Indonesia (BEI) through www.idx.co.id from 2006 to 2018. Data is processed using statistic software SPSS version 25.

Operating Definition and Variable Measurement

In a research, a researcher makes the dependent variable (symbolized as Y) as the primary interest of his research. It is the variable to be measured. Researcher uses an independent variable (symbolized as X) to test its influence toward dependent variable. In this research, earning management is the dependent variable to be tested by deferred tax expenses as independent variable.

Independent Variable

Deferred tax expense comes from the temporary difference in the reporting figures per accounting standards compared to fiscal regulation. As its nature comes from temporary differences, deferred tax expenses will be recovered in the future, through the settlement in form of cash to tax office, requiring the company' asset available for the payment. The deferred tax expenses for the research purpose is measured as below (Budiarti, 2013):

$$DTE_{it} = \frac{\text{Deferred Tax Expenses}_{it}}{\text{Total Assets}_{i(t-1)}}$$

where:

- DTE_{it} stands for Deferred Tax Expenses of company i in year t, measured in ratio
- Deferred Tax Expenses $_{it}$ means the deferred tax expense figure of company i in year t, measured in Rupiah
- Total Assets $_{i(t-1)}$ means the balance of total assets of company i in year t-1, measured in Rupiah

Dependent Variable

Dependent variable in this research is earning management. Earnings are managed by management either to avoid earning decline or to avoid losses. In this view, it means that management will have a look on

previous year earnings before finalizing the figures for current year earnings. It is also assumed that management will regard the impact of change in net income to the market value equity, which is the summary of business view of investor. Combining the prior year consideration of earning and market value equity, thus earning management can be calculated as below (Budiarti, 2013):

$$SEC_{it} = \frac{\text{Net Income}_{it} - \text{Net Income}_{i(t-1)}}{\text{Market Value of Equity}_{i(t-1)}}$$

where:

- SEC_{it} stands for Scaled Earnings Change of company i in year t, measured in ratio
- Net income $_{it}$ means the net income figure of company i in year t, measured in Rupiah
- Net income $_{i(t-1)}$ means the net income figure of company i in year t-1, measured in Rupiah
- Market value equity $_{i(t-1)}$ means the market value of equity of company i in year t-1, measured in Rupiah

Market value of equity in above equation is calculated using below formula:

$$MVE_{it} = \text{Outstanding Stock} \times \text{Closing Price of Stock}$$

The calculated scaled earnings change will be used as dummy variables for the earning management figures, with the provisions as below (Budiarti, 2013):

- if the change of net income of company i in year t compared to year t-1, divided by market value of equity in year t-1 is ≥ 0 and < 0.01, it is given dummy variable 1 to represent small profit firm
- if the change of net income of company i in year t compared to year t-1, divided by market value of equity in year t-1 is < 0 and ≥ -0.01, it is given dummy variable 0 to represent small loss firm

The earning management are projected in below model (Budiarti, 2013):

$$EM_{it} = \alpha + \beta\, DTE_{it} + \varepsilon_{it}$$

where:

- EM_{it} stands for earning management of company I in year t, measured in ratio
- α means constant
- β means regression coefficient
- ε means error term

Sampling Technique

1. Listed during 2006 – 2018
2. Recorded deferred tax expenses in its Statement of Profit or Loss and Other Comprehensive Income

Since the formula for Small Earning Changes (SEC) takes the net income or loss from previous year, then the financial statements required are from 2005, as the base year to calculate SEC for 2006. The financial statements as samples are taken through purposive sampling method based on below criteria:

Table 1 Sample Selection

No.	Criteria	Total unit
1	Total companies in automotive and component industry	13
2	Financial statements available in period 2006 – 2018 from companies in automotive and component industry	160
3	Incomplete financial statements	2
4	Available financial statements to be selected	158
From the available financial statements, the samples to be taken are only that have deferred tax expenses figures in its Statement of Profit or Loss and Other Comprehensive Income		
5	Recorded deferred tax expenses in its Statement of Profit or Loss and Other Comprehensive Income	49
5a	Statement of Profit or Loss and Other Comprehensive Income that recorded deferred tax expenses and net income	38
5b	Statement of Profit or Loss and Other Comprehensive Income that recorded deferred tax expenses and suffer net loss	11

Source: Prepared by writer (2019)

Based on the Table 1 above, there are 38 units of Statement of Profit or Loss and Other Comprehensive Income reporting profit and 11 units reporting loss. From the 38 units of reporting profit, there are only 26 units showing data normality, in which the change of net income of company i in year t compared to year t-1, divided by market value of equity in year t-1 is ≥ 0 and < 0.01. They are called as the small profit firms. The 11 units reporting loss are not analyzed further since it has too small number of samples unit.

RESULT

Descriptive Statistics

Descriptive statistics are used to summarize the important characteristics of large number of data sets in a study. In descriptive statistics, the important characters of data sets are the minimum and maximum point and mean of the data.

Table 2 Descriptive Statistic Test Result

Variable	N	Minimum	Maximum	Mean
Deferred tax expenses	26	0.0007	0.3301	0.0247
Earning management	26	-0.1402	0.2400	0.0321

Source: Prepared by writer (2019)

From Table 2, it is known that the mean for deferred tax expenses is 0.0247. Connecting this result with Figure 2, it is known that most samples are located below the mean, or nearer to the minimum value of deferred tax expenses instead of the maximum value.

The minimum score is 0.0007, coming from PT Prima Alloy Steel Universal, Tbk in year 2018, when company suffered significant increase of net income from 2017. The maximum score of deferred tax expenses is 0.3301, coming from PT Multistrada Arah Sarana, Tbk in year 2007, when company suffer significant decrease of net income compared to 2006.

Earning management has the mean of 0.0247. Connecting this result with Figure 2, it is known that most samples are located below the mean, or nearer to the minimum value of earning management instead of the maximum value.

The minimum score is -0.1402, coming from PT Gajah Tunggal, Tbk in year 2006, when company suffered significant decrease of net income from 2005. The maximum score is 0.2400, coming from PT Indospring, Tbk in year 2016, due to increasing net income from 2015.

Data Quality Test

Data quality test is done to evaluate whether the obtained data are of the right type, quality and quantity to support their intended use. Writer does the normality and heteroscedasticity test in evaluating the quality of the data.

- **Normality Test**

Normality test is used to determine whether a data set is properly modeled by a normal distribution. This test compute how likely it is for a random variable underlying the data set.

Table 3 Normality Test Result

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Earning Management	.151	26	.130	.939	26	.127

a. Lilliefors Significance Correction

Based on Table 3, significance value of Kolmogorov-Smirnov Test is 0.130. Since the significance value of this test is higher than 0.05, then it is concluded that the data is normally distributed.

Second test for data normality uses Shapiro-Wilk Test, which results 0.127. Since the significance value of this test is higher than 0.05, then it is concluded that the data is normally distributed.

- **Heteroscedasticity Test**

Heteroscedasticity test is used in a research to determine whether the standard errors of a variable are non-

constant. It is expected that the data being tested have the variance of the residual term is constant or in homoscedasticity condition, providing good basis to explain the performance of the dependent variable.

Table 4 Heteroscedasticity Test Result

Coefficientsa

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.057	.010		5.626	.000
	Deferred Tax Expenses	-.170	.143	-.236	-1.190	.246

a. Dependent Variable: Abs_RES

Based on the output in Table 4, it is known that the significance value (Sig.) for deferred tax expense as independent variable is 0.246. Since the significance value is higher than 0.05, then it is concluded that there is no heteroscedasticity symptom in the regression model.

1. Result of Hypothesis Testing

- Hypothesis Test

This research proposes the null hypothesis that Deferred Tax Expenses does not have influence on Earning management on companies listed in Automotive and Components sub-sector. This is a two-tailed test with the result shown in below table:

Table 5 Regression Test Result

Coefficientsa

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.036	.016		2.334	.028
	Deferred Tax Expenses	-.165	.219	-.152	-.754	.458

a. Dependent Variable: Earning management

Based on regression test from Table 5, regression analysis is formulated as below:

$Y = 0.036 - 0.165X$

By the regression test above, we can have interpretation as below:

1. Constant 0.036 states that if there is no deferred tax expense, then earning management is 0.036
2. Regression coefficient – 0.165 states that for every addition one in deferred tax management, then earning management decrease by 0.165.

It is also known that significance t count is – 0.754, which is less than t table 2.0639. It means that the H_0 is accepted and H_1 is rejected, interpreted as deferred tax expenses does not have influence on earning management on companies listed in automotive and components sub-sector. This conclusion is also supported by the fact of significance 0.458 which is higher than 0.05.

- **Determination Test**

Determination test is performed to know the significance level of influence made by independent variable to dependent variable.

Table 6 Determination Test Result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.152[a]	.023	-.018	.0741354

a. Predictors: (Constant), Deferred Tax Expenses

b. Dependent Variable: Earning management

Based on the model summary in Table 6, it is known that the R square is 0.023. It means that the determination level of deferred tax expenses as independent variable to earning management as dependent variable is not significant.

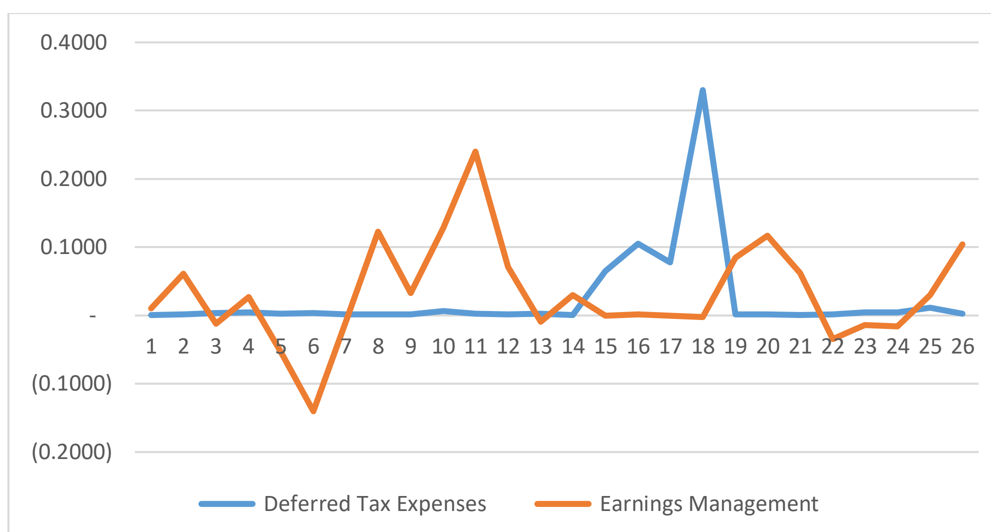
Discussion

Based on the hypothesis test result, deferred tax expenses does not have influence on earning management. This result means that earning management fluctuates without the direct influence from the deferred tax expenses. From the Figure 2 as seen below, while the majority of the deferred tax expenses are very close to level zero (higher than 0 and less than 0.001), the earning management can have the positive and negative values, even having significant fluctuation while deferred tax expenses are in stable range.

From the determination test, it is known that the determination level or R square is low, means that the deferred tax expenses do not have significant influence to earning management.

Combining these two tests, we can state that deferred tax expenses only has insignificant influence to earning management.

Figure 2 Deferred Tax Expenses and Earning management



CONCLUSION

This research aims to study the deferred tax expenses as an indicator of earning management. From the samples taken by the companies listed in Bursa Efek Indonesia (BEI) in automotive and components subsector during period 2006 – 2018, it can be concluded that deferred tax expenses is a limited indicator of earning management as there is no significant influence of deferred tax expenses toward earning management.

For future study, it is recommended that researcher:

1. applies research upon companies listed in other subsector, so it can have more practical result from different business sector
2. examine the influence of components of deferred tax expenses toward earning management, to improve the understanding of deferred tax expenses to its root cause
3. examine the influence of deferred tax income toward earning management, as from the automotive and component sector itself, there has been significant number of companies recording deferred tax income for the period 2006 - 2018

REFERENCES

Amanda, Felicia and Meiriska Febrianti. 2015. Analisis Pengaruh Beban Pajak Kini, Beban Pajak Tangguhan dan Basis Akrual terhadap Manajemen Laba. *Ultima Accounting*. Vol. 7 No. 1.

Budiarti, Anggari. 2013. Kemampuan Beban Pajak Tangguhan dalam Memprediksi Manajemen Laba pada Perusahaan Manufaktur yang Terdaftar di BEI. STIE Perbanas Surabaya.

Icih and Fransica. 2013. Kemampuan Beban Pajak Tangguhan dan Beban Pajak Kini dalam Deteksi Manajemen Laba dengan Audited sebagai Variabel Kontrol pada saat Seasoned Equity Offerings. *Dimensia*. Vol. 10, No. 1.

Junery, Vincent. 2016. Pengaruh Beban Pajak Tangguhan, Beban Pajak Kini, dan Kompensasi Manajemen terhadap Manajemen Laba (Studi Empiris Pada Bank dan Lembaga Keuangan yang Terdaftar di BEI 2010-2013). JOM Fekon. Vol. 3, No. 1.

Phillips, John., M. Pincus and S. Rego. 2003. Earnings Management: New

Evidence Based on Deferred Tax Expense. *The Accounting Review*. Vol. 78, No. 2, 491-521.

Simsek, Haldin. 2015. Deferred tax and Earnings Management. Erasmus University Rotterdam.

Tundjung, Ghafara Mawaridi Mazini. 2015. Pengaruh Beban Pajak Tangguhan terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI). Universitas Diponegoro.

Utari, Dewi and Ni Putu Eka Widiastuti. 2016. The Usefulness of Deffered Tax Expense in Detecting Earnings Management. *IOSR Journal of Business and Management*. Vol. 18, Issue 2.

Wang, Ying, Scott Butterfield and Michael Campbell. 2016. Deferred Tax Items as Earnings Management Indicators. *International Management Review*. Vol. 12, No.2.

Wijaya, Indra, Yenfi and Hariyani. 2017. Analisis Pengaruh Beban Pajak Kini dan Beban Pajak Tangguhan terhadap Manajemen Laba. *Jurnal Ilmiah Akuntansi Bisnis dan Keuangan* (JIABK). Vol. 13, No.2.