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# THE INFLUENCE OF TAX AVOIDANCE, CURRENT TAX EXPENSE, AND DEFERRED TAX EXPENSE ON EARNINGS MANAGEMENT

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**ABSTRACT**

Previous research or relevant research is very important in a scientific research or article. Previous research or relevant research serves to strengthen theories and phenomena of relationships or influences between variables. This article reviews the effects of tax avoidance, currentcurrent tax and deferred tax expense on profit management. The purpose of writing this article is to build a hypothesis of the influence between variables to be used in future research. The results of this literature review article are: 1) Tax avoidance affects earning management; 2) Current tax affects earning management; 3) Deferred tax expense affects earning management.

**Keyword:** Earning Management, Tax Avoidance, Current Tax, Deffered Tax Expense

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## INTRODUCTION

Financial statements are a source of data to assess the financial state and performance of a company in a certain period of time. The data contained in the financial statements includes information about the company's profits (Pratiwi, 2022). In the current era of globalization, many companies compete fiercely to achieve maximum profits in the global market. Therefore, the company is trying its best to expand its operations and provide all assets to the management in order to generate optimal profits.

One of the important indicators in financial statements to assess management performance is profit. Profit serves as a tool to assess management's performance over a period of time and provide accountability to the managers responsible for those results. To show the company's performance in generating profits, management often manages profits and manipulates financial statements. This action is carried out by choosing a specific accounting policy, so that the company's profit can be adjusted, either increased or lowered, according to the wishes of the management (islamiah & apollo, 2020).

The phenomenon of profit management in Indonesia involves large companies and attracts public attention. One of them is a state-owned pharmaceutical company, PT Indofarma Tbk (INAF), which is suspected of manipulating financial statements. The Audit Board (BPK) investigates Indofarma's financial management and describes the results in the Audit Report

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(LHP). In the audit for the 2020-2023 period, indications of manipulation that could harm the state totaling Rp371.8 billion were found, including financial activities in its subsidiaries. (kaltim.bpk.go.id, 2024).

From a profit management perspective, profit management practices are related to the financial reporting of a company. Despite the importance of quality financial statements that need to be provided to management for decision-making (Leswari & Misra, 2024).

One of the problems that can interfere in achieving the optimal tax revenue target by the government is legal tax avoidance or what is called tax avoidance (Zainuddin et al., 2022). Penghindaran pajak adalah praktik urusan pajak yang diatur oleh undang-undang pajak. Penghindaran pajak dapat dilakukan sesuai dengan ketetapan yang disebutkan dalam Undang-Undang (Dewi & Nurhayati, 2021).

Thecurrent tax is now a tax obligation that arises in a certain accounting period. The amount is determined by multiplying the taxable income (after taking into account the temporary and permanent differences between accounting and taxation) by the tax rate in effect in effect in that period (Ricy et al., 2020).

Deferred tax expense, According to PSAK No. 46 The deferred tax expense will give rise to deferred tax liability. Deferred tax liability is the amount of income tax payable for future periods as a result of temporary taxable differences. Occurs when the time difference causes a negative correction so that thecurrent tax according to tax regulations is greater than thecurrent tax according to (Pratiwi, 2022).

Relevant articles are needed to strengthen the theory being researched, to see the relationship or influence between variables and to build hypotheses. This article discusses the effect of tax avoidance, current tax and deferred tax expense on earnings management.

## RESEARCH PROBLEM

Based on the background, problems to be discussed can be formulated to build hypotheses for further research, namely:

1. Does tax avoidance affect profit management in manufacturing companies in the industrial sub-sector?
2. Does the current tax affect profit management in manufacturing companies in the industrial sub-sector?
3. Does the deferred tax expense affect profit management in manufacturing companies in the industrial sub-sector?

## Literature Review

### Theory Agency

(agency theory) was first proposed by Michael C. Jensen and William H. Meckling in 1976. According to Jensen & Meckling (1976), This agency theory provides an explanation of how agency relationships are formed when one or more individuals (principal) hire someone else (agent) to provide services and then give decision-making authority to the agent. If both parties have a common goal to increase the value of the company, then the agent will act in accordance with the interests of the principal.

**Earning Management**

Profit management is an action taken by a manager to increase or decrease the profit of the current period of the company under his control without causing an increase or decrease in the company's long-term economic profits (Jeradu, 2021). Nabil & Hidayati (2020) Profit management is an activity that involves engineering financial statements. This is the impact of a manager's freedom to choose and apply certain accounting methods in compiling and recording financial statements.

***Tax Avoidance***

Tax avoidance is a management action to reduce thecurrent tax of a company due to its obligations to the government. Tax avoidance is carried out by managers by taking advantage of loopholes in financial accounting standards and tax provisions. Tax evasion is a management action to reduce thecurrent tax due to the company's obligations to the government. Tax avoidance is carried out by managers by taking advantage of loopholes in financial accounting standards and tax provisions (Falbo et al., 2021).

Tax avoidance is carried out by reducing the value of the tax object that is the basis for tax calculation, so that the tax rate imposed is lower than the tax object that should be, with the aim that the amount of tax paid is not too high. Tax avoidance measures can provide an opportunity for management to hide negative information related to the company's performance or condition. It can be used to mislead investors, creditors, and other stakeholders by giving a better picture of the company than it actually is. In this way, companies can reduce transparency and obscure potential risks, so outsiders may not get accurate information to make informed decisions. This kind of tax avoidance can affect the confidence of investors and other stakeholders who depend on financial statements to assess the company's performance objectively.

**Current tax**

Tax Burden Now is the amount of Tax that must be paid by the Taxpayer. This amount is calculated from the Taxable Income resulting from fiscal reconciliation multiplied by the tax rate. Commercial Tax Expense is the amount ofcurrent tax calculated by the Taxpayer from Pre-tax Income in the Commercial Financial Statement multiplied by the tax rate of Taxable Income or fiscal profit obtained from the result of fiscal correction to pre-tax net profit based on commercial financial statements (accounting statements) (Pratiwi, 2023).

**Deffered Tax Expense**

Machdar (2022), deferred tax expense are a component of total corporate income tax expense that reflect the impact of tax through temporary differences between pre-tax and taxable income. Deferred tax expense is a burden that arises from a temporary difference between accounting profit (i.e. profit in financial statements for the benefit of outside parties) and fiscal profit (profit used as a tax basis). Deferred tax is the result of the difference between the income tax payable and the fee tax related to the time difference (Phillips et al., 2003).

In PSAK 46, it is explained that the recognition of deferred tax as an expense can cause the actual amount of tax to be paid at this time to be lower than the amount ofcurrent tax recognized. This indicates that the shortfall in taxes owed today will still have to be paid in the future. In this case, the recognition of deferred tax as a burden will lead to the recognition of deferred tax liability in the company's financial statements. Conversely, if deferred taxes are recognized as a benefit, then the amount of tax owed or paid at the present time will be greater than the amount ofcurrent tax recorded, which means that the excess tax paid today can be compensated or deducted from the tax payable in the future. Therefore, this favorable recognition of deferred tax will lead to the recognition of deferred tax assets. Overall, the recognition of deferred tax as a burden or benefit will affect the (D. A. Pratiwi, 2022).

**Table 1. Relevant Previous Research**

| No | Author (Year) | Tittle and variabel research | Discussion |
|---|---|---|---|
| 1 | (Antari Yuliana Et al., 2023) | The Influence of Tax Planning, Deferred tax expense, and Tax Avoidance Against Profit Management | Deferred tax expense and tax avoidance have a positive and significant effect on profit management. |
| 2 | (B. E. Tambunan Et al., 2022) | The Influence of Tax Planning, Deferred tax expense and Currentcurrent tax on Profit Management (Empirical Study of Manufacturing Companies in Industrial Sub-Sectors Listed on the Indonesia Stock Exchange In 2019- 2021) | That tax planning, deferred tax expense andcurrent tax now affect profit management. |
| 3 | (Septiani & Arini, 2024) | The effect of deferred tax expense, tax planning, and firm size on earnings management | Individually, deferred tax expense and tax planning have an effect on earnings management. |
| .4 | (Puspito & Karlina, 2024) | The effect of tax planning, deferred tax assets, and tax avoidance on earnings management (an empirical study of food and beverage sub-sector companies listed on the Indonesia Stock Exchange from 2018 to 2022). | Tax planning, deferred tax assets, and tax avoidance simultaneously have a significant effect on earnings management practices in the context of the study. |
| .5 | (Tsurayya Et al., 2024) | The effect of the effectiveness of tax planning and tax avoidance on earnings management. | Tax planning and tax avoidance have a significant effect on earnings management. |
| 6 | (Kurnia Mutiarani & Rely, 2023) | The effect of tax management and current tax expense on earnings management: A case study of manufacturing sector consumption industry companies listed on the Indonesia Stock Exchange during the period 2017-2021. | Tax management and current tax expense have a positive and significant effect on earnings management. |

## METHOD OF WRITING

The method used in writing this scientific article is library research. It involves reviewing theories and the relationships or influences between variables from books and journals, both offline in libraries and online sources such as Mendeley, Google Scholar, and other online media.

In qualitative research, literature review must be used consistently with methodological assumptions. This means it should be used inductively, without leading the research questions posed by the researcher. This article utilizes data sources within a 5-year period, specifically from 2019 to 2023.

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## DISCUSSION

Based on the theoretical review and relevant previous research, the discussion of this literature review article is as follows:

### 1. The Effect of Tax Avoidance on Earnings Management

Tax avoidance is one of the ways to legally reduce taxes. Tax avoidance is a complex issue, as it is permitted on one hand but discouraged on the other. Under the Indonesian government, various regulations have been introduced to prevent tax avoidance. One such regulation, for example, is related to transfer pricing.

(Azhara et al., 2023). Based on the research Rachma & Anisatus. (2022) state that tax avoidance has a positive effect on earnings management, suggesting that companies engaging in tax avoidance may manipulate their earnings to reduce their tax liabilities. Similarly, Antari Yuliana et al. (2023) ound that tax avoidance has a positive and significant effect on earnings management, indicating that companies often use tax avoidance strategies as a tool to manage their earnings. However, according to Komalasari et al. (2022) tax avoidance does not have a significant impact on earnings management, suggesting that in some cases, tax avoidance strategies may not necessarily lead to changes in how companies report their financial results.

### 2. The Effect of Current Tax Expense on Earnings Management

Shite (2019) The difference between accounting income and taxable income reflects the extent to which managerial policies manipulate earnings to appear higher. The larger the current tax expense of a company, the smaller the opportunity for earnings management. Based on previous studies, current tax expense has an effect on earnings management. This is supported by findings that suggest companies with higher current tax expenses have less room to manipulate their earnings, as higher tax payments reduce the incentive to engage in earnings management. Thus, the current tax expense plays a key role in determining how companies report their earnings and the extent to which earnings management practices are employed. Pebrianti & Febryanto. (2024) It is revealed that current tax expense, in a partial manner, has a positive effect on earnings management. According to (Tambunan et al., 2022), current tax expense influences earnings management. Kurnia Mutiarani & Rely. (2023), state that current tax expense has a positive and significant effect on earnings management. However, the study by Ramandhanty. (2020) hows that current tax expense no longer affects earnings management practices. On the other hand, Halawa. (2023) found that current tax expense does not have a significant effect on earnings management.

### 3. The Effect of Deferred Tax Expense on Earnings Management

Research by Hilmy et al. (2020) shows that deferred tax expense has an effect on earnings management practices, while, (Tambunan & Saragih, 2024) state that deferred tax expense has a positive and significant effect on earnings management. On the other hand, Marbun et. al. (2021) argue that deferred tax expense does not influence earnings management. Deviyarty (2021) also confirms that deferred tax expense does not have an impact on earnings management.

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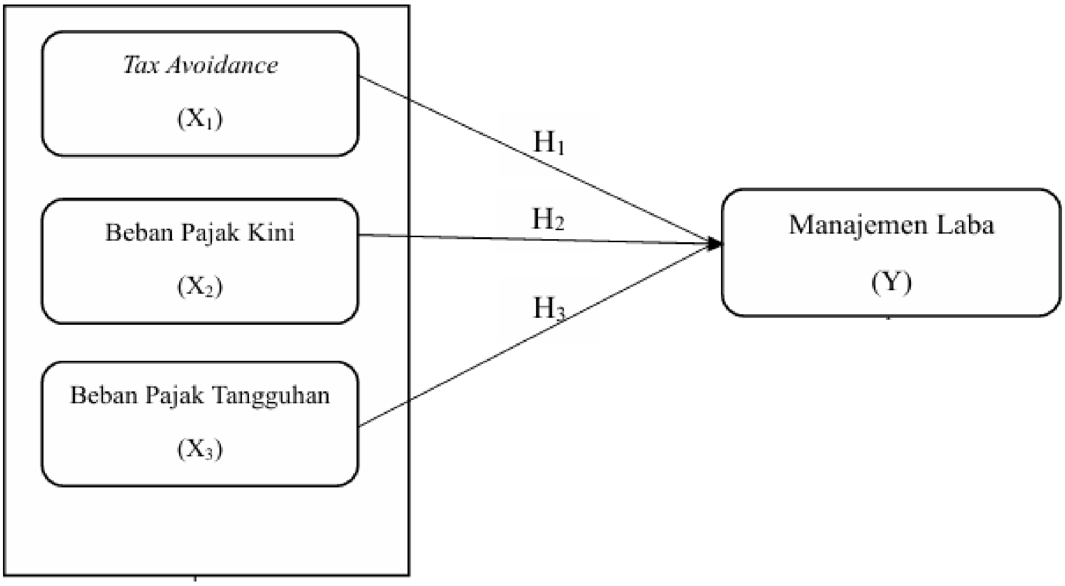
**Conceptual Framework**

Based on the problem formulation, theoretical review, relevant previous research, and the discussion of the effects between variables, the conceptual framework of this article can be outlined as follows:




**Picture 1. Conceptual Framework**

## CONCLUSION

Based on the theory, relevant articles, and the discussion, the following hypotheses can be formulated for further research:

1. Tax avoidance has an effect on earnings management.
2. Current tax expense has an effect on earnings management.
3. Deferred tax expense has an effect on earnings management.

## SUGGESTIONS

Based on the conclusions above, the suggestion in this article is that there are still many other factors that influence earnings management, beyond tax avoidance, current tax expense, and deferred tax expense, across all types and levels of organizations or companies. Therefore, further studies are needed to explore additional factors that may affect earnings management, apart from the variables examined in this article.

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