

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia property, real estate and building construction sector have become an aim for investors to invest toward this sector. The property business does not only provide temporary benefits, but more to long-term benefit. This is why the property business has always been a very promising business, especially to this day many people still believe that investing in property is still more profitable than investing in other fields (Anggen, 2020). According to Dinisari (2019), the prospect of Indonesia's property business has a bright future through the inclusion of various partnerships between global investors and local developers. Basically, there are many company being formed in this sector because it has certain objective that aim to achieve their goal in short term or long term period. The company's short term goals is to maximize profits or profits to be gained while for the long term goals of the company aim for business continuity. To accomplish the objective goals, the company often minimize the production costs and other expenses due to increasing the company value and gain more profit for the company. Performance of a company either in a good or bad services generally can be seen in its financial statement report. Financial statement is part of accounting information that show the company activities and necessary had an impact for both parties either for external or internal parties because both parties have their own interest to obtain the accounting information through the financial statement. Internal parties can use the financial statement as references to develop for upcoming business plan while for

the external parties use the financial statement as to know the current activities of the company. Earning management can be defined as the business of the company manage to maximize or minimize profit according to the interests company want to achieve.

Managers certainly have a goal to show the good performance of the company by achieve high profit. This is related to the bonuses that will be earned by managers, as it is getting the higher the profit earned, the higher the bonus that will be given by the company to the managers.

There are certain factors that can influence a company to perform earning management practices, one of the reason is to make a reduction tax payment of a company because for a company, tax is a cost element which reduces the company's profit, because the higher the taxes borne by a company means that the less profit the company will get so that there is a tendency to minimize payment of tax. Based on the regulation Law Number 16 Year 2009 of General Provisions and Procedures for Taxation Article 1 (1) that stated:

“Pajak adalah kontribusi wajib kepada negara yang terutang oleh orang pribadi atau badan yang bersifat memaksa berdasarkan Undang-Undang, dengan tidak mendapatkan imbalan secara langsung dan digunakan untuk keperluan negara bagi sebesar-besarnya kemakmuran rakyat.” (p.15)

It can be defined that tax is a mandatory contribution to the state owed by individuals or entities that are coercive under the law, with no direct compensation and its used for the country's needs for the greatest prosperity of the people, although for businesses tax also one of the causes that reducing the company's income. The existence of tax regulations and high taxes paid often motivate a company to perform earnings management. One of the earning management practices is through tax planning. According to Muhammadinah (2015), the first

step of tax management is tax planning. Tax management itself is mean of fulfilling tax obligations correctly, in tend to obtain the expected profit and liquidity, the amount of tax expenses can be reduce as low as possible. For the next step is the implementation of tax obligations and tax control. Therefore, tax planning stage, collection and research of tax regulations is carried out. Generally, tax planning refers to the process of manipulate businesses and transactions of taxpayers so that the tax expenses is at a minimum but still in the tax regulatory framework, so that the tax planning is a legal action as long as it is in the corridor of the tax law applies in Indonesia. Apart from tax planning, there are several things that are expected to be influencing earnings management which is deferred tax expenses. Deferred tax occurs due to the difference between the Income Tax Payable (tax the calculated income is based on actual taxable income paid to the government) with an income tax expense as long as the difference is concerned temporary. According to previous research conduct by Lubis and Suryani (2018) and Lubis (2020) conclude that tax planning has positive and significant impact toward earning management and deferred tax expenses show negative impact toward earning management but no significant. But previous research conduct by Negara & Suputra (2017), deferred tax expenses has positive effect toward earning management and through the simultaneous test result that conclude tax planning and deferred tax expenses has positive significant toward earning management.

Based on the several results conducted by previous research show inconsistency results. Therefore, the writer is intrigued to conduct a research with a title as follows: **“The Effect of Tax Planning and Deferred Tax Expenses**

toward Earning Management at Property, Real Estate Companies listed on Indonesia Stock Exchange”.

1.2 Problem Limitation

Below are the following problem limitation made by the writer:

1. The independent variables of this research are tax planning and deferred tax expense, while the dependent variable is earning management.
2. The research object for this research is Property, Real Estate Companies listed on Indonesia Stock Exchange.
3. Financial Statement taken from period 2015-2019.

1.3 Problem Formulation

1. Do Tax Planning partially have significant effect towards Earning Management at Property, Real Estate Companies listed on Indonesia Stock Exchange?
2. Do Deferred Tax Expenses partially have significant effect towards Earning Management at Property, Real Estate Companies listed on Indonesia Stock Exchange?
3. Do Tax Planning and Deferred Tax Expenses simultaneously have significant effect towards Earning Management at Property, Real Estate Companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the problem formulation, the objective of doing this research is:

1. To test and provide empirical evidence about the influence of tax planning toward earning management.

2. To test and provide empirical evidence about the influence of deferred tax expenses toward earning management.
3. To test and provide empirical evidence about the influence of tax planning and deferred tax expenses toward earning management.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

From this paperwork, hopefully can give further information regarding of taxation and accounting and can be as references for other researchers that have the same topic. For public information regarding to gain knowledge about the topic conduct by the writer.

1.5.2 Practical Benefit

This research topic hopefully could provide more wide information regarding the variable and object research and give further understanding regarding independent variable which is tax planning and deferred tax expenses toward earning management in property, real estate sector.