CHAPTER I

INTRODUCTION

1.1 Background of the Study

One of the measurement used to determine performance in management is earnings. Profit is one of the potential information contained in financial statements and which is very important for the company. Earnings information is a component of a company's financial statements that aims to assess management's performance, help estimate the ability of representative earnings in the long run and estimate investment risk or loan funds. Changes in information on the profits of a company through various ways will have a significant impact on the follow up of the users of the information concerned. It involves the application of earning management by a company. This can happen because in the preparation of financial statements based on financial accounting standard. It can provide an opportunity for management to choose the accounting method that will be used in the company. In the selection of accounting methods, there is the opportunity to conduct earning management.

Earning management in relation to agency theory can occur because management as agency has more detailed information about the company than what is known by the shareholders or principal. This is called asymmetry information. If there is misuse of this information by the management and if the purpose is only in the interest of management in taking financial advantage, it is likely that earning management will occur. This earning management can be done by management with using certain accounting methods. To invest or give credit to a company, information is needed about the company as a basis for consideration in decision making. One form of information needed by decision makers, especially for investors and creditors is financial statements. This is difficult to achieve because of a conflict of interest and the transparency of financial statements.

Earning management is done by the company in financial reporting with purpose to obtain benefit for many parties. The earning management can be done with considering financial accounting standard but this practice can reduce the trust from people to financial reporting and obstruct the capital in market. This practice can reduce the quality of financial statement. This practice is unfavourable for the investor because they cannot obtain actual information about the financial condition. Earning management can be done with purpose to achieve certain target. Earning management is a form of practice conducted purposely by management in the financial reporting with the aim of obtaining benefits (Yadiati and Mubarok, 2017).

Tax is analyzed as expense that must be minimized because it can reduce the earning. For the company, tax is burden or expenditure that will reduce the earning. If the profit obtained by organization is large, it can automatically determine large income tax paid to country. Each organization has calculated accurately each expenditure and receipt in order organization's cash flow is not inhibited. In order to manage the organization's activities, the fulfillment of tax obligation should be managed appropriately. The planning is one of main function from management purpose. In general, the planning is step in determining the organizational goal dan determine strategy about the implementation needed to achieve the result intended by the organization. In general, tax planning refers to the process to determine the business in order the amount of tax is low but it is in framework of tax provision. The taxpayer always try to pay the tax as small as possible through the applicable law. However, the tax planning can be determined as planning of fullfilment of tax obligation fully, correctly and appropriately in order to reduce the cash payment (Mulyani, et.al., 2018).

Although taxes affect all aspects of personal life and business decisions, it does not mean that they cannot be controlled. With understanding the provisions of the tax legislation and its developments and changes, the tax in essence can be managed successfully. One function of tax management is tax planning. Tax planning itself is actually an act of structuring related to the potential consequences of the tax. The aim is the control which can streamline the amount of tax to be paid. Tax management is a means to fulfill tax obligations properly but the amount of tax paid can be reduced as low as possible to obtain the expected profit and liquidity. To compile a tax plan, the steps taken by the management of the organization must not be arbitrary, so that the steps used are not categorized as tax fraud and violate the applicable legal rules. Tax planning refers to the process of engineering businesses and taxpayer transactions so that the tax owed is in a minimal amount but still within the framework of tax regulations (Lubis and Suryani, 2018).

The difference between accounting income and fiscal profit consists of permanent and temporary differences. Permanent difference is the difference between the provisions of financial accounting standards and taxation standards, so that it will have an impact in the coming period. While the temporary difference means that the overall accounting or taxation expense and income is actually the same but there is different in the allocation for each period. This temporary difference will result in deferred tax assets and liabilities. If the large deferred tax is positive, the company tends to have a large profit. The large deferred tax is negative value, the company tends to have a small profit so that the company is likely to be unable to pay debt obligations (Mulyani, et.al, 2018).

The amount of debt used by companies is a policy related to capital structure. Debt policy is a determination of how much debt will be used to fund a company's assets as indicated by the leverage ratio. In determining the optimal capital structure, financial managers must carefully consider the nature and cost of the source of funds to be chosen because each source of funds has different financial consequences. When managers use debt, the capital costs incurred are equal to the interest costs charged by creditors. Companies that use a lot of debt will create large obligations for companies when they have to pay off these debts. It can occur for companies which the company cannot pay the debt (Minanari and Kusumaningrat, 2017).

This research is done in consumer goods company listed at Indonesia Stock Exchange. The consumer goods company is a sector that has highly related to consumers because the activity of the company is producing goods needed by consumer. Therefore, the consumer goods company contributes enough to Indonesia especially Indonesia's revenue. Cigarettes which are in consumer goods sector has contributed 97% to Indonesia revenue during early 2021 (Bisnis.com, 2021)

The earning management in the company can be done for many purpose. The company can conduct the earning management with many ways. There many factors which have impact on earning management. The tax planning, deferred tax and leverage on earning management of some consumer companies at Indonesia Stock Exchange in year 2016-2019 can be seen as follows:

Table 1.1 Tax Planning, Deferred Tax, Leverage and Earning Management

Company	Year	Tax Planning	Deferred Tax	Leverage	Earning Management
PT Nippon Indosari Corpindo, Tbk	2016	75.73%	1.09%	50.58%	0.11%
	2017	72.72%	0.62%	38.15%	-2.24%
	2018	68.03%	0.27%	33.61%	-0.11%
	2019	68.14%	0.26%	51.40%	1.36%
PT Sekar Laut Tbk	2016	82.04%	0.50%	47.88%	0.08%
	2017	83.92%	0.07%	51.66%	0.22%
	2018	80.76%	0.44%	54.60%	0.87%
	2019	79.15%	3.38%	107.91%	1.17%
PT Siantar Top Tbk	2016	79.99%	0.43%	49.99%	-0.28%
	2017	74.87%	0.28%	40.88%	0.73%
	2018	78.56%	0.44%	37.43%	0.80%
	2019	79.50%	0.20%	34.15%	3.86%

Source : Indonesia Stock Exchange (2021)

From table above, there is movement of earning management in year 2016-2019. This condition can shows that there is implementation of earning management. The company can conduct earning management in order to present the profit for certain objectives. The tax planning in some of company in consumer goods are not in line with earning management during 2016-2019. The tax planning should be considered as factors in conducting earning management. Deferred tax in some of companies in consumer goods sector is not in line with earning management during 2016-2019. The company can present the deferred tax in order to determine the certain profit for providing good perception on investors. Leverage in some companies in consumer goods sector is not in line with earning management during 2016-2019. The leverage can increase the amount of cost in form of interest expense. It can be used in implementing earning management. This research will assess the factors of earning management in consumer goods sectors in Indonesia Stock Exchange.

Based on description above, then the writer is interested to conduct the research with title as follows : "**The Impact of Tax Planning, Deferred Tax and Leverage towards Earning Management in Consumer Goods Company listed at Indonesia Stock Exchange**"

1.2 Problem Limitation

The writer has many limitations so it needs to be a scope of research. The scope of this research is companies listed on the Indonesia Stock Exchange in the period of 2016-2019. The focus of this research is companies engaged in consumer manufacturing that report their financial statements in 2016-2019. Classification or determination of types of companies sourced from Indonesia Stock Exchange in year 2016-2019 namely consumer goods industries.

1.3 Problem Formulation

Problem formulation in this research are as follows:

1. Does tax planning partially have significant impact on earning management in consumer goods companies in Indonesia Stock Exchange?
2. Does deferred tax partially have significant impact on earning management in consumer goods companies in Indonesia Stock Exchange?
3. Does leverage partially have significant impact on earning management in consumer goods companies in Indonesia Stock Exchange?
4. Do tax planning, deferred tax and leverage simultaneously have significant impact on earning management in consumer goods companies registered in Indonesia Stock Exchange?

1.4 Research Objective

The objectives to be achieved in this study include:

1. To analyze whether tax planning partially has significant impact on earning management in consumer goods companies in Indonesia Stock Exchange.
2. To analyze whether deferred tax partially has significant impact on earning management in consumer goods companies in Indonesia Stock Exchange.
3. To analyze whether leverage partially has significant impact on earning management in consumer goods companies in Indonesia Stock Exchange.
4. To analyze whether tax planning, deferred tax and leverage have significant impact on earning management in consumer goods companies in Indonesia Stock Exchange.

1.5 Benefit of The Research

The results of this study are expected to be useful for:

1.5.1 Theoretical Benefit

1. For researcher, it is to increase the knowledge and understanding especially regarding the factors that influence earnings management. It is expected that the researchers' thinking framework develops to find other specific factors that might influence earnings management and conduct further research.
2. The other researchers can use this research result as consideration in conducting the study.

1.5.2 Practical Benefit

1. For company management, this research is expected to be input and consideration for companies in providing proper information for many parties in economic decision.
2. For investors, it can be appropriate assessment and measurement of company's condition with understanding company's financial statement in order to conduct the investment.
3. For the public, this research is expected to provide information in of accounting and tax especially earning management.