

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of The Study**

As infrastructure develops in Indonesia, the competition between companies is getting tougher in order to increase their sales or profits. Moreover, since the world experienced the Covid-19 pandemic, the world's economy has become chaotic, including in Indonesia itself, which has also experienced high mortality rates, high unemployment and crime and many companies that have suffered losses to bankruptcy. Therefore, one of the sources of state revenue most expected by the government at this time is tax payments. Tax is a mandatory contribution to the state that is owed by an individual or entity that is coercive under the law, without receiving direct compensation and is used for the needs of the state for the greatest prosperity of the people.

Profit is an information that has an important role for those who have an interest in a company. Assessment of the performance of a company can be reflected in the achievement of the company's profits. Profits are often used for decision making for external and internal parties as a basis for decision making regarding bonuses, compensation, performance benchmarks and management performance and as a basis for determining the amount of tax. Therefore, the quality of information about earnings becomes the center of attention for investors, creditors, accounting policy makers, and the government in this case is the

*Direktorat Jenderal Pajak*. The greater the profit of a company, the greater the amount of tax to be paid.

The management as the manager of the company certainly wants to earn high profits. In the intense competition to survive in the global market, this condition makes managers to perform deviant behavior in presenting and reporting earnings information known as earnings management practices (earnings management). Various attempts can be made by companies to deceive stakeholders on earnings information reported by the company, the company's efforts to manipulate information through earnings management practices with the desire of management to reduce and make the tax burden as small as possible, so management tends to minimize tax payments. Every company in Indonesia in making financial statements is required to comply with the rules of the Statement of Financial Accounting Standards (PSAK) in order to produce quality and informative financial reports. In addition, the company also prepares an income statement based on tax regulations. With the difference in the preparation of the income statement between the PSAK rules and tax regulations, it creates a different profit value.

Tax planning refers to the process of manipulating business and taxpayer transactions so that the tax debt is in a minimum amount but is still within the framework of tax regulations. The purpose of tax planning is to manipulate the tax burden to be kept as low as possible, because tax is an element of profit reduction that is available both to be distributed to shareholders and to be reinvested.

Company size also plays an important role in companies that practice earnings management. Managers have various reasons for reporting lower earnings. One of them is to reduce political cost. Firm size is used as a proxy of political cost. In this study, the size of the company is seen from the relatively large amount of total assets, so that it can operate with a higher level of efficiency and the greater the opportunity for the company to make a profit from its operations. Research Herni and Susanto (2018) and Handayani and Rachadi (2019) prove that company size factors have an influence on earnings management.

Larger firm size are sensitive to political costs, namely taxes, so they tend to reduce their net income from financial statements. The reduction in net income can be done quite easily by companies because large companies have sufficient resources to manipulate the political process by doing tax planning and arranging activities for tax savings. With a reduction in tariffs, large companies tend to reduce their profits before the reduction in tax rates (Richardson and Lanis, 2017; in Wijaya and Martani, 2018).

Deferred Tax expense is considered crucial for the company. If a company's deferred tax expense is high, the net profit received by the company will also be reduced. Many companies have minimalized their deferred tax expense by applying many ways or methods which sometimes should not be allowed according to tax regulations.

Strategies or methods taken by companies in reducing their tax expense are usually done by managing taxable income and deductible expense. Taxable income can be managed by evaluating the sources of company income. Another way which

can be done to reduce the tax expense by managing deductible expense is by choosing corporate financing resources carefully.

A wider range of stakeholder base is owned by companies with large margins, which reflects in a greater impact on the public interest owned by these types of companies when being compared with those with smaller margins. It is also predicted that investors must follow the regulation set by certain companies regarding the cash flow prospect. As Muliati (2018) says, government who act as the creator of regulations will cause a great amount of tax along with providing the security which is responsible for protecting the community in general.

According to Abbas et al (2020), The property and real estate industry is recognized for its volatile, intense, long-lasting, and complicated competition. The rise in property prices is due to rising land prices, and while the supply of land is fixed, the demand for housing, offices, shopping centers, and amusement parks will always rise in tandem with the increase in population and the increasing human need for housing, offices, shopping centers, and amusement parks. It is suitable if the development business makes a large profit from the growth in property values, and the earnings are used to enhance the developer firm's financial performance, allowing the share price to rise.

**Table 1.1 Phenomena table**

code	year	company size	tax planning	Deferred tax expensse	earning management
BSDE	2015	31.2151551	0.004530692	0.000379406	-0.04728248
	2016	31.2826354	0.013386269	0.000774668	-0.009059055
	2017	31.45860083	0.00752643	0.001021078	0.092639791
	2018	31.58421471	0.033289175	0.00127533	-0.105897545
	2019	31.62820936	0.011064876	0.000672177	0.059129863
CTRA	2015	30.89901919	-0.077345766	-0.00619419	-0.00241766
	2016	31.00080523	-0.019913888	-0.000905871	-0.021715469
	2017	31.08753219	-0.037298084	-0.001357342	-0.006344893
	2018	31.16584621	-0.035540636	-0.001507972	0.013348147
	2019	31.21997039	-0.025497814	-0.000979235	-0.001070303
DILD	2015	29.96205489	-0.000374973	-0.017456001	-0.001984795
	2016	30.10250981	-0.006468167	-0.000188154	-0.024007887
	2017	30.20341844	0.572549794	0.008349937	-0.004980591
	2018	30.28535651	-1.017067723	-0.007016203	-0.021342009
	2019	30.32412662	-0.215481238	-0.006489215	0.075987047

Source: Prepared by the Writer (2021)

From the table above, the writer take 3 company which is PT Bumi Serpong Damai Tbk (BSDE), PT. Ciputra Development Tbk (CTRA), and PT Intiland Development Tbk (DILD) to take the commpany finansial data before finally deciding to make a research in Property and Real Estate sector. above table result is from the measurement of the indicators that will be use in this research. it shows that the result above every year is very fluctuative. Therefor, the writer is interested on choosing Property and Real estate as the sector in this research

Based on the description above, the researcher feels interested to make a research entitled: **“The Effect of Company Size, Tax Planning and Deferred Tax Expense on Earnings Management on Property and Real Estate Listed In Indonesia Stock Exchange”**

### **1.2 Problem Limitation**

This research will only focus on property and real estate sector companies listed in Indonesia Stock Exchange from the year of 2015-2019. The dependent variable in this research is earning management and the independent variable are company size, tax planning, and deferred tax expense. The reason the researcher chooses property sector as object is because the writer want to research whether property sector is relevant with the variables that is going to be research.

### **1.3 Problem Formulation**

Based on the background of the problem that has been described, the problem formulation in this study is:

1. Does company size has any effect on earning management on Property and Real Estate listed on Indonesia Stock Exchange?
2. Does tax planning has any effect on earnings management on Property and Real Estate listed on Indonesia Stock Exchange?
3. Does the deferred tax expense has any effect on earning management on Property and Real Estate listed on Indonesia Stock Exchange?

4. Do company size, tax planning and deferred tax expense have any effect on earnings management on Property and Real Estate listed on Indonesia Stock Exchange?

#### **1.4 Objective of The Research**

Based on the above problem formulation, the objectives of this study are as follows:

1. To determine the effect of company size on earnings management.
2. To determine the effect of tax planning on earnings management.
3. To determine the effect of deferred tax expense on earnings management.
4. To determine the effect of company size, tax planning, company size on earnings management.

#### **1.5 Benefit of The Research**

##### **1.5.1 Theoretical Benefit**

It is highly expected that the results of this study may help increase the understanding and help contribute to the development of knowledge relating to economics, especially tax planning, company size and earnings management of Property and Real Estate listed on BEI. In addition, this research is expected to be useful as a reference source for further research. For other researchers, it can be used as material for comparison.

### **1.5.2 Practical Benefit**

This research is useful for readers and investors. Benefits for readers can provide an overview of the effect of tax planning, deferred tax expense, and company size on earnings management in Property and Real Estate listed on BEI. In addition, it can provide information about the company's financial performance that can be used to assist all parties in making decisions, and an analysis of the company's financial performance. For investors, this is to be considered by investors and potential investors before making investment decisions in listed companies listed on the Indonesia Stock Exchange. And also for the company to understand better their company effect on these variables made in this research.

