CHAPTER I

INTRODUCTION

1.1. Background of The Study

The Indonesia Stock Exchange as a capital market is a place for investors to carry out investment activities and obtain relevant information about companies that will later affect the organization's stock price. There are various companies listed in it and one of them is a manufacturing organization. Manufacturing companies are companies that process raw goods into semi-finished goods and finished goods that have a selling value. Thus, the more demand (demand), the more supply (supply) made by the organization to meet consumer demand.

Therefore, from an economic point of view, manufacturing is a process of changing raw materials into forms that have added value by going through one or more assembly processes. Therefore, the ultimate goal of this process is the creation of a product that has a selling value. In addition, from a technical point of view, manufacturing is a business activity to process raw materials through chemical and physical processes aimed at changing the shape, nature, and appearance of the product. This activity includes the compounding process of various components into a whole product. This organization has its own characteristics compared to other companies.

Organization is called a manufacturing organization if there is a production process, in which there is a process of processing raw materials into finished materials. Then, the product is marketed for profit or profit. There are three types of inventory in a manufacturing organization, namely raw materials, semi-Finished products and finished products. These three components are the hallmark of a manufacturing organization where there are ingredients for making the product and the product itself.

This characteristic distinguishes it from a trading organization. The trading organization is in charge of marketing the product, while the manufacturing organization is in charge of providing stock or stock-making materials. To process raw materials into finished goods requires costs called production costs. The existence of production costs is also a characteristic of manufacturing companies.

Examples are material processing costs, production equipment procurement costs and so on. There are several types of manufacturing companies, including clothing and textile companies, communication, transportation and electronics companies, oil, chemical and plastic companies, wood, paper and leather companies, as well as consumption companies.

Manufacturing companies in the consumer goods industry sector produce basic needs that are most needed by the community in line with the increasing population growth in Indonesia. The sub-sector of manufacturing companies in the consumer goods industry sector is the industrial sector engaged in food and beverages, cigarettes, pharmaceuticals, cosmetics, and household goods, as well as household appliances. Companies engaged in the consumer goods industry sector have high operating activities, causing companies to be able to manage each of their activities in order to gain profits and be able to maximize profitability and be able to control the turnover of working capital.

The capital market plays an important role in the modern world economy. In carrying out its functions, the capital market provides facilities for transferring funds from investors to companies. From the organization's perspective, the availability of funds from investors allows the organization to develop its business without having to wait for funds from the organization's operating results. However, investors certainly hope to get a return from the results of the submission of funds. From the two interests, there is a process of buying and selling shares with their respective interests. On the other hand, companies that have managers play a role in carrying out the organization's operational duties and organization interests where the manager's position is in the middle of two interests, namely the interests of the organization owners and the interests of investors.

From the side of the owner, investors and companies hope to get big profits with small taxes, while for managers with good organization performance, they will get rewards from their performance. Currently, companies are required to be able to manage finances well, not only from the quality and quantity of product management offered. Therefore, the management who functions as the direct leader of the organization need to get profits. This will affect the face of intense competition in order to survive in the global market. In conditions like this, leader will engage in deviant behavior in presenting and reporting earnings information, which is called earnings management techniques. Various efforts can be made by the organization to find out profit information reported by the organization, the organization's efforts to manipulate information through Income

Management Practices Management tends to minimize tax payments due to management's desire to reduce and minimize tax burdens. Income Management Practices Management tends to minimize tax payments due to management's desire to reduce and minimize tax burdens.

In preparing financial statements, each organization is required to comply with the Statement of Financial Accounting Standards in order to produce quality and informative financial reports. In addition, the organization also prepares financial reports according with applicable tax rules. With differences in the preparation of financial statements, it will be able to cause different profit and loss values. Earnings management practices occur in almost all companies, both large and small companies.

According to Gabriella et al (2021), profit is the excess of income over the total costs incurred to obtain that income (profit). Earnings management is an effort by organization managers to influence information in financial statements with the aim of tricking a group of important people in the organization who want to know the condition of the organization. Earnings management is one way to present earnings with the aim of maximizing the utility of fund management or increasing market value through the selection of a set of accounting procedural policies by management.

Quality earnings are earnings that can reflect the continuation of future earnings which are determined by the accrual and cash flow components. Earnings management is an effort made by management to intervene in the preparation of financial statements with the aim of benefiting itself, namely the organization concerned. Earnings management activities are often practiced by large companies with the aim of obtaining profits for the organization and the managers themselves. The factor that influences the old management is tax planning (Irawan et al 2021). The higher the tax system, the more opportunities an organization has in performing revenue management and the more profitable the organization in performing revenue management. Taxes are compulsory taxes on the government borne by individuals or groups that are liable under the law without direct compensation and are used as much as possible to meet the needs of the government.

Tax planning refers to the process of coordinating taxpayers' operations and transactions to minimize tax obligations and stay within the scope of tax law. Tax planning is a factor influencing revenue management. Tax planning is one of the functions of tax management that estimates the amount of tax paid and the opportunity for tax reduction. (Achyani & Susi, 2019).

The purpose of tax planning is to engineer so that the tax burden can be reduced as low as possible because taxes are an element of reducing profits that are available both for distribution to shareholders and for reinvestment. Tax planning is one of the legal actions in the corridor of the applicable tax laws in Indonesia. Apart from tax planning, what is suspected to affect earnings management is deferred tax expense.

Deferred tax expense can have an effect such as increasing or decreasing the tax burden that must be paid in the future. Deferred tax expense is a component of the organization's total income tax expense which reflects the effect of taxes on temporary differences between book income, namely income reported to shareholders and other external users, income hit tax, namely income that is reported to the tax authorities (Maheasy et al 2019). The temporary difference is due to differences in the timing and method of recognizing certain income and expenses in.

Accounting Standards and Taxation Regulations. Deferred tax expense arises because of the fiscal correction where there is a negative correction, namely the amount of income according with accounting standards is greater than the amount of income according with tax regulations and total expenses according with accounting standards are smaller than total expenses according with tax regulations. This study uses the formula for the amount of deferred tax expense because of the difference between accounting standard financial statements and tax financial statements in the preparation of financial statements so as to provide flexibility for management in managing earnings. The calculation of deferred tax expense is calculated using the indicator of deferred tax expense with total assets or assets.

Tabel 1.1
Tax Planning Data, Deferred Tax Expense, and Earnings Management

Companies	Year	Tax Planning	Deferred Tax Expense	Earning Management
INDF	2018	1,051072078	1,133349711	0,09484266
	2019	1,548836371	0,86861782	0,116710569
	2020	1,433069057	0,876603943	0,111058013
ICBP	2018	4,787125786	0,623290131	0,18178812
	2019	5,613097598	0,56416362	0,206714677
	2020	5,113666579	0,56014789	0,170234435
STTP	2018	3,919511816	0,903902846	0,184128531
	2019	3,816898939	0,100689807	0,151292191
	2020	4,264281575	0,69073043	0,160617683

Sources: www.idx.com

According with the above data related to tax planning that the difference between profit before tax and profit after tax tends to be insignificant for some companies so that there is an indication of tax planning. It can be seen that tax planning in 2016-2018 has increased so that it affects profits and those related to deferred tax expenses tend to increase so that it affects net income for the current year.

It can be concluded that by doing tax planning and increasing the amount of deferred tax burden there is an indication of earnings management on the organization's financial statements and from the data described above, it can be seen that earnings management is caused by the difference in profit the organization tends to decline and the absence shows significant fluctuations in profit so as to allow income smoothing in the organization.

According to previous research, earnings management is significant on the variables of tax planning, deferred tax costs, and firm size. The remaining 74.9% is influenced by other variables (Wulansari, 2019). According to Cahya and Siti (2021), deferred tax expense has an effect on earnings management, while deferred tax assets have no effect on earnings management. The difference in the results of research on the effect of tax planning and deferred tax expense on earnings management is the motivation in conducting this research.

According with the above background, the researcher conducted a study entitled **"The Influence of Tax Planning and Deferred Tax Expense Toward Earning Management of Manufacturing Companies Listed on the Indonesia Stock Exchange."**

1.2. Problem Limitation

In this paper, due to over discussion and author ability to do the research, the author will focus on the problem of tax planning, deferred tax expense, and earning management. The limitations of the problems that will be discussed by the researchers in this study are as follows:

1. Research is limited to manufacturing companies which have listed on Indonesia Stock Exchange.
2. The discussion in this study is limited to three variables, namely tax planning and deferred tax expense as independent variables and earning management as the dependent variable.

1.3. Problem Formulation

According with the background of the object that has been described, the identification of problems in this study are:

1 Does tax planning have a significant on earning management of manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 Period?

2. Does deferred tax expenses have a significant on earning management of manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 Period?
3. Does tax planning and deferred tax expenses have a significant on earning management of manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 Period?

1.4. Objective of the Research

According to the background of the study and the problem formulation, the purpose of this research is :

1. The influence of tax planning toward earning management of manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 Period.
2. The influence of deferred tax expenses toward earning management of manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 Period.
3. The influence of tax planning and deferred tax expenses toward earning management of manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 Period.

1.5. Benefit of the Research

1.5.1. Theoretical Benefit

According with the theoretical benefits, this research is expected to provide scientific input in the field of Tax Accounting, especially regarding tax planning, deferred tax expense, and earnings management, as well as a comparison between theory and real practice.

1.5.2. Practical Benefit

According with the practical benefits, is expected to be useful as a material for consideration and evaluation of food and beverage companies listed on the

Indonesia Stock Exchange, especially on the topic of tax planning, deferred tax expense, and earnings management. In addition, researchers hope that this research can be a reference and provide useful information for academics and students in particular who will conduct research with the same title or topic.