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The Effect of Tax Planning and Current Tax Expense on Earnings Management Before and After Income Tax Rate Changes

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ABSTRACT

The objectives of this study are to investigate whether tax planning and current tax expense have an impact on firm's earnings management practices and to investigate whether such impacts are different in the periods of before and after income tax rate changes. This study uses OLS to regress Tax Retention Rate and Current Tax Expense toward Discretionary Accruals and to regress the interaction of main independent variables and Tax Rate Change toward Discretionary Accruals. The number of samples used in this study were 203 samples for 5 years taken from S&P Capital IQ database using the purposive sampling method. The results of this study indicate that both tax planning and current tax expense do not have a significant effect on earnings management practices. Also, the changes in income tax rates do not affect the influence of tax planning on earnings management and current tax expense on earnings management. This study shows that in the selected sample the earnings management practices are not affected by all taxation aspects in the firms.

Keywords: Earnings Management; Tax Planning; Current Tax Expense; Income Tax Rate Change

ABSTRAK

Tujuan dari penelitian ini adalah untuk menguji apakah tax planning dan current tax expense memiliki pengaruh terhadap praktik earnings management dalam perusahaan dan untuk menguji apakah pengaruh-pengaruh itu akan berbeda untuk periode-periode sebelum dan sesudah income tax rate changes. Penelitian ini menggunakan OLS untuk meregresikan Tax Retention Rate dan Current Tax Expense terhadap Discretionary Accruals dan untuk meregresikan interaksi antara variabel independen utama dan Tax Rate Change terhadap Discretionary Accruals. Jumlah sampel yang digunakan dalam penelitian adalah sebanyak 203 sampel untuk periode pengamatan 5 tahun yang datanya diambil dari S&P Capital IQ database menggunakan purposive sampling method. Hasil-hasil pengujian dalam penelitian ini menunjukkan bahwa baik tax planning maupun current tax expense tidak memiliki pengaruh terhadap earnings management practices. Juga, perubahan dalam income tax rates tidak mempengaruhi hubungan antara tax planning dan earnings management juga antara current tax expense dan earnings management. Penelitian ini menunjukkan bahwa pada sampel yang dipilih earnings management practices tidak dipengaruhi oleh semua aspek perpajakan dalam perusahaan.

Kata Kunci: Earnings Management; Tax Planning; Current Tax Expense; Income Tax Rate Change

INTRODUCTION

This study investigates the impact of tax planning and current tax expense on earnings management practices and investigates the impact of income tax rate change on the relationship between tax planning as well as curent tax expense and earnings management practices. With these objectives this study tries to examine and analyze whether taxation aspects within the company will be considered when the management implements its earnings management practices.

Businesses carried out individually or in groups must have more or less the same main goal, namely to obtain the highest profit or profit. Profit is a relatively crucial part of the financial statements because in addition to ensuring and determining the sustainability of the company, profit is often used as the basis for calculations for taxation. The increasingly difficult business world will be a strong determinant of how the management of a company can show good results for the company it manages, the good and bad of a company affects the price or market value of the company.

A financial report is information intended for external parties. The report is the result of operational activities and an achievement reported to all parties, both internal and external, with the parameter of profit. Therefore, profits are often made as attractive as possible to attract investors. To achieve a good profit target, company management often chooses certain accounting principles so that later profits can be adjusted. These activities are usually contrary to the principles of the company and these activities can be called performance management. This difference that occurs causes the objectives and interests of the owner to cause agency conflicts. The resulting representation conflict causes the agent to act against the interests of those represented. Different goals between managers and owners encourage managers to take opportunistic actions (Indracahya & A. Faisol, 2017).

There are two types of earnings management, the first is real earnings management and the second is accrual earnings management. In this paper, the earnings managemet that will be tested is accrual earnings management. According to Khanifah, Yuyetta, & Sa'diyah (2020) accrual earnings management is carried out due to policies regulated in SAK No. 1 (revised 2009) paragraph 25. The definition of accruals is the difference between the company's net cash flow and the recognized profit or loss, which can be non-discretionary or discretionary accruals. Several factors can affect accrual earnings management, and this paper uses the taxation aspects only, namely tax planning and current tax expense because the discussion of taxes is a very interesting discussion to be researched and discussed further.

In accordance with the information on the official website of the Ministry of Finance of the Republic of Indonesia (2022), it is stated that the realization of state revenue in the state budget for 2021 reached IDR 2,011.3 T. The realization of revenue from taxes for 2021 reached IDR 1,547 trillion (107.15%) of the target in the 2021 state budget law. This figure shows that state revenue from taxes is good enough to exceed the target set by the government. This is partly supported by post-pandemic economic recovery.

There are indications that companies practice earnings management allegedly due to the high tax rate in Indonesia. In the journal of Muiz & Ningsih (2018) it is written that the government through Undang-Undang Cipta Kerja has reduced the tax rate by 22% from 2019 and beyond. The previous change in the tax rate in 2009 was 28%, which decreases in 2010 to 25%. This change is considered to affect the link between tax planning and corporate income tax payable on earnings management. Thus, the momentum of the change in tax rate is used as a moderating variable in this study.

In previous studies, the effect of tax planning and tax burden has been examined. According to research of Christian & Sumantri (2022), businesses that implement tax planning will have an impact on reducing tax payment obligations to the government as long as these actions are still within tax regulations. According to research of Rahmi, Hasan, &

Andreas (2019), tax planning has a significant effect on detecting earnings management, in the sense that if a company is good at doing tax planning, the company is likely to practice earnings management. However, according to Rahmi, Hasan, & Andreas (2019), current tax expense has no influence on detecting earnings management, so that if there is a small tax expense it is not necessarily that the company implements earnings modification.

Based on the background explained above, this study will discuss about analyzing the effect of Tax Planning and Current Tax Expense on Earnings Management Before and After the Changes in Tax Rates in material companies listed on the IDX during 2017 to 2021. Although previous studies have discussed the effect of tax planning & current tax burden on earnings modification, this study will further explore and discuss the effect of tax planning and current tax burden on earnings modification before and after changes in tax rates due to applicable government policies so that it can draw conclusions whether the reduction in tax rates that has been enacted will affect companies in carrying out earnings management practices, especially tax planning factors and current tax burden.

However, this study provides no evidences that tax planning and current tax expense have an influence on earnings management practices. Also, the relationship between tax planning and earnings management as well as bertween current tax expense and earnings management is not different in the periods before and after tax rate changes. The momentun of tax rate change does not have a moderation effect on those relationships. Therefore, this study implicates that in the sample selected earnings management practices are not influenced by all taxation aspects.

The remainder of the paper is organized as follows. **Section II** discusses theoretical framework, literature review and hypothesis development. **Section III** presents the research method, including research model, variable operationalization and sample data. **Section IV** analyzes tha data and results. Finally, this paper is closed by **Section V**, which presents the summary and conclusions of this study.

THEORETICAL FRAMEWORK, LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is the theory that describes the logics of an agreement between managers and business owners. To ensure the smooth functioning of this contractual relationship, owners delegate decision-making authority to managers. Reconciling the interests of managers and owners with conflicting interests is the essence of agency theory. Exact agreements are hard to come by. Therefore, investors must grant managers the remaining control rights, which are the rights to make decisions in cases not seen in the previous contract, but which were not previously seen in the contract (Jensen & Meckling, 1976).

If the interest of agent is not in accordance with that of the principal, then there will be an agency conflict (agency conflict) that occurs due to differences in opinion and mindset of interests between the two parties that can trigger agency costs. When the company's condition is profitable, the company's management will provide positive signals for investors to support the continuity of the position and high compensation for management. The profits obtained by the company will give more trust to the manager so that it can cause managers to try to disclose the presentation of financial statements properly, if the company's performance is good then the manager may stall in announcing his reporting and limiting access to company accounting information which can also be referred to as information asymmetry and only disclose part of the information to fulfill his interests. Therefore, agency conflict is the main cause of decision-making errors carried out by management.

Positive Accounting Theory

This theory tries to explain the motivation of earnings management practices. This theory is formulated in Watss & Zimmerman (1990) and states that "in this theory there are three motivations: bonus plan motivation, debt covenant motivation and political cost motivation. Bonus plan motivation tries to describe that usually managers fix the numbers on the report using accounting methods to get bonus for their achievements. This makes managers ambitious to get the maximum bonus every year by managing profit above the baseline. The bonus will be given to good management, which can be measured by the level of profit achieved by the business entity.

Debt covenant motivation indicates that in debt agreements there are usually violations that occur, so that management tries to maximize profits to avoid contract violations. This usually refers to the claims that the company must have efforts to maintain its debt covenant. Meanwhile, political cost motivation indicates that management manage earnings achievements to minimze its political costs. Political costs include all the costs of government regulations, government subsidies, tax rates, labor requirements, etc.

Manajemen Laba

Earnings management is a behavioral "game" in order to maximize or minimize profits, without causing an increase or decrease in long-term profits. Earnings management is the behavior of the management of a business entity in order to influence published results, which can communicate financial benefits that the company is not actually experiencing and may be harmful to the company in the long term.

According to Schipper (1989) rewritten by Manuela & Nur Wulan (2022) it is written that "earnings management is something that interferes with financial reporting for personal gain. Managers' interference affects financial statements with the intention of benefiting the company. These activities usually involve the design of the numbers in financial statements."

According to Scott written in Tanra, Nuramal, & Masnawan (2017) there are four patterns of earnings modification: (1) Taking a Bath. Taking a bath is the transfer of costs from the future to another period or the transfer of arbitrage costs from the present to the future; 2. Income Minimization. Income minimization is used when the company's profitability is high, in which case a sharp decline in next season's profit is expected to be followed up by taking out the previous season's profit; 3. Income Maximization. Income maximization is used by increasing the reported profit in such a way that if the company's profit this year drops sharply, by taking into account the profit in the previous period or in the next period; 4. Income Smoothing. Income smoothing is used by suppressing the profit reported by the business entity in such a way. So that it can reduce excessive profit fluctuations, because investors usually prefer relatively stable profits.

Tax Planning

Tax planning is an effort by the company to be able to minimize corporate expense taxes and reduce the tax burden. Tax is a part of the cost that is sought after for its reduction in order to optimize net income. The tax planning formula is calculated by TRR (Tax Retention Rate) which is used because it can function to determine a tax plan in the company's financial reporting for a certain year. (Khairunnisa, Majidah, & Kurnia, 2020).

Lumbantoruan (1996) states events so that business entities can minimize their taxes, namely: a. Shifting means moving or changing the burden of a tax from a taxpayer to another wp. Thus, there is a possibility that the taxpayer or entity does not have to bear the tax burden; b. Capitalization is a reduction in the price of taxable goods, which corresponds to the tax value that is then paid by the buyer. The change is a way to avoid the tax burden paid by business entities that bear the tax burden they create; c. tax avoidance is usually in violation of tax rules. Avoidance is carried out by manipulating the tax burden, one of which is by not reporting the company's revenue in order to reduce the actual tax payable; d. An attempt to minimize the tax burden. An attempt to minimize the tax burden is called tax fraud. Various ways are carried out, one of which is by planning with the tax authorities or by compromising with the tax authorities.

Current Tax Expense

Current Tax Expense is the amount that must be paid by the taxpayer. According to Tanra, Nuramal, & Masnawan (2017) it is explained that the tax burden that must still be paid by business entities. Taxable income is obtained from the results of tax adjustments made based on business reports to net income before tax. Taxes based on taxable income for the financial year have not been paid in the current year are paid in the next financial year, which becomes a deferred tax burden.

Tax adjustments carried out by taxpayers result from differences in the application of taxation and accounting, differences in treatment of expenses or income that differ between accounting standards and tax rules. The result of these differences can be grouped into two, namely: 1. Permanent Difference. A difference due to differences in recognition of income and expenses between accounting standards and applicable tax regulations. The difference results in pre-tax income which will be added to taxable income (Tanra, Nuramal, & Masnawan, 2017); and 2. Temporary Difference. A difference between the results of calculating certain time costs and taxable income based on SAK and applicable tax regulations and tax regulations in Indonesia.

Hypothesis Development

1. The Influence of Tax Planning on Earnings Management

Tax planning is the first step in tax management. In this stage, research and collection on tax provisions are carried out with the aim of selecting the type of action to be taken in order to minimize taxes. Agency theory divides the principal party, the government, and the agent party, the manager. Both parties have conflicting obligations in fulfilling their tax obligations. The government does various ways so that taxes are obtained more and more while the agent tries to make the company pay less tax. This creates a conflict of interest between the government and the management of business entities, thus encouraging the agent to be able to practice earnings management.

Tax planning is a transaction engineering carried out by taxpayers to minimize tax payments that are still in accordance with applicable laws and regulations. In research (Negara & Suputra, 2017) it can be concluded "that tax planning has a positive effect on earnings modification." Thus, it can be said that a business entity that does tax planning well tends to carry out earnings management. On this basis, this study proposes the following hypothesis:

H1: Tax planning has a positive effect and direction on earnings management.

2. The Influence of Current Tax Expense on Earnings Management

The existence of an interest in information between the principal and the agent triggers the agent to think about the numbers that will be obtained in accounting more that can maximize his own interests. One of the efforts that can be attempted by agents in influencing the numbers in accounting is in the form of earnings manipulation in the financial statements. A large current tax burden will reduce the income that will be received by the business entity itself (Wijaya, Yenfi, & Haryani, 2017). Current tax is the value to be paid by the taxpayer. The value of the current tax burden is calculated by the taxpayer through fiscal reconciliation and multiplied by the applicable rate. In research (Rahmi, Hasan, & Andreas, 2019) it is written that "current tax expense has no effect on detecting earnings management." In this case, it is not necessarily the case that if there is a small current tax expense in the company, the company can be indicated to modify earnings. The hypothesis proposed in this study:
H2: Current tax expense has a negative effect and direction on earnings management.

3. The Influence of Tax Planning on Earnings Management Before and After The Changes in Tax Rate

Changes in tax rates carried out by the government are certainly a good thing for entrepreneurs. In the journal (Muiz & Ningsih, 2018) it is written that "The government has revised the tax law in accordance with the Job Creation Law where the government has reduced the corporate income tax rate from 25% to 22% which is carried out in stages 22% (2020 & 2021) and 20% (2022 onwards)." This is an advantage for companies to be able to get more profit after tax. The reduction in tax rates is expected to make companies more obedient in carrying out tax obligations on a self-assessment basis. This study wants to find out whether the reduction in tax rates has an effect on the relationship between corporate tax planning and earnings management practices. In this hypothesis, this study describes that the application of tax reduction makes tax planning no longer affect earnings management practices. Thus, this study proposes the following hypothesis:
H3: A Decrease in Tax Rates Can Affect / Weaken the Effect of Tax Planning on Earnings Management

4. The Influence of Current Tax Expense on Earnings Management Before and After The Changes in Tax Rate

Changes in tax rates carried out by the government are certainly a good thing for entrepreneurs. In the journal (Muiz & Ningsih, 2018) it is written that "The government has revised the tax law in accordance with the Job Creation Law where the government has reduced the corporate income tax rate from 25% to 22% which is carried out in stages 22% (2020 & 2021) and 20% (2022 onwards)." This is an advantage for companies to be able to get more profit after tax. The reduction in tax rates is expected to make companies more obedient in carrying out tax obligations on a self-assessment basis. This study wants to find out whether the reduction in tax rates has an effect on the relationship between current tax expense and earnings management practices. In this hypothesis, this study describes that the implementation of a tax reduction makes current tax expense no longer significantly affect earnings management practices. Thus, this study proposes the following hypothesis:
H4: A Decrease in the Tax Rate Can Affect / Weaken the Effect of Current Tax Expense on Earnings Management

RESEARCH METHODS

1. Research Models

To examine Hypothesis 1 and Hypothesis 2 this study regresses the proxy of tax planning and current tax expense toward the proxy of earnings management, using the following research model:

Model 1

$$\mathbf{EarnM = \alpha_0 + \alpha_1\ TaxPlan + \alpha_2\ CurrentTx + \alpha_3\ FreeCF + \alpha_4\ Growth + \alpha_5\ Lev + \alpha_6\ InventInt + \varepsilon}$$

To examine Hypothesis 3 and Hypothesis 4 this study regresses the interaction of between tax planning and current tax expense and new tax rate toward the proxy of earnings management, using the following research model:

Model 2

$$\mathbf{EarnM = \alpha_0 + \alpha_1\ TaxPlan + \alpha_2\ CurrentTx + \alpha_3\ TaxPlan{*}NewRate + \alpha_4\ CurrentTx{*}NewRate + \alpha_5\ FreeCF + \alpha_6\ Growth + \alpha_7\ Lev + \alpha_8\ InventInt + \varepsilon}$$

Model 1 is used to test Hypothesis 1 and Hypothesis 2 with a focus on the effect of tax planning on earnings management and the effect of current tax expense on earnings management. Then model 2 is used to test hypothesis 3 and hypothesis 4 with a focus on the effect of tax planning on earnings management before and after changes in tax rates and the effect of current tax expense on earnings management before and after changes in tax rates.

In Model 1, the results of hypothesis testing are focused on the direction of $\alpha1$ and $\alpha2$. For Hypothesis 1, the test results are seen from the magnitude and direction of $\alpha1$ which is predicted to be positive and significant. For Hypothesis 2, the test results are seen from $\alpha2$ which is predicted to be negative and significant. Meanwhile, for testing Hypothesis 3 and Hypothesis 4, the test results focus on the direction of $\alpha3$ and $\alpha4$ in Model 2. It is predicted that $\alpha3$ will be negative and significant while $\alpha4$ will be positive and significant.

The dependent variable in this study is EarningM (accrual earnings management construct) using the estimation of the Discretionary Current Accruals (DCA) component in Total Accruals (TAC) as a proxy. The model used to estimate the DCA component is the Teoh et al (1998) model as described in Xie et al (2003). The first step of the calculation is done by regressing $CAjt/TAj,t\text{-}1 = \gamma0\ 1/TAj,t\text{-}1 + \gamma1\ \Delta Salesjt/TAj,t\text{-}1$ by cross sction for industry year to obtain $\gamma0$ and $\gamma1$. These $\gamma0$ and $\gamma1$ coefficients are used to estimate the amount of Non-Discretionary Current Accruals (NDAC) for each sample company using the equation $NDCAjt = \gamma0\ 1/TAj,t\text{-}1 + \gamma1\ (\Delta\ Salesjt - \Delta\ ARjt)/TAj,t\text{-}1$. The last step is to estimate the amount of DCA for each sample company using the formula $DCAjt = CAjt/Taj,t\text{-}1 - NDCAjt$.

Meanwhile, the main independent variables of this study are tax planning (TaxPlan) and current tax expense (CurrentTx). TaxPlan is proxied by TRR (Tax Retention Rate) using the formula TRR = (Net Profit After Tax)/(Net Profit Before Tax). CurrentTx is calculated from the amount of current tax expense scaled by the company's total assets. The moderating variable in this study is NewRate which is a dummy variable. The value 1 is given for the period after the change in tax rates, namely the 2020 and 2021 periods. The value 0 is given for the period before the change in tax rates, namely the 2018 and 2019 periods.

Four controlling variables are used in this study. Free cash flow (FreeCF) is calculated by the formula Cash Flow from Operating minus Capital Expenditure scaled by Total Assets. Company growth (Growth) as measured by the annual growth of the company's total assets. Solvency (Lev) is measured by the ratio of total debt to total assets. Finally, inventory intensity (InventInt) which is measured by the value of merchandise inventory scaled by total assets.

2. Sample Data

Population for this study includes all Indonesian public companies that are registered in Bursa Efek Indonesia (BEI). From that population, firms from Material sector are selected as sample. The selection of sample is undertaken by using purposive sampling method with the criteria including firms have been registered in BEI (previously Bursa Efek Jakarta) since 2002, firms are never delisted from BEI (BEJ), annual reports for 2017 and 2021 are available. In this case, the availability of 2017 and 2021 annual reports in the prerequisite of firms being selected as sample since all research data will be collected from data available in respected annual reports. This study will test the hypotheses using data from five periods (2017 and 2021) with the total observations are 203 firm-years.

THE RESULTS AND DISCUSSIONS

1. Descriptive Statistics

Table 1 summarizes the descriptive statistics of 203 observations. From the descriptive analysis of table 4.2, it can be concluded that the dependent variable earnings management has a maximum value of 0.4920, minimum -0.1733, average 0.066221 and standard deviation of 0.0814221. Tax planning as measured using TRR (Tax Retention Rate) has a maximum value of 2.9342, minimum 0.0059, average 0.634006 and standard deviation of 0.4789609. Current tax expense has a maximum value of 0.1615, minimum 0.0000, average of 0.018323 and standard deviation of 0.0240469.

Table 1. Descriptive Statistics

Variables	Minimum	Maximum	Mean	Median	Standard Deviation
Dependent Variables:					
EarningM	-0,1733	0,4920	0,0662		0,0814
Independent Variables:					
TaxPlan	0,0059	2,9432	0,6340		0,4789
CurrentTx	0,0000	0,1615	0,0183		0,0240
NewRate	0	1	0,6560		0,2345
Controlling Variables:					
FreeCF	-0,3748	0,2764	0,0179		0,0882
Growth	-0,1798	1,6148	0,1204		0,2376
Lev	0,0000	0,6619	0,2867		0,1709

Variables	Minimum	Maximum	Mean	Median	Standard Deviation
InventInt	0,0033	0,7165	0,1800		0,1427

Variables definition:

EarningM = Earnings Management, proxied by Discretionary Accruals using Model Teoh et al (1998)
TaxPlan= Tax Planning, proxied by TRR (Tax Retention rate)
CurrentTx= Current Tax Expense, scaled by Total Assets
NewRate= New Tax Rate, using dummy variable. 1 for 2020-2021 and 0 for 2017-2019
FreeCF = Free Cash Flows, Cash Flow from Operating deducted by Capital Expenditure and scaled by Total assets
Growth = Firm Growth, proxied by the annual growth of Total assets
Lev = Leverage, total debts scaled by total assets
InventInt= Inventory Intensity, total inventory scaled by Total assets

2. The Results of Hypotheses Tests

Table 2 shows the results of Hypothesis 1 and Hypothesis 2 testing. The regression model has R squared value or determination coefficient value of 0,110, meaning that 11,00 percent of variation in Earnings Management can be explained by independent variables in the model. In other words, 11,00 percent of changes in magnitude of earnings management can be explained by the tax planning, current tax expense and all controlling variables, while the remainder (89,00 percent) is explained by factors outside of the model. Meanwhile, the test of significance of model (the test results are not shown) provides F-value of 9,4095 with the significance of 0,0000. These values indicate that at α=1 percent, the regression model can be used to predict the value of Earnings Management or it can be said that main independent variables and controlling variables simultaneously influence the level of earnings management.

Table 2. The Results of Hypothesis 1 and Hypothesis 2 Testing

This table shows the result of Hypothesis 1 testing using 203 observations. The research model tested is as follows:

$$EarnM = \alpha 0 + \alpha 1\ TaxPlan + \alpha 2\ CurrentTx + \alpha 3\ FreeCF + \alpha 4\ Growth + \alpha 5\ Lev + \alpha 6\ InventInt + \varepsilon$$

	Prediction	Coefficient	t-value	Significance
Intercept (Constant)		0,040	2,148	0,033
TaxPlan		0,001	0,117	0,907
CurrentTx		0,173	0,720	0,472
FreeCF		-0,112	-1,620	0,107
Growth		0,040	1,593	0,113
Lev		-0,025	-0,717	0,474
InventInt		0,145	3,657	0.000
R Squared		0,117		
F-Value		0,000		

Variables definition:

EarningM = Earnings Management, proxied by Discretionary Accruals using Model Teoh et al (1998)
TaxPlan= Tax Planning, proxied by TRR (Tax Retention rate)
CurrentTx= Current Tax Expense, scaled by Total Assets
NewRate= New Tax Rate, using dummy variable. 1 for 2020-2021 and 0 for 2017-2019

FreeCF =	Free Cash Flows, Cash Flow from Operating deducted by Capital Expenditure and scaled by Total assets
Growth =	Firm Growth, proxied by the annual growth of Total assets
Lev =	Leverage, total debts scaled by total assets
InventInt=	Inventory Intensity, total inventory scaled by Total assets
*=	Significant at α=1%
**=	Significant at α=5%
***=	Significant at α=10%

The testing of Hypothesis 1 and Hypothesis 2 is focused on coefficients α_1 and α_2. Both coefficients indicate the influence of tax planning and current tax expense on the practice of earnings management. The test results show that both α_1 and α_2 are positive but not significant. Therefore, Hypothesis 1 and Hypothesis 2 are rejected. In the sampel selected there are no statistical evidences that tax planning and current tax expense have an influence on the practice of earnings management.

The results of Hypothesis 3 and 4 testing are shown in **Table 3**. The regression model has R squared value or determination coefficient value of 0,131, meaning that 13,10 percent of variation in earnings management can be explained by all independent variables in the model. In other words, 13,10 percent of changes in magnitude of earnings management can be explained by tax planning, current tax expense, and the interaction with moderating variable, while the remainder (86,90 percent) is explained by factors outside of the model. Meanwhile, the test of significance of model (the test results are not shown) provides F-value of 14.7636 with the significance of 0,0000. These values indicate that at α=1 percent, the regression model can be used to predict the value of earnings management or it can be said that all independent variables simultaneously influence the level of earnings management.

Table 3. The Results of Hypothesis 3 and Hypothesis 4 Testing

This table shows the result of Hypothesis 1 testing using 203 observations. The research model tested is as follows:

EarnM = α0 + α1 TaxPlan + α2 CurrentTx + α3 TaxPlan*NewRate + α4 CurrentTx*NewRate + α5 FreeCF + α6 Growth + α7 Lev + α8 InventInt + ε

	Prediction	Coefficient	t-value	Significance
Intercept (Constant)		0,040	2,126	
TaxPlan		0,001	0,055	
CurrentTx		0,323	1,018	
TaxPlan*NewRate		0,001	0,089	
CurrentTx*NewRate		-0,325	-0,756	
FreeCF		-0,108	-1,556	
Growth		0,038	1,501	
Lev		-0,025	-0,722	
InventInt		0,146	3,659	
R Squared		0,131		
F Value		0,000		

Variables definition:

EarningM =	Earnings Management, proxied by Discretionary Accruals using Model Teoh et al (1998)
TaxPlan=	Tax Planning, proxied by TRR (Tax Retention rate)
CurrentTx=	Current Tax Expense, scaled by Total Assets

NewRate=	New Tax Rate, using dummy variable. 1 for 2020-2021 and 0 for 2017-2019
FreeCF =	Free Cash Flows, Cash Flow from Operating deducted by Capital Expenditure and scaled by Total assets
Growth =	Firm Growth, proxied by the annual growth of Total assets
Lev =	Leverage, total debts scaled by total assets
InventInt=	Inventory Intensity, total inventory scaled by Total assets
*=	Significant at α=1%
**=	Significant at α=5%
***=	Significant at α=10%

The result of Hypothesis 3 and Hypothesis 4 testing is shown by the value of coefficient α_3 and α_4. This coefficients indicate the influence of New Tax Rate in the relationship between tax planning and current tax expense and earnings management. The regression result produces coefficient α_3 and α_4. with positive and negative value but not significant. This means that in the periods before and after the change of tax rate, there are no diferrences in the influence of tax planning and current tax expense on earnings management practices. Therefore, Hypothesis 3 and Hypothesis 4 are also rejected.

3. Discussion

The effect of tax planning on Earnings Management

From the hypothesis test that has been carried out, it can be concluded that tax planning has no effect on earnings modification. The results of the research that has been carried out have not been able to show empirical evidence that tax planning carried out by company managers cannot necessarily increase profits. These results are not in line with the theory put forward.

The conclusions in the research that have been carried out are in accordance with the research findings (Setyawan & Harnovinsah, 2016). The results of this study indicate that there is no significant influence between tax planning on earnings modification. The significance value of 0.118 is above the significance level of 0.05 (5%). Because the tax rate decreased from 28% to 25% in 2010 compared to 2009, management tends to review or change previously prepared tax plans.

The conclusions in the research that has been carried out are not in accordance with the results of research (Negara & Suputra, The Effect of Tax Planning and Deferred Tax Expenses on Earnings Management, 2017) the act of making at least tax payments as long as the tax payments are still within the applicable tax regulations.

The Effect of Current Tax Expenses on Earnings Management.

Based on hypothesis testing, it can be concluded that there is no influence between current tax expense on earnings modification. In this case, if the tax burden is high, it does not necessarily identify earnings modification and vice versa, if the tax burden is low, the company does not modify earnings. Due to many factors that can companies apply earnings modification.

Wijaya, Yenfi, & Haryani (2017) say "The existence of an information interest between the principal and the agent triggers the agent to think about how the numbers obtained in accounting can further maximize his interests. One of the ways that agents can run in giving effect to accounting numbers is in the form of earnings engineering in financial statements. A large current tax expense will increase the profit earned by a company and vice versa if the tax expense is small it will reduce the level of profit earned."

The conclusion of this research is in line with (Rahmi, Hasan, & Andreas, 2019) where the results of the logistic regression test show that the current tax burden has no significant effect on the detection of revenue management. said to show. When correcting current tax expense for tax purposes, there are differences in treatment between accounting standards and tax laws. However, since current tax expense is calculated by multiplying taxable income by the corporate tax rate, this difference does not provide a way for administrators to control their income. However, the corporate tax rate may vary from company to company depending on the amount of turnover.

The conclusion of this research is not in line with research (Tanra, Nuramal, & Masnawan, 2017) which concluded that the current tax burden has a large positive effect on earnings modification. This means that the higher the ongoing tax burden, the higher the company's income management.

Changes in Tax Rates Affect the Effect of tax planning on Earnings Management

From the hypothesis test, it can be concluded that changes in tax rates do not affect the effect of tax planning on earnings modification. Changes in tax rates carried out by the government are certainly a good thing for entrepreneurs. In the journal (Muiz & Ningsih, 2018) it is stated that "The government has revised the tax law in accordance with the government's work copyright law to reduce the corporate income tax rate from 25% to 22% which is carried out in stages 22% (2020 & 2021) and 20% (2022 onwards)". This is an advantage for companies to be able to get more profit.

The reduction in the tax rate that has taken effect should make managers do better tax planning so that the reduction in the tax rate can have an effect on the effect of tax planning on profit modification. However, in this research, it is concluded that the reduction in tax rates does not have an effect on the effect of tax planning on earnings modification. The decrease in the tax rate makes managers do not need to do tax planning in the current tax year because the tax rate has changed so small that the company will be able to earn higher profits.

Changes in Tax Rates Affect the Effect of Current Tax Expenses on Earnings Management

Based on hypothesis testing, it can be concluded that changes in tax rates do not affect the effect of current tax expenses on earnings modification. Changes in tax rates implemented by the government are certainly a good thing for entrepreneurs. In the journal (Muiz & Ningsih, 2018) it is stated that "The government has revised the tax law in accordance with the government's work copyright law to reduce the corporate income tax rate from 25% to 22% which is carried out in stages 22% (2020 & 2021) and 20% (2022 onwards)". This is an advantage for companies to be able to earn more profits.

The change in tax rates should make the company's tax burden smaller or more lenient so that it can be said that the company can earn more profit than the previous year so that the reduction in this tax rate can have an effect on the effect of current tax expense on profit modification. However, in this research, it is concluded that a decrease in the tax rate does not have an effect on the effect of current tax expense on earnings modification.

SUMMARY AND CONCLUSIONS

The purposes of this study are to examine whether taxation aspects (tax planning and current tax expense) have an influence on the decision of earnings management implementation. In addition, this study examine how the relationship between tax planning and earnings management and between current tax expense and earnings management are influenced by the changes in tax rate. The four hypotheses are examined with linear regression statistic method using 2017 and 2021 data from public companies in Material Sector registerd at Bursa Efek Indonesia involving 203 firm-years observations.

The results of hypothesis testing show that all hypotheses are not supported. In the sample selected, there are no statistical evidences that tax planning and current tax expense can influence the practice of earnings management. Such relationships are also not different in the periods before anf after the changes in tax rate. In other words, this study can not prove that the change in tax rate has a moderating effect in the relationship between tax planning and earnings management and between current tax expense and earnings management. Therefore, this study indicates that all taxation aspects do not have influence on the implementation of earnings management.

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