THE IMPACT OF EARNINGS MANAGEMENT, DEFFERED TAX EXPENSE AND PROFITABILITY TOWARD TAX AVOIDANCE

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Abstrak

Tax revenues are Indonesia's primary source of income. However, so often the realization of tax revenue did not reach the target, due to the different priorities between government and taxpayers. This study is conducted to analyze the impact of earnings management, deferred tax expense and profitability towards tax avoidance in banking companies listed on the Indonesia Stock Exchange from 2015 to 2019. The design of this study employs quantitative approach using secondary data. The research population consists of 47 banking companies, and by using purposive sampling method, the research yields 21 selected companies. Thus, the total number of samples collected from the observation period of 2015 to 2019 was 105. The research data analysis is conducted using multiple linear regression, which is processed through SPSS 25. According to the results of the research, earnings management partially does not have a significant impact towards tax avoidance, whereas deferred tax expense and profitability partially has a significant impact towards tax avoidance. Simultaneously, earnings management, deferred tax expense and profitability have a significant impact towards tax avoidance.

Keywords: Earnings Management; Deferred Tax Expense; Profitability; Tax Avoidance; Tax Revenue

Abstrak

Pendapatan pajak merupakan sumber pendapatan utama Indonesia. Namun, sering kali realisasi pendapatan pajak tidak mencapai target, dikarenakan perbedaan prioritas antara pemerintah dan wajib pajak. Studi ini dilaksanakan untuk menganalisa dampak manajemen laba, beban pajak tangguhan dan profitabilitas terhadap penghindaran pajak pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia tahun 2015 – 2019. Rancangan studi menggunakan pendekatan kuantitatif berdasarkan data sekunder. Populasi penelitian terdiri dari 47 perusahaan perbankan, dan dengan menggunakan purposive sampling method*, penelitian menghasilkan 21 perusahaan terseleksi. Maka, jumlah sampel yang dikumpulkan dalam periode observasi 2015-2019 adalah 105. Analisa data penelitian dilakukan dengan* multiple linear regression*, yang diolah menggunakan SPSS 25. Berdasarkan hasil penelitian, manajemen laba tidak berdampak signifikan secara parsial terhadap penghindaran pajak, sementara beban pajak tangguhan dan profitabilitas berdampak signifikan secara parsial terhadap penghindaran pajak. Secara simultan, manajemen laba, beban pajak tangguhan dan profitabilitas berdampak signifikan terhadap penghindaran pajak.*

Kata kunci: Manajemen Laba; Beban Pajak Tangguhan; Profitabilitas; Penghindaran Pajak; Pendapatan Pajak

1. INTRODUCTION

Tax revenue is the main source of state revenue. However, revenue realized from the tax sector is always less than targeted tax revenue. The government is unable to achieve the target because the government and taxpayers have opposing views on taxation (Fauzan et al., 2019). Taxes are regarded as state income, but they are also regarded as an expense for corporations because they limit the amount of net income received; therefore, corporations seeking to maximize profits will attempt to reduce the amount of tax expense. Furthermore, the self-assessment system aided tax avoidance because such system is heavily reliant on the awareness of taxpayers to calculate, pay, and report tax correctly and completely, while in fact it is still relatively low (Seralurin & Ermawati, 2019). Therefore, taxpayers' opportunistic behaviour to increase earnings, as well as the adoption of self-assessment system, opens up the possibilities of tax avoidance by taxpayers.

The practice of tax avoidance has become a common phenomenon in Indonesia (Midiastuty et al., 2020), in which it is an endeavour to enhance a company's profit while lowering its tax expense. In contrast to tax evasion, it is regarded as a legitimate approach

for taxpayers without violating relevant laws by exploiting existing legal loopholes (Dewianawati & Setiawan, 2021). In fact, tax avoidance is highly beneficial for businesses to cut down their tax expenditure while increasing their earnings; yet, in practice, tax avoidance is deemed an unethical conduct because it goes against the intent and purpose of government (Prebble et al., 2013). There are numerous factors that can influence tax avoidance as dependent variable, as previously explored in prior studies. Earnings management (Kurniasih et al., 2017), deferred tax expense (Fatkhurrozi & Kurnia, 2021), and profitability (Prabowo, 2020) are among these factors.

Earnings management is a management intervention to influence financial information in the desired manner and for a specific goal through the implemented advantageous accounting policies (Eriyanti et al., 2019). According to Scott (2015), earnings management is presumed caused by tax motivation, or the desire to reduce tax expense. Thus, if the company is more aggressive to manage earnings, tax avoidance will be higher. Previous research from Kurniasih et al. (2017) found that earnings management had a significant influence on tax avoidance. In contrast, Henny's (2019) research concluded that tax evasion cannot be detected through earnings management. Another factor presumed to detect tax avoidance is deferred tax expense, which is defined as temporary difference caused by different treatment of accounting standards and taxation regulation (Phillips et al., 2003). When deferred tax expense is recognized, the resulting temporary difference reduces taxable income and tax expense in the current year. Therefore, as stated by Fatkhurrozi & Kurnia (2021), it can detect tax avoidance occurrences through deferred tax expense. Meanwhile, Suciarti et al. (2020) discovered that deferred tax expense has no effect on tax avoidance.

As for profitability, it is also another important factor for tax avoidance occurrence according to Putra et al. (2020) because it may impact the amount of tax expense through the perspective of income and expense recognition. The higher the level of profitability, the more income the company generates. However, since the amount of tax is determined by how much income a company earns, higher income will lead to a higher amount of tax expense. Therefore, companies with high profits are more likely to engage in tax avoidance to reduce their tax expense. However, this contradicts Umar et al. (2021) findings, where tax avoidance is not influenced by profitability. Based on the arguments above, the title proposed in this journal is "The Impact of Earnings Management, Deferred Tax Expense and Profitability Toward Tax Avoidance".

2. LITERATURE REVIEW

2.1 Agency Theory

The agency theory was first proposed by Jensen and Meckling (1976), which is sourced from contractual relationship between principal and agent. Principal is described as the party that employs and delegate authority to another party known as an agent due to limited time and manpower in operating activities. Therefore, agents are authorized by principal to make decisions on behalf of principal and to carry out certain tasks in accordance with the agreement in contractual relationship. Agency theory related to taxation involves government and investor as the principal and company as the agent. Government, as the tax collector, has interest to generate as much tax revenue as possible, and investors have an interest in obtaining a high return on capital investment from a high level of profit with a low level of risk because tax avoidance is an act that does not comply with tax laws, which can result in future costs such as tax audit costs. In contrast to those priorities, the company prioritizes its interests in generating maximum profit with a low tax expense to attract investment, despite the fact that the company has an obligation as a taxpayer.

These two different perspectives result in agency conflicts, in which the government (principal) will try to minimize tax law loopholes as much as possible so that taxpayers pay taxes honestly and on time, and investors (principals) are opposed to tax avoidance because it is potentially harmful. On the other hand, companies (agents) will seek various ways to protect their interests to increase the company's net profit, one of which is through tax avoidance, which is against the government and investors as principals.

2.2 Tax Avoidance

Tax avoidance is a taxpayer's attempt to minimize the tax expense by exploiting the loopholes in a country's tax regulations, so that they do not have to bear as much of the tax expense than they should. According to (Indrawan et al., 2019), tax avoidance is legal and does not violate the provisions of taxation. Tax avoidance carries risks that are detrimental to taxpayers such as tax fine, particularly if the costs incurred are not proportional to the amount of tax deducted. Moreover, tax avoidance risks taxpayers in form of loss of investor and creditor confidence on company's reputation, which can affect the company's sustainability. Aside from the negative impact on taxpayers, tax avoidance has a negative impact on the government (Alfaruqi et al., 2019). This is due to the fact that tax avoidance directly reduces tax revenues that are used to carry out and realize government programs.

2.3 Earnings Management

Earnings management is defined as the intentional intervention by management to either maximize or minimize income in accordance with desired interests through the use of flexibility of estimation in financial statement preparation (Eriyanti et al., 2019). Therefore, as the revenue area can be exploited by management for personal gain, earnings management reduces the credibility of financial statements and inserts bias into financial statements, misinforming or misleading financial statement users about the condition of the company's economic performance. Earnings management is addressed to reduce the company's income tax expense or known as tax motivation (Scott, 2003). Here, company maximizes profits by avoiding high taxes. Tax avoidance is done by taking into account earning management. According to previous research findings, earnings management has a significant impact on tax avoidance (Kurniasih et al., 2017; Purba, 2018).

2.4 Deferred Tax Expense

Deferred tax expense is a change in the company's deferred tax liabilities and deferred tax assets that occurs during the accounting period as a result of either an increase in the balance of deferred tax liabilities or a decrease in the balance of deferred tax assets from the beginning to the end of the accounting period (Kieso et al., 2020). Deferred tax is governed by Pernyataan Standar Akuntansi Keuangan (PSAK) No. 46, which regulates the recording and recognizing income taxes in financial statements. Deferred tax is the amount of income tax incurred as a result of temporary differences between commercial accounting and tax accounting.

The treatment of accounting standards is different from tax regulations because accounting standards are accrual-based, whereas tax regulations are cash-based. This difference causes either lower or higher taxable income, which indicates tax avoidance practices. According to previous research, deferred tax expense has a significant impact on tax avoidance compensation (Fatkhurrozi & Kurnia, 2021; Kalbuana et al., 2020).

2.5 Profitability

Profitability is defined as a measure of company's ability to earn returns or profits from its business activities, indicating how productive the company's financial performance is. Profitability analysis is often used to evaluate the company's financial health. For

investors, profitability measurement is used as an indicator of investment decision considerations in the hope of getting a return (Adjirackor et al., 2017). Aside from that, profitability measurement is used by management as a reference in determining and implementing strategies to improve company performance (Gunawan et al., 2019). The level of profit generated by company is proportional to tax expense, whereas an increase in the company's income causes an increase in tax expense. Companies do tax avoidance by increasing their efforts to reduce tax expense. According to previous research, profitability has a significant impact on tax avoidance (Prabowo, 2020; Putra et al., 2020).

Research Model

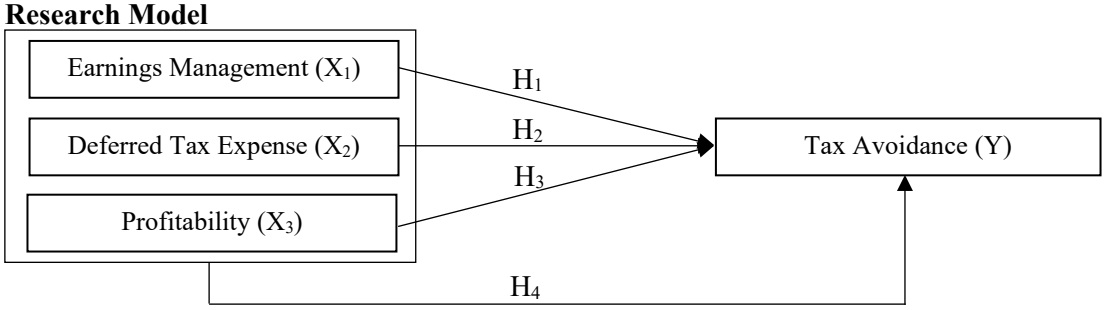

Figure 1. Research Model
Source: Prepared by Writer (2022)

Based on the research model above, four hypotheses are proposed as follows:

H_1: Earnings management partially has a significant impact towards tax avoidance banking companies listed on the Indonesia Stock Exchange.

H_2: Deferred tax expense partially has a significant impact towards tax avoidance in banking companies listed on the Indonesia Stock Exchange.

H_3: Profitability partially has a significant impact towards tax avoidance in banking companies listed on the Indonesia Stock Exchange.

H_4: Earnings management, deferred tax expense and profitability simultaneously have a significant impact towards tax avoidance in banking companies listed on the Indonesia Stock Exchange.

3. RESEARCH METHODOLOGY

3.1 Research Design

The research design of this study is quantitative since the research data is numerical and will be measured using statistical analysis to evaluate phenomena in a systematic, planned, and structural manner so that research results can be analyzed and interpreted factually and accurately without the researcher's subjective influence (Mukhtazar, 2020). This research's design, which employs a quantitative approach, consists of descriptive research and causal research. Descriptive research aims to explain and provide an overview of a phenomenon by collecting, categorizing, and analyzing data from the financial statements of banking companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2019. Causal research is intended to investigate the possibility of a "cause and effect" relationship between the independent variable and the dependent variable, the independent variable has the ability to influence changes in the dependent variable.

3.2 Population and Sample

The population in this study are banking companies listed on the IDX in the period of 2015-2019. Writer employs purposive sampling method, which is used in selecting and determining the sample by setting up some criteria range with specific considerations (Mukhtazar, 2020). The criteria chosen by writer are banking companies listed on the IDX from the period 2015 to 2019; banking companies that published financial statements

consistently for six consecutive years from 2014 to 2019 to obtain research data during the period of 2015 to 2019; and banking companies that consistently report net profit across the period 2015 to 2019.

3.3 Data Collection and Analysis Method

A proper research data collection involves procedures for selecting information sources and collecting information carefully and systematically, either in the form of primary data obtained directly from respondents or secondary data obtained from third parties (Mukhtazar, 2020). Secondary sources were used to collect information for this study, including books, academic journals, published electronic sources, and other appropriate credible sources, as well as banking companies' annual financial statements published on the IDX. The data analysis used multiple linear regression analysis, which is processsed through the SPSS 25.

3.4 Operational Variable Definition and Variable Measurement

Operational variables define research variables as indicators that can be measured specifically; in other words, each research variable has a measurement scale so that hypothesis testing using statistical tools can be carried out correctly. Variable in research that is influenced by other variables is referred to as dependent variable (denoted as variable Y), whereas variables in research that act as predictors and cause the dependent variable to change are referred to as independent variables (denoted as variable X). The dependent variable in this study is the tax avoidance, while the independent variables consist of earnings management, deferred tax expense, and profitability.

3.5 Dependent Variable

Tax avoidance can be interpreted as taxpayer's efforts to reduce the tax expense by exploiting gaps in the applicable tax provisions. The Generally Accepted Accounting Principle Effective Tax Rate (GAAP ETR) is used in this study to calculate tax avoidance. Tax avoidance, as proxied by GAAP ETR, has inverse relationship, which means that the lower GAAP ETR represents the greater level of tax avoidance, and vice versa. According to Pertiwi & Prihandini (2021), if the percentage of GAAP ETR is below or less than 25% of the mandatory tax rate, the company is practicing tax avoidance by suppressing taxable income to reduce tax expense while maintaining financial accounting profit. On the other hand, if the GAAP ETR percentage approaches or exceeds 25% of the mandatory tax rate, this indicates that the company is not engaging in tax avoidance practices. The following formula can be used to calculate the GAAP ETR:

$$GAAP\ ETR_{it} = \frac{Income\ Tax\ Expense_{it}}{Pre\text{-}tax\ Accounting\ Income_{it}}$$

Information:

$GAAP\ ETR_{it}$ = Effective tax rate of company i based on applicable financial accounting principle in year t

$Income\ Tax\ Expense_{it}$ = Income Tax Expense of company i in year t

$Pre\text{-}tax\ Accounting\ Income_{it}$ = Pre-tax accounting income of company i in year t

3.6 Independent Variable

Earnings management refers to the manager's intervention in influencing financial statement information with the goal of achieving certain party's interests by utilizing the flexibility of estimation in the preparation of financial statements. The measurement of earnings management uses the Modified Jones Model. According to Dechow et al. (1995), the Modified Jones Model detects and measures earnings management cases better than other models because the Healy Model uses total accrual as the basis for non-discretionary

accrual calculations without regard for discretionary accrual, which violates the assumption that discretionary accrual is part of total accrual; similarly, the DeAngelo Model uses total accrual for non-discretionary accrual calculation, which violates the assumption that total accrual is the sum of discretionary and non-discretionary accruals, moreover, it also uses total accruals from the previous period for the calculation rather than the current period value; and the Jones Model does not account for the fact that management discretion can be exercised through income from credit sales or receivables, causing the Jones Model calculation to be biased. The Modified Jones model's calculation are as follows:

$$TA_{it} = NI_{it} - CFO_{it}$$

$$\frac{TA_{it}}{A_{it-1}} = \alpha 1\left(\frac{1}{A_{it-1}}\right) + \alpha 2\left(\frac{(Rev_{it} - Rev_{it-1})}{A_{it-1}}\right) + \alpha 3\left(\frac{PPE_{it}}{A_{it-1}}\right)$$

$$NDA_{it} = \alpha 1\left(\frac{1}{A_{it-1}}\right) + \alpha 2\left(\frac{(Rev_{it} - Rev_{it-1}) - (Rec_{it} - Rec_{it-1})}{A_{it-1}}\right) + \alpha 3\left(\frac{PPE_{it}}{A_{it-1}}\right)$$

$$DA_{it} = TA_{it} - NDA_{it}$$

Information:
TA_{it} = Total accruals of company i in year t
NI_{it} = Net income of company i in year t
CFO_{it} = Cash flows from operations of company i in year t
A_{it-1} = Total assets of company at the end of year t-1
Rev_{it} = Revenue of company i in year t
Rev_{it-1} = Revenue of company i in year t-1
PPE_{it} = Fixed assets of company at the end of year t
NDA_{it} = Non-discretionary accrual of company i in year t
Rec_{it} = Receivables of company at the end of year t
Rec_{it-1} = Receivables of company at the end of year t-1
DA_{it} = Discretionary accrual of company i in year t

Deferred tax expense is the total income tax expense resulting from temporary differences in profit and expense recognition principles between commercial accounting and tax accounting. Based on the research by Fatkhurrozi & Kurnia (2021), the deferred tax expense component is used to calculate deferred tax expense by weighting the amount of deferred tax expense by the lagged value of total assets. Since the deferred tax expense variable is a time series, the use of lagged value aims to eliminate the auto-correlation effect that can skew regression results and normalize research variables (Bellemare et al., 2015), resulting in a proportional deferred tax expense value. The following is the formula for calculating deferred tax expense (Phillips et al., 2003):

$$DTE = \frac{DTE_{it}}{A_{it-1}}$$

Information:
DTE = Deferred tax expense
DTE_{it} = Deferred tax expense of company i in year t
A_{it-1} = Total assets of company i at the end of year t-1

Profitability describes a company's ability to generate profits over a specific time period by making effective use of all of its capabilities and resources. Profitability is measured using the Return on Assets (ROA) proxy. According to Husain et al. (2020), ROA and ROE are commonly used ratio to measure profitability. In contrast, ROA can provide a more accurate measurement of a company's effectiveness than ROE (McClure, 2021), because the ROE value does not fully reflect the level of company profitability. A high ROE value does not always indicate impressive company performance, but rather

excessive company debt, because some businesses still use debt to finance their operations in order to generate profits (Fernando, 2021). For that reason, ROA was chosen as a proxy for profitability measurement in this study. The ROA measurement is as follows:

$$ROA = \frac{NI_{it}}{A_{it}}$$

Information:
ROA = Return on assets
NI_{it} = Net income of company i in year t
A_{it} = Total assets of company i at the end of year t

4. RESULT

4.1 Sample Size Determination

There are 47 banking companies listed on the IDX from 2015-2019, which serves as the research population. By purposive sampling method, 21 samples of banking companies were selected for further examination. Since the observation period is 5 years, the total number of research samples in the research period is 105. The details are shown below:

Table 1. Determination of Sample

No.	Criteria	Total
1.	Banking companies listed on the IDX during 2015-2019	47
2.	Banking companies that did not consistently publish financial statements from 2014 to 2019	(8)
3.	Banking companies that did not consistently report net profit during the period 2015-2019.	(14)
	Total samples that meet the criteria	25
	Outlier	(4)
	Total samples after outlier	21
	Research year	5
	Total samples in the research period	105

Source: Prepared by Writer (2022)

4.2 Descriptive Statistics

Descriptive statistics is the first step in quantitative research that involves gathering, compiling, and presenting a set of data to provide an overview of the minimum, maximum, average, and standard deviation of research data. The results are as follows:

Table 2. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	105	-.6350588	.8950472	.0076277	.1720794
Deferred Tax Expense	105	-.0050979	.0019616	-.0003395	.0009324
Profitability	105	.0006712	.0313434	.0148708	.0071102
Effective Tax Rate (Tax Avoidance)	105	.1501474	.4909211	.2527576	.0435944
Valid N (listwise)	105				

Source: Data Processing with SPSS 25 (2022)

From the table above, it can be interpreted that earnings management has a minimum value of -0.6350588 on PT Bank Rakyat Indonesia Agroniaga Tbk in 2016 and a maximum value of 0.8950472 on PT Bank BTPN Tbk in 2017. Earnings management has a mean of 0.0076277 and a standard deviation of 0.1720794. The results show that mean value is closer to minimum value than maximum value, indicating that banking company data for earnings management variable has a relatively smaller value, while standard deviation value is greater than mean value, indicating that data distribution for the earnings management variable is relatively larger.

Deferred tax expense has a minimum value of -0.0050979 on PT Bank Pembangunan Daerah Jawa Timur Tbk in 2017 and a maximum value of 0.0019616 on PT Bank Mayapada International Tbk in 2016. Furthermore, mean value of deferred tax expense is -0.0003395, with a standard deviation of 0.0009324. The results show that mean value is closer to maximum value than minimum value, indicating that deferred tax expense variable has a relatively larger value, while standard deviation is greater than mean value, indicating that distribution of variable data for deferred tax expense is relatively larger.

Profitability has a minimum value of 0.0006712 on PT Bank Tabungan Negara (Persero) Tbk in 2019 and a maximum value of 0.0313434 on PT Bank Central Asia Tbk in 2018. Furthermore, the mean value profitability is 0.0148708, with a standard deviation of 0.0071102. The results show that mean value is closer to minimum than maximum value, indicating that profitability variable data has a smaller value, and standard deviation value is smaller than mean value, indicating that distribution of the profitability data is smaller.

Effective tax rate has a minimum value of 0.1501474 for PT Bank Mega Tbk in 2015 and a maximum value of 0.4909211 for PT Bank Tabungan Negara (Persero) Tbk in 2019. Furthermore, the mean value of tax avoidance is 0.2527576, with a standard deviation of 0.0435944. The results show that mean value is closer to minimum value than maximum value, indicating that tax avoidance variable data has a relatively smaller value, and standard deviation value is smaller than average value, indicating that spread of the tax avoidance variable data is relatively smaller.

4.3 Classical Assumption Test

4.3.1 Normality Test

The normality test was used to see if the sample in the regression model had a normal distribution. This test is performed in three tests, which are graphically using histograms and normal probability plots, and statistically using the Kolmogorov Smirnov test.

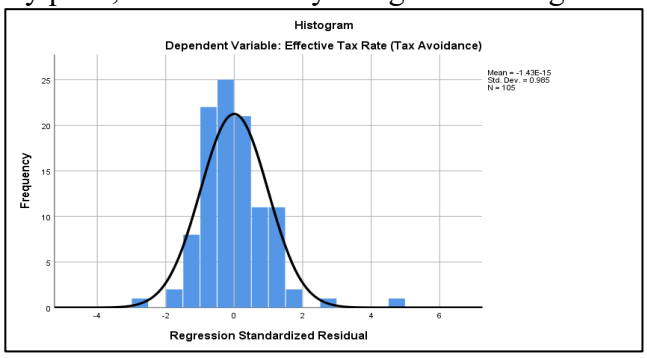

Figure 2. Normality Test – Histogram
Source: Data Processing with SPSS 25 (2022)

According to Figure 2, the histogram depicts a bell-shaped curve in the middle position, with both the left and right tails being symmetrically distributed, indicating that the data is normally distributed.

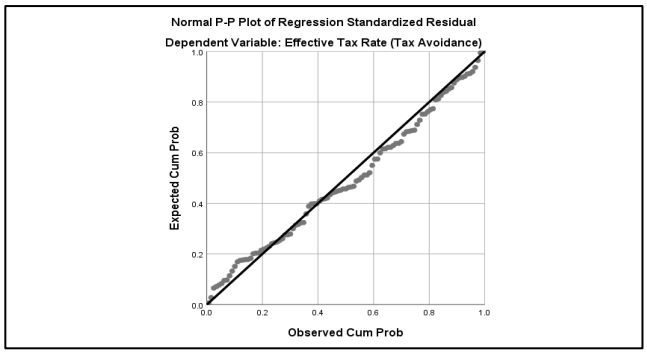

Figure 3. Normality Test – Normal Probability Plot
Source: Data Processing with SPSS 25 (2022)

According to Figure 3., the plot shows that the data in the form of dots distributed around a straight diagonal line, indicating that the data are normally distributed. In addition, statistical analysis using the Kolmogorov Smirnov test was also performed to obtain more accurate results.

Table 3. Normality Test – Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		105
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.03710148
Most Extreme Differences	Absolute	.069
	Positive	.069
	Negative	-.061
Test Statistic		.069
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: Data Processing with SPSS 25 (2022)

According to Table 3., the Kolmogrov-Smirnov test results show a significance level (Asymp. Sig. 2-tailed) of 0.2, which is greater than 0.05, indicating that the data are normally distributed.

From the results of three tests above, regression model's normality assumption is fulfilled.

4.3.2 Multicollinearity Test

The multicollinearity test determines whether the independent variables in the regression model are correlated, as a good regression model will not have such correlation. This test is performed by observing the Tolerance and Variance Inflation Factor (VIF) values.

Table 4. Multicollinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Earnings Management	.991	1.009

	Deferred Tax Expense	.961	1.041
	Profitability	.959	1.042
a. Dependent Variable: Effective Tax Rate (Tax Avoidance)			

Source: Data Processing with SPSS 25 (2022)

Based on Table 4. above, the results revealed that all of the independent variables had a tolerance value greater than 0.1 and a VIF value less than 10, proving that there is no multicollinearity issue between independent variables and that the regression model passed the multicollinearity assumption test.

4.3.3 Heteroscedasticity Test

The heteroscedasticity test was used to determine whether the variance of sample data for all observations in the regression model is uniform, because a good regression model will be free of heteroscedasticity issue (homoscedasticity). This test is performed using graphical analysis with a scatterplot and statistical analysis with the Spearman Rank test.

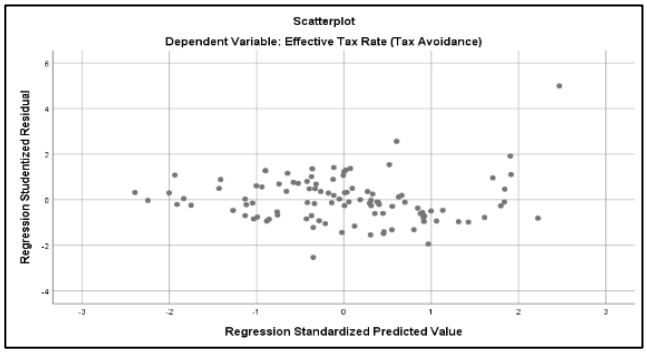

Figure 4. Heteroscedasticity Test – Scatterplot
Source: Data Processing with SPSS 25 (2022)

According to Figure 4., the dots are distributed randomly and do not form any pattern such as wavy, widening, and then narrowing, indicating that data does not have heteroscedasticity problem.

Table 5. Heteroscedasticity Test – Spearman's rank

Correlations

			EM	DTE	ROA	Unstandardized Residual
Spearman's rho	Earnings Management (EM)	Correlation Coefficient	1.000	.032	-.044	.019
		Sig. (2-tailed)	.	.750	.658	.845
		N	105	105	105	105
	Deferred Tax Expense (DTE)	Correlation Coefficient	.032	1.000	-.208*	.104
		Sig. (2-tailed)	.750	.	.033	.292
		N	105	105	105	105
	Profitability (ROA)	Correlation Coefficient	-.044	-.208*	1.000	.129
		Sig. (2-tailed)	.658	.033	.	.188
		N	105	105	105	105
	Unstandardized Residual	Correlation Coefficient	.019	.104	.129	1.000

	Sig. (2-tailed)	.845	.292	.188	.
	N	105	105	105	105
*. Correlation is significant at the 0.05 level (2-tailed).					

Source: Data Processing with SPSS 25 (2022)

Based on Table 5., the Spearman's rank test result shows that all independent variables have a significance value (Sig. 2-tailed). Since the result is greater than 0.05, it is concluded not having heteroscedasticity problem.

The results of the two heteroscedasticity tests prove that the regression model's heteroscedasticity assumption has been met.

4.3.4 Autocorrelation Test

The autocorrelation test was used to determine whether the sample data had time series problem or correlations between one observation and other observations in different time series, because a good regression model will be free of autocorrelation issues. This test is performed using the Durbin-Watson and Runs tests.

Table 6. Autocorrelation Test – Durbin-Watson

Model Summary[b]					
Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Durbin-Watson
1	.525[a]	.276	.254	.0376484567	2.065
a. Predictors: (Constant), Profitability, Earnings Management, Deferred Tax Expense b. Dependent Variable: Effective Tax Rate (Tax Avoidance)					

Source: Data Processing with SPSS 25 (2022)

According to the Durbin-Watson table, with a significant level of 5%, the number of independent variables (k) is 3, and the number of samples (n) is 105, the lower limit value (dL) obtained is 1.6237, and the upper limit value (dU) obtained is 1.7411. When this value is compared to the Durbin-Watson value of 2,065 from table 6., the following results are obtained:

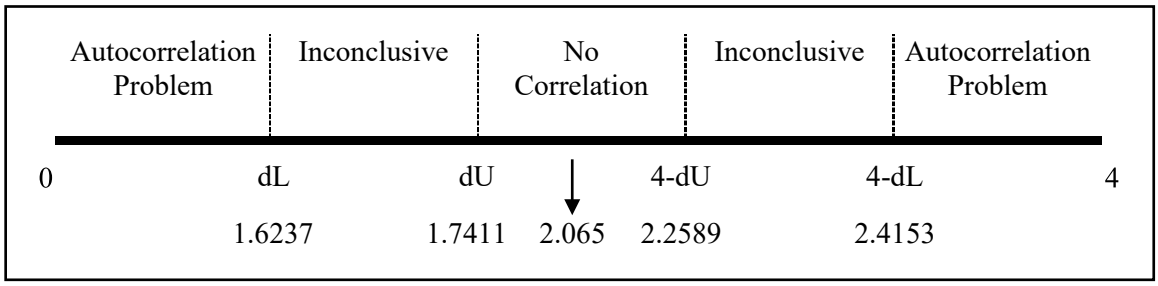

Figure 5. Durbin-Watson Test Result
Source: Prepared by Writer (2022)

According to Figure 5., the Durbin-Watson value is between the dU value and the 4-dU value (dU < dW < 4-dU), indicating that there is no autocorrelation problem. However, in order to obtain more accurate results, a Runs Test was also performed.

Table 7. Autocorrelation Test – Runs Test

Runs Test	
	Unstandardized Residual
Test Value[a]	-.00405
Cases < Test Value	52

Cases >= Test Value	53
Total Cases	105
Number of Runs	57
Z	.687
Asymp. Sig. (2-tailed)	.492
a. Median	

Source: Data Processing with SPSS 25 (2022)

Based on Table 7, the Runs Test results show a significance value (Asymp. Sig. 2-tailed) of 0.492, which is greater than 0.05, indicating that there is no autocorrelation issue. The results of the two autocorrelation tests, the Durbin-Watson test and the Runs Test, are similar, proving that the regression model's autocorrelation assumption has been met.

4.3.5 Multiple Linear Regression Analysis

Multiple linear regression analysis was performed to estimate the association between predictor variables of earnings management, deferred tax expense and profitability and the dependent variable of tax avoidance, which is represented as a mathematical equation. The following are the result of multiple linear regression analysis:

Table 8. Multiple Linear Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.290	.009		33.828	.000
	Earnings Management	.027	.022	.105	1.236	.219
	Deferred Tax Expense	-14.098	4.040	-.302	-3.490	.001
	Profitability	-2.852	.530	-.465	-5.381	.000
a. Dependent Variable: Effective Tax Rate (Tax Avoidance)						

Source: Data Processing with SPSS 25 (2022)

4.3.6 Partial Hypothesis Test (T Test)

Partial hypothesis testing was performed to determine whether independent variables partially have a significant impact on dependent variable of tax avoidance. Referring to t-distribution table with a significance level of 5%, value of degree of freedom (df) of 101, which is obtained from the difference in the number of samples of 105 with the number of variables of 4, the positive t-table value is 1.98373 or the negative t-table value is -1.98373. Based on table 8., earnings management partially has no significant impact on the effective tax rate in banking companies listed on the IDX with significance value of 0.219 (0.219 > 0.05) and the t-count value of 1.236 (1.236 < 1.98373).

Deferred tax expense partially has a significant impact on the effective tax rate in banking companies listed on the IDX with significance value of 0.001 (0.001 < 0.05) and the t-count value of -3.490 (-3.490 < -1.98373) Profitability partially has a significant impact on the effective tax rate in banking companies listed on the IDX with significance value of 0.000 (0.000 < 0.05) and the t-count value of -5.381 (-5.381 < -1.98373).

4.3.7 Simultaneous Hypothesis Test (F Test)

Simultaneous hypothesis testing is performed to determine whether all independent variables of simultaneously have a significant impact on the dependent variable of tax avoidance. The following are the results of simultaneous hypothesis testing:

Table 9. Simultaneous Significant Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.054	3	.018	12.815	.000[b]
	Residual	.143	101	.001		
	Total	.198	104			

a. Dependent Variable: Effective Tax Rate (Tax Avoidance)
b. Predictors: (Constant), Profitability, Earnings Management, Deferred Tax Expense

Source: Data Processing with SPSS 25 (2022)

Referring to the f-distribution table with a significant level of 5%, value of the numerator's degree of freedom of 3 which is obtained from the number of independent variables, and the value of the denominator's degree of freedom of 101 which is obtained from the difference between the number of samples of 105 and the number of variables of 4, the value of the f-table obtained is 2.69462.

According to the results of simultaneous hypothesis testing in Table 9. above, the significance value is 0.000 (0.000 < 0.05) and the f-count value is 12.815 (12.815 > 2.69462), indicating that earnings management, deferred tax expense and profitability simultaneously have a significant impact on the effective tax rate in banking companies listed on the IDX.

4.3.8 Coefficient of Determination Test

The coefficient of determination test was used to estimate how much the independent variable contributed to explaining the dependent variable. The coefficient of determination has a value between zero and one, with the higher the coefficient of determination, the better the independent variable can explain the dependent variable. The coefficient of determination testing results are as follows:

Table 10. Coefficient of Determination Test

Model Summary[b]				
Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.525[a]	.276	.254	.0376484567

a. Predictors: (Constant), Profitability, Earnings Management, Deferred Tax Expense
b. Dependent Variable: Effective Tax Rate (Tax Avoidance)

Source: Data Processing with SPSS 25 (2022)

According to the coefficient of determination test results in Table 10., the Adjusted R-squared value (Adjusted R^2) is 0.254, indicating that the independent variable of earnings management, deferred tax expense and profitability can explain 25.4% of the change in the dependent variable of effective tax rate, while the remaining 74.6% is explained by other independent variables not discussed in this study.

5. DISCUSSION

5.1 The Impact of Earnings Management towards Tax Avoidance

Based on the results of the partial hypothesis testing with a significance value of 0.219 > 0.05 and a t-count value of 1.236 < t-table value of 1.98373, it is concluded that H_1 is rejected, where earnings management has no significant impact towards the purpose of

minimizing the tax expense on bank companies listed on the IDX. These findings are consistent with previous research by Henny (2019), but not with the research by Kurniasih et al. (2017).

This finding demonstrates that companies that have gone public tend to comply with applicable regulations and do not violate tax regulations by presenting fair financial statements, because all financial statements prepared by companies for publication must be audited by an independent auditor as a form of accountability for the feasibility and fairness of presenting financial statements so that reporting audited financial statements have been presented in accordance with applicable regulations. Moreover, even though companies engage in earnings management for the purpose of tax minimization, the effect on tax avoidance will be negligible since companies undertake a fiscal correction of profit before tax at the end of reporting to calculate taxable income.

5.2 The Impact of Deferred Tax Expense towards Tax Avoidance

Based on the partial hypothesis testing results with a significance value of 0.001 < 0.05 and a t-count value of -3.490 < t-table value of -1.98373, it is concluded that H_2 is accepted, where deferred tax expense has a significant and negative impact on effective tax rate on banking companies listed on the IDX. These findings are consistent with previous research by Fatkhurrozi & Kurnia (2021), but not with the research by Suciarti et al. (2020).

This finding suggests that the emergence of a deferred tax expense as a result of differences in the calculation of commercial profit and fiscal profit can influence businesses to engage in tax avoidance. This is because the size of the difference between commercial profit and fiscal profit can impact the amount of tax expense in the relevant year. From the financial statements of banking companies listed on the IDX, it is revealed that there is a large difference amount between commercial profit and fiscal profit, which reduces the amount of tax expense, or in other words, a large difference amount between commercial profit and fiscal profit can detect the activity of minimizing the company's tax expense.

5.3 The Impact of Profitability towards Tax Avoidance

Based on the findings of the partial hypothesis testing with a significance value of 0.000 < 0.05 and a t-count value of -3.490 < t-table value of -1.98373, it is concluded that H_3 is accepted where profitability has a significant and negative impact on the effective tax rate on banking companies listed on the IDX. These findings are consistent with previous research by Putra et al. (2020), but not with the research by Umar et al. (2021).

This finding suggests that companies with high profitability perform well and are efficiently able to develop good and proficient tax planning, therefore, the value of effective tax rate is low. This is because the higher the company's profit, the higher the value of the tax expense, triggering the implementation of efficiency measures in paying taxes, or in other words, increasing the tendency of companies to avoid tax as measured by the lower effective tax rate.

5.4 The Impact of Earnings Management, Deferred Tax Expense and Profitability towards Tax Avoidance.

Based on the results of the simultaneous hypothesis testing with a significance value of 0.000 < 0.05 and an f-count value of 12.815 > f-table value of -2.69462, it is concluded that H_4 is accepted, where earnings management, deferred tax expense and profitability simultaneously have a significant impact toward effective tax rate on banking companies listed on the IDX. Even though the three independent variables simultaneously have significant influence on tax avoidance, the value of the simultaneous hypothesis test of independent variables on effective tax rate are primarily due to the influence of deferred tax expense and profitability, because only two of the three explanatory variables, namely deferred tax expense and profitability, partially have a significant impact on effective tax rate.

Furthermore, the Adjusted R-squared result from the coefficient of determination test is 0.254, indicating that the predictive variables of earnings management, deferred tax expense and profitability explain approximately 25.4% of the change in the effective tax rate, while the remaining 74.6% change of effective tax rate is explained by other variables not discussed in this study. Although the effect of 25.4% is a relatively low relationship, given that tax avoidance is a very broad topic that encompasses many different fields, the percentage of influence obtained is considered reasonable value for this research model.

6. CONCLUSION

Several conclusions were drawn from this research as below:

1. Earnings management partially has no impact towards tax avoidance in banking companies listed on the IDX. According to agency theory, agents, as company managers, have more internal information than principals, which means agents can manipulate financial statements for a variety of reasons, including tax minimization, which encourages them to perform earnings management to minimize tax expense. However, the results show that earnings management has no significant impact on effective tax rate. Earnings management cannot be used as a good predictor of corporate tax avoidance because publicly traded companies are required to present fair financial statements that have been audited by independent auditors in order to ensure financial reporting to be in accordance with applicable accounting. Furthermore, earnings management is only concerned with commercial financial statements, whereas the company must also prepare fiscal financial statements or perform fiscal correction of profit before tax to calculate taxable income, which serves as a basis in calculating tax expense. Thus, earnings management relatively will have no much impact on tax avoidance;
2. Deferred tax expense partially has a significant and positive impact towards tax avoidance in banking companies listed on the IDX. According to agency theory, due to the different objectives of principal and agent, companies will always look for existing alternatives to maximize their income by reducing their tax expense, one of which is through deferred tax expense. The results show that the amount of deferred tax expense demonstrates a significant difference amount between commercial profit and fiscal profit, lowering the company's tax expense. As a result, the deferred tax expense variable can be used to predict corporate tax avoidance;
3. Profitability partially has a significant and positive impact towards tax avoidance in banking companies listed on the IDX. This finding is also supported by agency theory, which states that the company tries to minimize the tax expense, which is contrary to the government's objectives, in order to increase the company's profitability and entice investors to invest. As a result, increasing profitability will increase the tax expense, so companies will be considered to have carried out more efficient activities or good asset management, such as depreciation expense, in order to reduce the corporate tax expense in order to achieve high profitability. This indicates a higher level of tax avoidance, thus, the profitability variable can be used to predict corporate tax avoidance;
4. Earnings management, deferred tax expense and profitability simultaneously have a significant impact towards tax avoidance in banking companies listed on the IDX. It is indeed that the three independent variables simultaneously have a significant impact on tax avoidance, but because only deferred tax expense and profitability, have a significant effect on tax avoidance, the significant simultaneous effect of these independent variables on tax avoidance is largely due to deferred tax expense and profitability; and
5. The coefficient of determination of adjusted R-squared is 0.254. This indicates that a 25.4% change in the dependent variable of tax avoidance can be explained by the independent variables of earnings management, deferred tax expense and profitability.

The remaining value of 74.6%, on the other hand, is explained by other independent variables not discussed in this study. This research model has a relatively low relationship with a value of 25.4%, but given the very broad topic of tax avoidance, which involves many variables, the value obtained is considered reasonable.

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