Multiparadigm Journal of Tax and Finance (MJTF)
Vol. 1, No. 1, August 2025, pp. 20-26
E-ISSN: 3090-3831 | DOI: doi.org/10.64021/mjtf.1.2.20-26.2025

The Effect of Tax Planning, Deferred Tax Expenses, and Managerial Ownership on Earnings Management (Study on Manufacturing Companies of Consumer Goods Industry Sector Listed on the Indonesian Stock Exchange (IDX) in 2019–2021)

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ARTICLE INFO

Article history:

Received : July 7, 2025
Revised : September 10, 2025
Published : 13 September 2025

Keywords:

Keyword1; Earnings Management
Keyword2; Tax Planning
Keyword3; Deferred Tax Expenses
Keyword4; Ownership Managerial

ABSTRACT

Purpose: This research aims to examine the influence of tax planning, deferred tax liabilities, and managerial ownership on earnings management in manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange for the period 2019–2021, considering the importance of the quality of financial reports as the basis for decision-making by investors and regulators.

Methodology: The research uses a quantitative approach with secondary data obtained from the company's financial statements. The purposive sampling technique resulted in 21 companies as samples, while data analysis was conducted using multiple linear regression through partial and simultaneous tests.

Findings: The research results show that tax planning and managerial ownership do not have a significant effect on earnings management, while deferred tax liabilities have a significant positive effect. Simultaneously, all three variables are proven to affect earnings management.

Conclusion: This finding confirms that the accounting factor of deferred tax liabilities is more dominant in influencing earnings management practices compared to internal control mechanisms through managerial ownership or tax planning strategies. This indicates a vulnerability in the company's financial reporting practices regarding temporary tax differences.

Implication: This research provides practical implications for companies to improve the quality of governance and transparency in tax reporting, as well as for investors to be more critical in assessing the financial performance of companies. Moreover, the results of this research are also beneficial for regulators in formulating policies that can minimize the opportunities for earnings management, especially by tightening oversight on deferred tax accounting practices.

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1. INTRODUCTION

Financial statements are important instruments used by investors, creditors, and regulators to assess a company's performance. Profit information often becomes a primary concern because it reflects management's success in managing resources. However, earnings management practices are still rampant, marked by the manipulation of financial statements in several public companies in Indonesia. The case of PT Tiga Pilar Sejahtera Food (AISA), which allegedly inflated financial statements by up to Rp4 trillion in 2017, shows that earnings engineering can harm investors and reduce public confidence in the quality of financial statements. This phenomenon emphasizes the importance of understanding the factors that drive earnings management within companies.

One of the motivations for earnings management is to minimize tax burdens. Legal tax planning is often employed by companies to reduce the amount of taxes owed, although it has the potential to open up avenues for earnings manipulation practices (Pohan, 2018). Furthermore, temporary differences between commercial and fiscal earnings result in deferred tax liabilities that can encourage managers to engage in earnings manipulation (Rivaldo & Setiadi, 2022). On the other hand, managerial ownership is believed to reduce opportunistic practices by aligning the interests of managers with those of shareholders (Shleifer & Vishny, 1986). However, previous research findings show varied results regarding the influence of these three factors on earnings management, indicating that there is still a research gap.

Based on phenomena and previous research findings, this study specifically formulates the questions:

1. Does tax planning affect earnings management?
2. Does deferred tax expense affect earnings management?
3. Does managerial ownership affect earnings management?

The aim of this research is to empirically analyze the effect of tax planning, deferred tax burden, and managerial ownership on earnings management in manufacturing companies in the goods and consumption sector listed on the Indonesia Stock Exchange for the period 2019–2021.

This research is expected to contribute to the literature on accounting and taxation by clarifying the relationship between tax factors and ownership structure towards earnings management practices. Practically, the research results can provide input for company management to enhance transparency, for investors to assess the quality of financial reports, and for regulators to strengthen oversight of deferred tax accounting practices.

2. LITERATURE REVIEW

Earnings Management and Agency Theory

Earnings management is understood through agency theory which emphasizes the conflict of interests between the owner (principal) and the manager (agent). Managers may engage in accrual manipulation for personal gain, for instance through tax strategies and profit reporting (Jensen & Meckling, 1976).

Tax Planning and Profit Management

Tax planning is a legal strategy to minimize taxes owed. Research by Mirza & Andy (2021) found a significant effect of tax planning on earnings management, while Oktaviani et al. (2022) stated that there is no effect. This difference in results indicates a remaining research gap.

Deferred Tax Liability and Earnings Management

Deferred tax liabilities arise from temporary differences between taxable income and accounting income. Jayanti et al. (2020) and Miranda & Dedik (2020) demonstrate a positive **effect on** earnings management, while Astri (2019) found no significant effect. This inconsistency reinforces the urgency for further research.

Managerial Ownership and Earnings Management
Managerial ownership is believed to reduce opportunistic behavior of managers by aligning the interests of managers and shareholders (Shleifer & Vishny, 1986). However, empirical findings still vary; Mirza & Andy (2021) showed a significant effect, while Miranda & Dedik (2020) found no effect.

Hypothesis Formulation
Based on theoretical studies and previous research, the hypotheses of this study are:
H1: Tax planning does not affect earnings management.
H2: Deferred tax liabilities affect earnings management.
H3: Managerial ownership affects earnings management.

3. METHODS

This research uses a quantitative approach with a causality method to examine the influence of tax planning, deferred tax burden, and managerial ownership on earnings management. The object of the study is manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) during the period of 2019-2021. The sample selection was carried out using purposive sampling techniques with the criteria: companies that were consistently listed on the IDX during the research period, published complete annual financial reports, and had data that could be processed according to the research variables. Based on these criteria, 21 companies were obtained as samples.

Table 1. Sample Selection Criteria

Criteria	Number of Firms	Number of Firms-Year Observation
Manufacturing firms in the consumer goods sector listed on IDX (2019–2021)	90	270
Firms without published annual financial reports (2019–2021)	1	3
Firms with net losses during the observation period	32	96
Firms with incomplete data for the variables under study	29	87
Outliers and eliminated data	3	9
Final sampel used	**21**	**63**

Source: Author's Data Processing (2023)

The research data was obtained through documentary methods by downloading annual financial reports from the official website of the Indonesia Stock Exchange and the company's official page. The independent variables include tax planning, deferred tax liabilities, and managerial ownership, while the dependent variable is earnings management measured using the Modified Jones Model.

Data analysis was performed using multiple linear regression to test the effect of each independent variable on the dependent variable. Before the main analysis, descriptive statistical tests and classical assumption tests were conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation. Partial tests (t-tests) were used to determine the individual impact of each variable, while the coefficient of determination (R^2) was used to assess the model's ability to explain earnings management variation.

4. RESULTS AND DISCUSSION

A. Descriptive Statistics

Descriptive analysis shows a wide variation in tax planning, deferred tax liabilities, managerial ownership, and earnings management in the sample manufacturing companies. This variation emphasizes that tax management strategies and corporate governance mechanisms differ, making it important to examine which factors have the most influence on earnings management practices.

B. Test Classic Assumptions

The results of the normality test show that the data is normally distributed. The multicollinearity test did not find any VIF values exceeding 10, thus it is free from multicollinearity issues. The heteroscedasticity test shows that there is no specific pattern, which means there is no heteroscedasticity present. The autocorrelation test also indicates that the data is free from autocorrelation issues. Thus, the regression model meets the criteria of being a good estimator.

C. Multiple Linear Regression Analysis

The results of the multiple linear regression are shown in the following equation:

$$\mathbf{Y=0{,}609-0{,}237X1 + 12{,}189X2 - 0{,}001X3 - 0{,}012K1 + e}$$

Table 2. Results of Multiple Linear Regression Analysis

Variable	Coefficient (B)	Std. Error	Interpretation
Constant	0.609	0.237	Positive
Tax Planning (X1)	-0.237	0.195	Not Significant
Deferred Tax Expenses (X2)	12.189	5.198	Significant (+)
Managerial Ownership (X3)	-0.001	0.000	Not Significant
Firm Size (K1)	-0.012	0.007	Not Significant

Source: Author's Data Processing (2023)

The Influence of Tax Planning on Earnings Management

The regression coefficient for tax planning is negative (–0.237) and not significant. This indicates that tax planning does not affect earnings management practices. This finding is in line with previous research which states that tax planning strategies are more aimed at minimizing the tax burden rather than engaging in accounting earnings manipulation.

The Influence of Deferred Tax Burden on Earnings Management
The deferred tax burden has a significant positive coefficient (+12.189). This means that the higher the deferred tax burden, the greater the tendency for managers to engage in earnings management. This result supports the argument that temporary differences between commercial and fiscal profits can be exploited for discretionary purposes.

The Influence of Managerial Ownership on Earnings Management
Managerial ownership shows a negative coefficient (–0.001) but is not significant. This means that the proportion of shares owned by managers has not yet played a significant role in curbing earnings management practices. This illustrates that the alignment mechanism of interests through stock ownership is still weak in the context of Indonesian manufacturing companies.

The Influence of Company Size on Earnings Management
The size of the company as a control variable has a negative coefficient (–0.012) and is not significant. This result indicates that the size of the company's assets is not related to the intensity of earnings management practices in the research sample.

The results of this study also have important implications both academically and practically. From an academic perspective, the finding that deferred tax liabilities play a significant role in driving earnings management practices enriches the accounting literature, especially in developing countries. This study emphasizes that tax aspects not only affect fiscal obligations but can also be used as a discretionary instrument in financial reporting. From a practical side, this research provides signals to regulators to enhance supervision over deferred tax reports, considering that these accounts have the potential to be used as a means of profit manipulation. For investors, information regarding deferred tax liabilities also needs to be considered carefully when assessing the quality of a company's earnings.

5. CONCLUSION

This study aims to examine the effect of tax planning, deferred tax liabilities, managerial ownership, and firm size on earnings management in manufacturing companies in the consumer goods sector during the period of 2019–2021. The results of the study show that only deferred tax liabilities have a significant positive effect on earnings management, while tax planning, managerial ownership, and firm size do not have a significant effect. Therefore, the research objectives and formulation of the problems have been addressed.

The limitations of the research lie in the short observation period and the limited industry scope, making the results not generalizable to the entire sector. Future research is recommended to extend the observation period and to add other governance variables, such as board mechanisms or institutional ownership, to gain a more comprehensive understanding of earnings management practices.

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