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Tax Planning, Company Size, Profit Management, and Profitability as Moderating Variables

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Abstract:

The purpose of this study was to determine the effect of tax planning, and firm size on earnings management moderated by profitability. The theory that is used as the basis for this research is agency theory. This study uses manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021. The data used is secondary data. Data analysis technique this study uses multiple linear regression analysis. The results of this study indicate that tax planning and firm size have a significant effect on earnings management. Firm size affects earnings management moderated by profitability. While tax planning has no effect on profit management moderated by profitability.

Introduction

This study aims to analyze the practice of Earnings Management on tax planning which is moderated by profitability in the manufacturing industry listed on the Indonesia Stock Exchange (IDX). Financial statements are a structured presentation of the financial position and financial performance of an entity. Then a company will take steps to minimize its taxes through a process called tax planning (Dewi, Nuraina, and Amah, 2017). Tartono et al (2021) Knowing the many uses of financial statements, companies can manage their financial statements to achieve several results depending on their motives, one way that companies can do this is to do earnings management. Efforts to increase the value of the company no longer reflect the actual performance of management, but have been engineered in such a way that it becomes better by the wishes of management .

Jensen and Meckling (1976) attempted to describe the motives of agents (management) in making decisions to maximize their benefits. This theory explains the conflict of interest between the two parties, where the principal prioritizes the long-term welfare of the company while the agent prioritizes personal gain. The tax borne by the company is an element of cost that can reduce profits, because the higher the tax insured, the smaller the profit earned by the company. So that there is a tendency for management to minimize tax payments, efforts to minimize taxes are often called tax planning (Suandy, 2011). In terms of the interests of the company's expansion, earnings management affects the attitude of creditors in investing their funds in a company, to obtain maximum results, namely loans in large quantities, the creative behavior of managers to be able to display good performance from the reported financial statements. Earnings management also tends to motivate managers to act creatively towards taxes so that it seems as if the reported earnings are lower without violating tax accounting rules and policies .

In other words, the government gives trust to taxpayers and allows taxpayers to regulate their taxes as long as they do not violate the applicable tax laws in Indonesia. Tax planning is related to corporate profit reporting because large profits will cause a large corporate tax burden. Therefore, company management can use earnings management techniques to achieve profit targets. Various actions are taken by companies to plan their taxes by manipulating the company's operating activities (real earning management) .

According to Desmiyawati (2009) company size is a scale that can be classified according to the size of the company. Large companies tend to be more noticed by external parties so management will be more careful in managing their finances. In addition, the relationship between profitability and earnings management is another factor for companies to intervene in their financial statements. However, a conflict of interest occurs between the government and the agency (management) to maximize each other's utility. Various strategies are implemented where the company will always maintain its performance so that its performance looks good in the eyes of its stakeholders .

Until now, the phenomenon of earnings management related to financial statement data manipulation has become a common thing for companies, such as in the case of PT Tiga Pilar Sejahtera Tbk (AISA) which is suspected of having inflated accounting posts worth Rp. 4

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Trillion by the old management on the company's 2017 financial statements. The results of a fact-based investigation by PT Erns & Young Indonesia (EY) to the new management of AISA on March 12, 2019, the alleged inflation was suspected to have occurred in the Group's accounts receivable, inventories, and fixed assets accounts. AISA. The financial statements of the Three Pillars for the 2017 period which were audited by the Public Accounting Firm (KAP) of RSM International were questioned by the new management who took over the company in October 2018.

The difference in research in this study is that previous researchers used tax planning with an effective tax rate (ETR) while the current study used tax planning with a tax retention rate (TRR). Meanwhile, the current research adds a moderating variable while the previous research only added the dependent and independent variables. In addition, the sample in the previous study was a non-financial public company, while the current study used a sample of manufacturing companies

Suandy (2011) defines tax planning as the process of organizing the business of a taxpayer or a group of taxpayers in such a way that the tax debt, both PPh and other tax burdens, is in a minimal position. Tax planning is one strategy that can be done by companies to minimize tax costs that become a burden for each period. The role of tax planning is explained conceptually using agency theory, where there is information asymmetry between the government and management. In this case, the government is the principal and management is the agent, each of which has a different interest in paying taxes, this difference in interest explains that the government wants management to be able to pay taxes as much as possible to finance government spending and vice versa management wants to pay taxes. as small as possible because the tax burden is a profit deduction . Based on the results of previous research by Raka Plasa & Dharma (2017) and Fitriany, Nasir, & Ilham (2016) stated that tax planning has a positive influence on earnings management. From this description, it can be assumed that the hypothesis is formulated as follows:

H1: Tax planning has a positive effect on earnings management

Company size is used to describe a condition or company's ability to use assets or funds that have a fixed burden to increase the level of income for the owner of the company. Company size shows how much debt is used to finance company assets. Therefore, the size of the company affects the income smoothing action. If the income smoothing action is efficient, the higher the financial risk, the smaller the income smoothing action. If the income smoothing action is opportunistic, the higher the financial risk, the higher the income smoothing action. Based on the results of previous research by Wardani & Santi (2018) and Jao (2011) company size hurts tax avoidance. From this description, it can be assumed that the hypothesis is formulated as follows:

H2: Firm size hurts earnings management

Measurement of corporate tax planning is done by comparing profit according to accounting with profit according to fiscal, where accounting profit is contained in the income statement in the company's annual financial report. Where if the profit according to accounting is greater than the fiscal profit, then the company is doing tax planning, as an effort to emphasize the income tax burden so that it can increase the value of the company with a rational net profit. Profitability is the net result of several company policies and decisions. The Profitability ratio measures how much the company's ability to generate profits.

Tax Planning can efficiently affect the company's Return on Assets (ROA). This happens because by carrying out tax planning by applicable regulations (in a legal way) and precisely and efficiently, the company will get the maximum net profit when compared to companies that do not do tax planning. The increase in net profit caused by the company doing tax planning will also increase the company's Return on Assets (ROA). This result is supported by previous research by Hendy & Susi (2019) which stated that tax planning has an insignificant negative effect on Earnings Management moderated by profitability. Then the hypothesis of this research is formulated as follows:

H3: Profitability can increase the effectiveness of tax planning on earnings management

The ultimate goal of a company is to obtain maximum profit or profit. Therefore, the company's management must be able to meet the targets that have been set but the amount of profit must be achieved as expected, it does not mean the origin of profit. To measure the level of profit, the profitability ratio is used, where profitability is the company's ability to obtain profits from business activities carried out by the company for one year. Based on the results of previous research by Robert & Pagalung (2011) stated that company size hurts earnings management. Then the hypothesis of this research is formulated as follows:

H4: Profitability can increase the effect of company size on earnings management

Research Method

This research is a secondary data analysis research, where secondary data is that the researcher does not collect the data himself, but analyzes the data that already exists or is available from a data collection result or obtained from the results of research or observation. In this case, the researcher takes data on the annual financial statements of manufacturing companies on the Indonesia Stock Exchange because manufacturing companies are large-scale companies when compared to other companies so that they can make comparisons between one company. This research was conducted over four periods, namely from 2018 to 2021 because the phenomenon of earnings management research occurred during that period. The source of the data in this study was obtained through the IDX website (www.IDX.co.id). The dependent variable in this study is Earnings Management. While the independent variables are Tax Planning and Company Size. This study uses a moderating variable, namely profitability. This study uses SPSS version 25 to process data.

$$\boxed{\mathbf{ML} = \boldsymbol{\alpha} + \boldsymbol{\beta}_1\mathbf{PP} + \boldsymbol{\beta}_1\mathbf{UP} + e}$$

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This study uses positive accounting theory and agency theory in explaining research problems. Watts and Zimmerman derived a positive accounting theory in 1978 based on the agency theory of Jensen and Meckling, the agency problem in this study is related to tax collection and tax payments, this theory describes the motives of agents (management) as decision-makers to maximize their profits while on the other hand, the principal (government) wants a large income from tax collection. This difference in interests results in information asymmetry between the principal (government) and the agent (management) and allows the management who has more information to act opportunistically to carry out Earnings Management. In addition, the existence of information asymmetry also allows managers to behave opportunistically on the financial statements of the company's profitability so that it allows companies to manipulate real conditions so that tax payments are charged as efficiently as possible.

This study uses tax planning which is the first step in tax management, company size, and profitability which can affect the size of tax payments to be received depending on total assets, sales, and capital levels. Where this can affect companies to make efforts as taxpayers to regulate their taxes with the ultimate goal of paying minimal tax debt.

Based on grand theory, previous research, and research hypotheses, the framework of thinking can be illustrated in Figure 1.

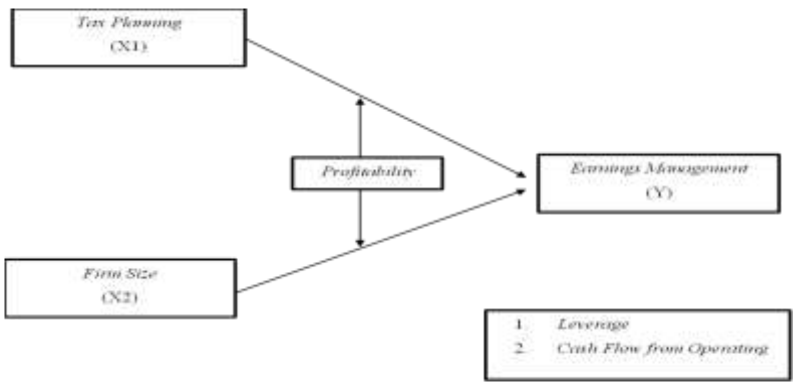

Figure 1. Conceptual Framework

Result and Discussion

The results of research and testing should be displayed in the form of pictures or tables. The format of the table is as follows:

Table 1. Normality Test

Variable	Normality	Result
EARNING MANAGEMENT	0.459	Normal
Tax Planning	0.678	Normal
FIRM SIZE	0.889	Normal

Table 1. Normality Test (Continued)

Table 1. Normality Test (Continued)

Variable	Normality	Result
Tax Planning * profitability	0.53	Normal
Firm Size * profitability	0.45	Normal

Source : data processed

Based on table 1, it can be seen that each construct or latent variable has a composite normality value above 0.05; which shows that all variables have met the requirements of the normality test (Ghozali, 2016).

Table 2. T-StatisticsValue

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics		Results
		B	Std. Error	Beta			Tolerance	VIEW	
	(Constant)	39,023	12,669		3.080	,003			
H1	SQRT_PP	22,863	11,080	,759	2.063	.044	0.776	1,288	received
H2	SQRT _UP	-11,832	3.083	-1,354	-3.838	,000	0.792	1.263	received
H3	SQRT _MOD1	-70.023	54,705	-4,088	-1,280	,207	0.597	1.676	rejected
H4	SQRT _MOD2	-42,058	12,096	-14,511	-3,477	,001	0.455	2.196	received

Source : data processed

The Effect of Tax Planning on Earnings Management

The results of the research on the first hypothesis are the tax planning variable (X1) has a significant and positive effect on earnings management (Y) directly and the form of the relationship is unidirectional (positive) which means that high tax planning means that the earnings management produced by the manufacturing industry is better. . This is indicated by the calculated significance value (0.044) < from the significant level (0.05). This indicates that tax planning has a significant effect on earnings management, which means that this hypothesis is accepted. The results of this study support Raka Plasa & Dharma (2017) where the higher the tax planning, the greater the opportunity for companies to carry out earnings management in manufacturing companies. And rejecting the results of the research by Hendy & Susi (2019) stating that tax planning does not affect earnings management. Sulistyanto (2008: 96) states that the greater the profit earned by the company, the greater the tax borne. On the other hand, the smaller the profit earned by the company, the smaller the tax liability borne.

The results of this study support the assumption of agency theory that each individual is solely motivated by his interests, thus creating a conflict of interest between the principal and the agent. The principal is motivated to enter into a contract to prosper himself with ever-increasing profitability. This is done by the company to carry out tax planning (tax planning) to tax payments to be paid to the government, the company does not want to pay taxes that

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are too large according to the profits earned by the company so that the company carries out earnings management through tax planning so that the profits generated will be small companies and companies will pay small taxes as well as with the company's tax planning can delay paying taxes, this is what causes many companies to use tax planning to manage the company's profits

Tax is a burden for the company because it can reduce the total assets of the company which has an impact on decreasing profits. So that the company manager minimizes the tax payment by doing tax planning to get a profit. The implementation of this tax planning must be by the provisions of the current taxation law. Earnings management is the act of managers managing financial statements to earn profits

The Effect of Firm Size on Earnings Management

The results of the research on the second hypothesis are that the firm size variable (X1) has a significant effect on earnings management (Y) directly and the form of the relationship (negative), which means that the larger the size of the company, the smaller the chances of the company doing earnings management. This is indicated by the calculated significance value (0.000) < from the significant level (0.05). This indicates that the larger the company is measured by total assets, the earnings management actions taken by the company are reduced, which means that this hypothesis is accepted.

The results of this study support Wardani & Santi (2018) and Jao (2011). Large companies will be more careful in conducting financial reporting and tend to report financial conditions accurately because the public pays more attention to them. While small companies tend to carry out earnings management by reporting larger profits so that they can show better company performance. Companies with small sizes will tend to do earnings management to attract the attention of investors to be able to see the performance of a company with financial statements that look good so that investors are expected to invest their shares in the company. This is not done by large companies, especially large companies will publish their financial statements for public consumption so that companies are more careful in reporting their financial statements related to earnings management.

The stakeholder base owned by large companies will be wider, so the policies implemented will have a greater impact on the interests of the wider community than small companies. Large companies tend to minimize their earnings management practices. This happens because shareholders and outsiders in large companies are considered more critical than in small companies, so large companies will face greater pressure to present more accurate financial reports.

The Effect of Tax Planning on Profit Management Moderated by Profitability

The result of the third hypothesis is that the tax planning variable (X3) has an insignificant negative effect on earnings management (Y) moderated by profitability (Z). In this study, profitability cannot function as a moderating variable between tax planning and earnings management, as indicated by the calculated significance value (0.207) > from the significant level (0.05) because generally, companies will take earnings management actions when profitability is low. can be low to save its performance in the eyes of investors. This shows that companies with high profitability tend to be low in carrying out opportunistic earnings management actions so tax planning also tends not to be carried out in corporate earnings management.

The results of this study support Hendy & Susi (2019) who states that tax planning has a negative and insignificant effect on earnings management which is moderated by profitability. Profitability is a ratio used to assess the ability of a company to generate a profit and seek a profit from the business being run. In addition, this ratio can also provide a measure of the level of management effectiveness within the company. The growth of a company is one of the most important indicators to assess the company's prospects in the future. This is necessary to determine the extent to which the investment that will be carried out by investors can provide profits by what is expected. Companies with high profitability will tend to be careful in carrying out their tax planning because the policies carried out by the company will have a major impact on their internal interests, with the ease of access they have causing companies to present their financial statements accurately so that it can minimize earnings management practices. This can reduce information asymmetry so that the agent can behave in line with the interests of the principal.

The Effect of Firm Size on Profit Management Moderated by Profitability

The result of the fourth hypothesis is that the firm size variable (X4) has a significant effect on earnings management (Y) moderated by profitability (Z). In this study, the size of the company can function effectively to control the company in carrying out earnings management strengthening its relationship with profitability. This is indicated by the calculated significance value (0.001) < from the significant level (0.05). The results of this study support Robert & Pagalung (2011) stating that large companies will be more careful in conducting financial reporting and tend to report financial conditions accurately because they are more considered by the public. While small companies tend to carry out earnings management by reporting larger profits so that they can show better company performance. The company's financial statements show that all the companies sampled in this study are large companies that have a high level of profitability, large companies tend to minimize their earnings management practices because shareholders and outsiders in large companies are considered more critical than small companies.

Companies with large sizes with high profits will be more careful in their financial reporting, especially large companies will require greater costs to carry out their operational activities such as labor costs, general and administrative costs as well as building maintenance costs, machinery, vehicles, and other equipment needed. can become a burden in its financial statements, it can enable the company not to carry out earnings management. On the other hand, small-sized companies with high profits will continue to manage their earnings so that the profits generated remain stable so that they can give the impression to investors who

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glance at them to assume that the company is in a good position. This indicates that profitability can moderate firm size in earnings management practices.

The manufacturing industry that is sampled by the researcher is a large company that has high profitability and reputation in the eyes of investors so the movement of the company is very noticed by investors and the wider community. This is a strong reason why the manufacturing industry that has published its financial statements will be much more careful about reported earnings movements to minimize earnings management practices that can be carried out on large companies with high profitability.

Conclusion

Based on the results of the above discussion, it can be concluded that tax planning and company size have a significant effect on earnings management in the manufacturing industry. In addition, it also shows that company size has a significant effect on earnings management moderated by profitability in the manufacturing industry. Meanwhile, tax planning has no effect on earnings management moderated by profitability in the manufacturing industry.

From the results of the preparation of this study, the researcher realizes that there are still many limitations, namely the lack of references on the moderating relationship between tax planning and company size; The manufacturing industry sample used in this study only includes companies that have been listed on the Indonesia Stock Exchange (IDX) until April 2022; and the research period is only 4 years, namely in 2018-2021, so that the financial statements used are not all available on the Indonesia Stock Exchange (IDX).

For further research, it is expected to increase the amount of data so that more accurate results are obtained regarding the discussion of earnings management, increase the number of research samples and look for moderating variables that can improve the relationship between tax planning and company size in addition to profitability

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