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The Impact of Tax Planning and Deferred Tax Expenses on Earnings Management: Moderation by COVID-19

Caroline Liman
Pelita Harapan University

Elfina Astrella Sambuaga*
Pelita Harapan University

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Abstract: This study investigates the influence of tax planning and deferred tax expenses on earnings management, with a focus on the moderating effect of COVID-19. Using a sample of 72 companies in the materials and consumer staples sectors listed on the Indonesia Stock Exchange from 2018 to 2021, the study employs a quantitative approach with purposive sampling. The findings reveal that tax planning positively affects earnings management, indicating that companies engage in tax planning to reduce their tax burden by lowering reported profits. However, deferred tax expenses and COVID-19 do not significantly influence earnings management. Interestingly, COVID-19 weakens the relationship between tax planning and earnings management but does not affect the relationship between deferred tax expenses and earnings management. The study highlights several limitations, including issues with normality, multicollinearity, and heteroscedasticity tests, the use of only two independent variables, and the limited scope of company sectors and research periods. Future research should consider expanding the data set, adding more variables, and including a broader range of sectors and periods to achieve more comprehensive results.

Keywords: earnings management, tax planning, deferred tax expense, covid-19, financial reporting.

Abstrak: Penelitian ini menyelidiki pengaruh perencanaan pajak dan beban pajak tangguhan terhadap manajemen laba, dengan fokus pada efek moderasi COVID-19. Menggunakan sampel 72 perusahaan di sektor material dan barang konsumsi yang terdaftar di Bursa Efek Indonesia dari tahun 2018 hingga 2021, penelitian ini menggunakan pendekatan kuantitatif dengan teknik sampling purposive. Temuan menunjukkan bahwa perencanaan pajak berpengaruh positif terhadap manajemen laba, menunjukkan bahwa perusahaan melakukan perencanaan pajak untuk mengurangi beban pajak mereka dengan menurunkan laba yang dilaporkan. Namun, beban pajak tangguhan dan COVID-19 tidak secara signifikan mempengaruhi manajemen laba. Menariknya, COVID-19 memperlemah hubungan antara perencanaan pajak dan manajemen laba tetapi tidak mempengaruhi hubungan antara beban pajak tangguhan dan manajemen laba. Penelitian ini mengidentifikasi beberapa keterbatasan, termasuk masalah pada uji normalitas, multikolinearitas, dan heteroskedastisitas, penggunaan hanya dua variabel independen, serta keterbatasan cakupan sektor perusahaan dan periode penelitian. Penelitian selanjutnya disarankan untuk mempertimbangkan peningkatan jumlah data, menambah lebih banyak variabel, dan memasukkan berbagai sektor dan periode yang lebih luas untuk mencapai hasil yang lebih komprehensif.

Kata Kunci: manajemen laba, perencanaan pajak, beban pajak tangguhan, covid-19, pelaporan keuangan.

*Elfina Astrella Sambuaga, elfina_sambuaga@yahoo.co.id

INTRODUCTION

Essentially, every company is obligated to provide information in the form of financial statements, which are closely tied to the company's performance and achievements (Achyani & Lestari, 2018). These statements serve as a crucial source of information for stakeholders to make informed decisions (Lestari, 2018). Each company must include content in their financial reports that reliably reflects verifiable conditions. According to PSAK No. 1, profit information is essential for assessing potential future changes, generating cash flows from resources, and estimating the effectiveness of a company's resource utilization (Ikatan Akuntansi Indonesia, 2021). However, the practice of earnings management is often used to manipulate financial information, achieving certain reported earnings that mislead stakeholders (Scott, 2015). This manipulation usually arises due to pressures to meet financial targets, making the financial statements appear favorable to investors. Additionally, tax obligations can drive earnings management as companies seek to reduce the tax burden on reported profits.

Deferred tax expenses, arising from temporary differences between accounting and fiscal profits, present another layer of complexity (Khuwailid & Hidayat, 2017). These differences create opportunities for managers to present higher profits in financial statements during specific periods. Furthermore, tax planning, a legal strategy to manage tax obligations efficiently, can also motivate managers to minimize reported profits to reduce tax payments (Bunaca & Nurdayadi, 2019). According to CNBC Indonesia, the effectiveness of tax collection has seen a decline, with an average effectiveness of 89.4% in 2017, 92% in 2018, 84.4% in 2019, and 63.2% in 2020 (Source: https://www.cnbcindonesia.com accessed on October 15, 2022). This decline highlights how companies utilize various methods to avoid tax payments.

The COVID-19 pandemic has exacerbated these issues, causing significant revenue declines and challenging companies to maintain their operations. In response, the Indonesian government introduced the PEN program under PP No. 23/2020, which includes tax incentives to support taxpayers. PMK No.9/PMK.03/2021 outlines six policies effective until June 30, 2021, providing relief for PPh 21, final PPh, PPh Article 22, and PPh Article 25 installments (Source: https://www.dpr.go.id/ accessed on October 17, 2022). These incentives open opportunities for managers to stabilize profits, aid economic recovery, and attract investors.

Previous research presents mixed findings on the influence of tax planning and deferred tax expenses on earnings management. Studies by Negara & Suputra (2017), Baradja et al. (2017), and Lestari et al. (2018) indicate a significant impact, while Santi & Wardani (2018), Achyani & Lestari (2019), and Bunaca & Nurdayadi (2019) found no influence. This research gap, combined with the economic changes brought by the COVID-19 pandemic, forms the basis for this study.

This research aims to investigate the impact of tax planning and deferred tax expenses on earnings management and to examine whether the COVID-19 pandemic moderates these relationships. Specifically, this study seeks to understand if tax planning and deferred tax expenses influence earnings management, how the COVID-19 pandemic affects earnings management, and whether the pandemic moderates the relationship between tax planning and earnings management, as well as between deferred tax expenses and earnings management.

LITERATURE REVIEW

Agency theory

Agency theory describes the relationship between principals (those who grant authority) and agents (those who receive authority), each party pursuing their self-interests, which can lead to conflicts. Principals aim for maximum returns on their investments to cover the capital invested and remain competitive, while agents seek to maximize their incentives from the company's performance (Dechow et al., 1995). This relationship can create agency problems due to information asymmetry, requiring principals to incur agency costs to mitigate these conflicts. Jensen & Meckling (1976) identify these costs as monitoring expenditures to control behavior, bonding expenditures to ensure agents adhere to procedures, and residual losses from reduced principal welfare.

Stakeholder theory

Stakeholder theory complements this by emphasizing the importance of stakeholders in a company's sustainability. Stakeholders hold power over company resources and include individuals or groups that can influence or be influenced by the company's activities (Freeman, 1984). Bryson (2004) explains that stakeholders can claim attention, resources, and outcomes from the company, categorized into inside stakeholders and outside stakeholders (Jones, 2013).

Earnings management

Earnings management, as defined by Healy & Wahlen (1999) in Omar et al. (2014), involves managers using their judgment in financial reporting to alter financial reports, potentially misleading stakeholders about the company's performance. This practice can be beneficial if it enhances efficiency within accounting principles but harmful if it involves opportunistic manipulation by managers disregarding accounting standards (Bunaca & Nurdayadi, 2019). Motivations for earnings management, as outlined by Scott (2015), include the pursuit of bonuses, political motives, tax considerations, CEO turnover, IPOs, and debt agreements. These motivations lead to various patterns of earnings management, such as taking a bath, income minimization, income maximization, and income smoothing (Scott, 1997 in Toni et al., 2021).

Tax planning

Tax planning is another critical aspect, where companies legally structure their activities to minimize tax payments (Pohan, 2022). Strategies for tax planning, according to Suandy (2016), include tax avoidance, tax saving, optimizing tax credits, deferring tax payments, and avoiding tax regulation violations. Deferred tax expenses arise from differences between current tax expenses and commercial accounting, affecting future financial statements and resulting in deferred tax assets or liabilities (PSAK 46). Sutadipradja et al. (2019) explain that deferred tax expenses occur when deferred tax liabilities exceed deferred tax assets, necessitating positive adjustments during fiscal corrections.

Pandemic COVID-19

The COVID-19 pandemic has added another layer of complexity. The global health crisis led the Indonesian government to implement large-scale social restrictions (PSBB) (Azizah, 2021), which adversely affected companies through operational limitations or temporary shutdowns. To support businesses, the government introduced the PEN program under PP No. 23/2020, offering tax incentives during the pandemic. These incentives allowed managers to improve company profits without resorting to earnings management. The PEN program provided various benefits to support business recovery, reducing managerial efforts while maximizing the advantages of the incentives.

Hypothesis Development

Companies seek to maximize profits to attract investors; however, higher profits result in higher tax payments. According to Craig et al. (2011) in Bunaca & Nurdayadi (2019), tax planning is conducted to reduce the amount of tax paid, allowing the savings to be allocated to other operational expenses. High profits in a given period motivate management to engage in earnings management through income minimization to lower the company's tax burden. Research by Baradja et al. (2017), Negara & Suputra (2017), and Lestari et al. (2018) shows that tax planning positively influences earnings management. These studies used the same proxy, the Tax Retention Rate (TRR), to measure the effectiveness of tax planning. Conversely, studies by Bunaca & Nurdayadi (2019), Santi & Wardani (2018), and Achyani & Lestari (2019) found no significant influence between these variables. Therefore, the first hypothesis is formulated as follows:

H1: Tax planning positively influences earnings management.

Deferred tax expenses arise from temporary differences between commercial and fiscal profits. When commercial profits exceed fiscal profits, the tax expense becomes higher than the current tax liability (Bunaca & Nurdayadi, 2019). Therefore, fiscal reconciliation is necessary to adjust financial statements in future periods. Significant differences open opportunities to maximize profits by reducing deferred tax expenses, resulting in negative adjustments and lower income tax expenses, which enhance the profit presentation in financial statements. This practice is linked to earnings management through income maximization, as companies aim to maximize profits for specific purposes in a given period. Research by Bunaca & Nurdayadi (2019), Sutadipraja et al. (2019), Baradja et al. (2017), Negara & Suputra (2017), and Lestari et al. (2018) indicates a significant positive influence of deferred tax expenses on earnings management. In contrast, Achyani & Lestari (2019) found no influence. Previous researchers used the proxy of Deferred Tax Expense (DTE) in their measurements. Therefore, the second hypothesis is formulated as follows:

H2: Deferred tax expenses positively influence earnings management.

The COVID-19 pandemic has forced many companies to adapt to survive in the market, posing challenges in adjusting performance and resources. The government provided economic recovery incentives to businesses, influencing management's performance by easing the reorganization of company losses to achieve profits (Azizah, 2021). Moreover, various incentives during the pandemic have reduced the need for aggressive earnings management. Studies on the environmental impact of COVID-19 show that the pandemic affected company performance before and after the outbreak, using performance ratios such as FDR, NPF, ROA, and ROE (Esomar & Christianty, 2021). Azizah (2021) found a negative influence of COVID-19 on earnings management, using a dummy variable to represent the pandemic. Therefore, the third hypothesis is formulated as follows:

H3: COVID-19 negatively influences earnings management.

Tax planning can lead to earnings management if it involves manipulating profits using loopholes in tax regulations, as assumed in the first hypothesis. Higher profits drive more extensive tax planning to minimize tax payments. The COVID-19 pandemic has altered management behavior and affected company performance, complicating tax planning due to numerous regulatory changes and new tax incentives from the government. These changes provide management with opportunities to reduce tax payments through incentives rather than extensive tax planning, potentially diminishing the need for earnings management. Therefore, the fourth hypothesis is formulated as follows:

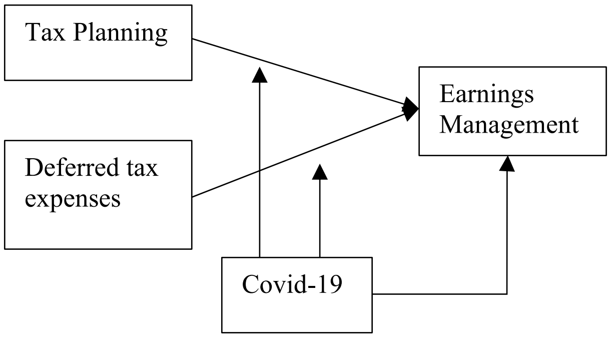
H4: COVID-19 weakens the relationship between tax planning and earnings management.

Deferred tax expenses create temporary differences between commercial and fiscal profits, necessitating fiscal adjustments to align future results. Higher deferred tax expenses increase income tax burdens and reduce net profits, prompting earnings management to maximize disclosed profits for favorable investor perception, as assumed in the second hypothesis. The COVID-19 pandemic has altered company performance, influencing tax burdens due to new regulations and various incentives from the government. These changes lead management to leverage incentives to boost profits rather than reduce deferred tax expenses for earnings management in future periods. Therefore, the fifth hypothesis is formulated as follows:

H5: COVID-19 weakens the relationship between deferred tax expenses and earnings management.

Conceptual Framework

In light of these theoretical frameworks and the challenges posed by the pandemic, this research aims to investigate the impact of tax planning and deferred tax expenses on earnings management. It seeks to determine whether tax planning and deferred tax expenses influence earnings management, how the COVID-19 pandemic affects earnings management, and if the pandemic moderates the relationships between tax planning, deferred tax expenses, and earnings management. This study addresses the research gap arising from mixed findings in previous studies and the significant economic changes brought by the COVID-19 pandemic.



RESEARCH METHODOLOGY

The population is drawn from S&P Capital IQ, focusing on companies in the materials and consumer staples sectors listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. Companies that were delisted during the study period were excluded from the population. The sampling technique used is purposive/judgmental sampling, with criteria including companies operating in the materials and consumer staples sectors that have conducted an IPO and are listed on the IDX during the 2018-2021 period, companies that did not report losses in their financial statements during the study period, companies with deferred tax accounts during the study period, and companies that published annual financial statements with complete information according to the specified variables during the study period. Based on these criteria, 72 companies met the sampling requirements over the four-year period.

Variable Operationalization

Earnings management is measured using the discretionary accruals (DAC) proxy, calculated with the modified Jones model as used by Khuwailid & Hidayat (2017). According to Dechow et al. (1995), this model speculates that all changes in credit sales can lead to earnings management, prompting the measurement of discretionary accruals by recognizing revenue from cash sales. The modified Jones model, an adjustment of the 1991 Jones model, is designed to reduce estimation errors. The calculation involves several steps:

1. Calculation of total accruals (TAC):
$$TAC = NI - CFO$$
2. Calculation of the total accrual regression coefficient (TAC):
$$\frac{TAC}{TA\,t{-}1} = \beta 1\left(\frac{1}{TA\,t{-}1}\right) + \beta 2\left(\frac{\Delta Rev}{TA\,t{-}1}\right) + \beta 3\left(\frac{PPE}{TA\,t{-}1}\right) + \varepsilon$$
3. Calculation of non-discretionary accruals (NDAC):
$$\frac{TAC}{TA\,t-1} = \beta 1\left(\frac{1}{TA\,t-1}\right) + \beta 2\left(\frac{\Delta Rev - \Delta Rec}{TA\,t-1}\right) + \beta 3(\frac{PPE}{TA\,t-1})$$
4. Calculation of discretionary accruals (DAC):
$$DAC = \frac{TAC}{TA\,t-1} - NDAC$$

Tax planning is measured using the Tax Retention Rate (TRR) proxy to determine how effectively the company manages taxes in its financial statements. This is calculated as the ratio of net income to earnings before interest and taxes (EBIT), as proposed by Wild et al. (2004) in Negara & Suputra (2017):

$$TRR = \frac{Net\ income}{EBIT}$$

Deferred tax expenses are measured using the Deferred Tax Expense (DTE) proxy, represented as a dummy variable. A value of 1 is assigned to companies with deferred tax expense accounts in their financial statements, and 0 to companies with deferred tax benefit accounts. The dummy variable is used due to the prevalence of deferred tax benefit accounts during the study period, particularly during the COVID-19 period, which caused significant changes in financial statements.

COVID-19 is used as a moderating variable due to its significant negative impact on the economy, resulting in numerous environmental changes for companies. COVID-19 is measured using a dummy variable. A value of 1 is assigned to the years 2020 and 2021, the periods with high pandemic levels, while a value of 0 is assigned to the other years.

Company size is a measure of how large or small a company is in terms of total assets, influencing the complexity of its financial reporting. Company size is measured using the SIZE proxy, following Astari & Suputra (2019):

$$SIZE = ln\ (total\ asset)$$

Leverage measures the extent to which a company’s assets or equity are financed by debt. This study uses the Debt to Asset Ratio (DAR) proxy to assess how much of the company's assets are financed by debt, consistent with Agustia & Suryani (2018):

$$DAR = \frac{Total\ Debt}{Total\ Asset}$$

Profitability ratios measure a company's ability to generate profits. The Return on Assets (ROA) proxy is used, which assesses the intensity of asset use to generate sales revenue (Subramanyam & Wild, 2009). This proxy aligns with Agustia & Suryani (2018):

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

Company age indicates how long a company has been operating and competing in the business environment and its ability to expand its operations. Company age is measured using the AGE proxy, following Astuti & Erawati (2018):

$$AGE = Year\ of\ study - year\ of\ establishment$$

RESULTS AND DISCUSSION

Tabel 1. Descriptive Statistic

Descriptive Statistics				
Variable	**Mean**	**Min**	**Max**	**Std. Deviation**
DAC	0.0007	0.2785	0.0527	0.04654
TRR	0.0388	0.9894	0.5892	0.21522
DTE	0.0000	1.0000	0.5208	0.50044
Covid	0.0000	1.0000	0.5000	0.50087
SIZE	12.0000	19.0000	15.3423	1.53471
LEV	0.0000	0.5997	0.2447	0.16235
ROA	0.0010	0.4468	0.0757	0.07173
AGE	5.0000	108.0000	41.9722	20.74835

Source: SPSS (2022)

The descriptive statistical analysis of each variable, based on 288 observations from 2018 to 2021, is summarized as follows: The dependent variable, earnings management (proxied by DAC), had a minimum of 0.0007 and a maximum of 0.2785, with a mean of 0.0527, indicating that 5.3% of the sample engaged in this practice, and a standard deviation of 0.04654. The independent variable, tax planning (proxied by TRR), showed a minimum of 0.0388 and a maximum of 0.9894, with a mean of 0.589182, indicating that 58.9% of the sample engaged in tax planning, and a standard deviation of 0.21522. The independent variable, deferred tax expenses (proxied by DTE with a dummy variable), had a minimum of 0 and a maximum of 1, with a mean of 0.5208, indicating that 51.1% of the sample had this account and a standard deviation of 0.50044. The moderating variable, COVID-19 (proxied by a dummy variable), had a minimum of 0 and a maximum of 1, with a mean of 0.5, indicating that 50%

of the sample was affected by COVID-19 and a standard deviation of 0.50087. The control variable, company size (proxied by SIZE), had a minimum of 12 and a maximum of 19, with a mean of 15.3423 and a standard deviation of 1.53471. The control variable, leverage (proxied by LEV), had a minimum of 0 and a maximum of 0.5997, with a mean of 0.2447, indicating that on average, 24.4% of the sample could cover the total debt with total assets and a standard deviation of 0.16235. The control variable, profitability (proxied by ROA), had a minimum of 0.0010 and a maximum of 0.4468, with a mean of 0.0757, indicating that on average, the companies could generate 7.5% profit from their total assets and a standard deviation of 0.07173. The control variable, company age (proxied by AGE), had a minimum of 5 and a maximum of 108, with a mean of 41.9722 and a standard deviation of 20.74835.

Hypothesis Testing

The t-test results in the table show that tax planning, proxied by the Tax Retention Rate (TRR), yields a coefficient of 2.090 with a significance of 0.037 (two-tailed) or 0.018 (one-tailed), which is significant at the 5% level. Therefore, the conclusion is that tax planning positively influences earnings management, supporting hypothesis 1. Additionally, the t-test for deferred tax expenses, proxied by the Deferred Tax Expense (DTE), yields a coefficient of 0.860 with a significance of 0.391 (two-tailed) or 0.195 (one-tailed), exceeding the 5% significance threshold. Thus, the conclusion is that deferred tax expenses do not influence earnings management, leading to the rejection of hypothesis 2. Finally, the t-test for COVID-19, proxied by the Covid variable, shows a coefficient of -0.204 with a significance of 0.839 (two-tailed) or 0.419 (one-tailed), also exceeding the 5% significance threshold. Consequently, the conclusion is that COVID-19 does not influence earnings management, resulting in the rejection of hypothesis 3.

Table 2. Result Model 1

$DAC_{i,t} = \alpha + \beta1TRR_{i,t} + \beta2DTE_{i,t} + \beta3Covid_{i,t} + \beta4SIZE_{i,t} + \beta5LEV_{i,t} + \beta6ROA_{i,t} + \beta7AGE_{i,t} + \varepsilon$

Variable	Direction	Coef.	Sig.
DAC			
TRR	+	2.090	0.018**
DTE	+	0.860	0.195
Covid	-	-0.204	0.419
SIZE	?	-3.539	0.000***
LEV	?	1.877	0.031**
ROA	?	1.607	0.054*
AGE	?	-2.081	0.019**
N = 288			
Adjusted R squared = 0.069			
Prob > F = 0.000			
Significant level = *** 1%, ** 5%, * 10% (*two-tailed*)			

Source: SPSS (2022)

Table 3. Result Model 2.

$DAC_{i,t} = \alpha + \beta1TRR_{i,t} + \beta2DTE_{i,t} + \beta3Covid_{i,t} + \beta4TRR*COV_{i,t} + \beta5DTE*COV_{i,t} + \beta6SIZE_{i,t} + \beta7LEV_{i,t} + \beta8ROA_{i,t} + \beta9AGE_{i,t} + \varepsilon$

Variable	Direction	Coef.	Sig.
DAC			
TRR	+	1.016	0.155
DTE	+	-0.232	0.408
Covid	-	-1.582	0.057
TRR*Covid	-	1.314	0.095*
DTE*Covid	-	1.136	0.128
SIZE	?	-3.488	0.000***
LEV	?	1.982	0.027**
ROA	?	1.569	0.059*
AGE	?	-2.018	0.022**
N = 288			
Adjusted R squared = 0.072			
Prob > F = 0.000			
Significant level = *** 1%, ** 5%, * 10% (*two-tailed*)			

Source: SPSS (2022)

The t-test results in the table show a coefficient of 1,314, which is lower than the coefficient for hypothesis 1 (2,090), indicating that COVID-19 weakens the relationship. The significance is 0,190 (two-tailed) or 0,095 (one-tailed), which is significant at the 10% level. Therefore, the conclusion is that COVID-19 weakens the relationship between tax planning and earnings management, supporting hypothesis 4. Additionally, the t-test for COVID-19 on the relationship between deferred tax expenses and earnings management yields a coefficient of 1,136 with a significance of 0,257 (two-tailed) or 0,128 (one-tailed), which exceeds the 10% significance threshold. Consequently, the conclusion is that COVID-19 does not weaken the relationship between deferred tax expenses and earnings management, leading to the rejection of hypothesis 5.

Discussion

The research results indicate that the first hypothesis is accepted, concluding that tax planning positively influences earnings management. This aligns with the hypothesis development stated in the previous chapter, suggesting that managers engage in earnings management partly due to tax considerations. Consequently, tax planning is necessary to reduce taxable income and the associated tax burden. However, this planning must comply with applicable tax regulations to avoid violations or sanctions. Previous studies by Baradja et al. (2017), Negara & Suputra (2017), and Lestari et al. (2018) also found that tax planning influences earnings management, although some researchers, such as Santi & Wardani (2018), Achyani & Lestari (2019), and Bunaca & Nurdayadi (2019), found no such influence.

The research results indicate that the hypothesis is rejected, concluding that deferred tax expenses do not influence earnings management. This finding is consistent with Achyani & Lestari (2019). The hypothesis development suggested that high deferred tax expenses lead to high income tax expenses, resulting in lower net profits. This reduction in profits would typically motivate managers to engage in earnings management by reducing deferred tax expenses to increase net profits. However, this study's findings differ from those of Baradja et al. (2017), Negara & Suputra (2017), Lestari et al. (2018), Bunaca & Nurdayadi (2019), and Sutadipraja et al. (2019), who found a significant influence of deferred tax expenses on earnings management. The differing results may be due to the use of the DTE proxy with a dummy variable and the limited sample size during the pandemic period.

The research results indicate that the hypothesis is rejected, concluding that COVID-19 does not influence earnings management. It was hypothesized that COVID-19, as a moderating variable, would have a significant negative impact on the economy, causing operational restrictions and environmental changes that drastically reduced company profits and disrupted financial reporting. This disruption was expected to lead to earnings management practices to offset the negative impacts. However, government incentives provided during the pandemic eased managerial burdens, reducing the need for earnings management. The findings contradict the hypothesis and previous assumptions due to sample size limitations and the short research period of only four years (2018-2021).

The research results indicate that the hypothesis is accepted, concluding that COVID-19 weakens the relationship between tax planning and earnings management. Tax planning aims to minimize tax payments efficiently, allowing companies to achieve their profit targets. The COVID-19 pandemic weakened tax planning because government incentives and tax relief reduced the tax burden for businesses. These incentives allowed managers to focus less on tax planning and instead utilize government aid to improve profits. This finding aligns with the hypothesis that COVID-19 weakens the relationship between these two variables.

The research results indicate that the hypothesis is rejected, concluding that COVID-19 does not weaken the relationship between deferred tax expenses and earnings management. Generally, during the COVID-19 pandemic, government tax relief and incentives were expected to weaken this relationship, as companies would prefer to use these incentives to reduce deferred tax expenses rather than engage in earnings management to increase net profits. The findings do not align with the hypothesis and previous assumptions, likely due to sample size limitations and the use of dummy variables for deferred tax expenses. Additionally, companies may have deliberately increased deferred tax expenses to reduce profits during the COVID-19 period, aiming to obtain more government incentives due to reported losses.

CONCLUSION

Based on the analysis, this study concludes that tax planning positively influences earnings management, indicating that companies engage in tax planning to reduce their tax payments by lowering their reported profits. Deferred tax expenses and COVID-19 do not influence earnings management. Although COVID-19 weakens the relationship between tax planning and earnings management, it does not affect the relationship between deferred tax expenses and earnings management. The study has several limitations: issues with normality, multicollinearity, and heteroscedasticity tests that could not be fully resolved despite treatment; the use of only two independent variables to detect the impact on earnings management; limitations in the company sector and research period; and the challenge of finding companies with deferred tax expense accounts during the COVID-19 period. Future research is recommended to increase the data sample or replace variables to pass the tests, add other variables that might influence earnings management, expand the company sectors and research periods to achieve a more robust data set, and consider the variable of deferred tax expenses.

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