

Deferred Tax Expense, Profitability, and Profit Management Practices at Financial Service Companies in Indonesia

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Abstract—This research about earning management in financial services sector companies. The poor quality of banking can be indicated from the poor internal condition of the banking sector, the underperforming bank management, the low moral of its human resources, and the ineffective supervision done by Bank Indonesia. Those items are several causes of banks liquidation happening in Indonesia. Bank's profitability is the ability of a bank in generating profit at a certain period. The higher the profitability of a bank, the greater profit earned by the bank. The higher profitability also means the better position, in terms of asset, of a bank. Like bank's profitability, deferred tax expense affects profit management as well. The purpose of this study is to provide empirical evidence of the effect of deferred tax expense and profitability on profit management at financial service companies. The samples of this study are the annual reports of financial service companies which were listed on Indonesia Stock Exchange (IDX) in 2010-2015 and selected by using purposive sampling. Data were analyzed using panel data regression analysis. The result of this study shows that deferred tax expenses partially has a negative correlation with the profit management and profitability has no effect on profit management. In addition, deferred tax expense and profitability simultaneously influence profit management.

Keywords—taxes; deferred tax expense; propitability; profit management

I. INTRODUCTION

The low quality of banking can be reflected in the weakness of the internal condition of the banking sector, the weakness of bank management, the moral of human resources, and the ineffectiveness of supervision by Bank Indonesia to be the factor of liquidation of banks in Indonesia. In addition, the large quantity of banks has created an increasingly fierce competition and low bank performance due to the inability to compete in the market. This event illustrates that the liquidity and profitability aspects of a bank are crucial to the viability of the bank's business.

Profitability performance is one of the most appropriate indicators to measure the performance of a bank. Public confidence in the bank will be greatly influenced by the performance achieved by the bank itself. Profitability of banks

is the ability of banks in generating profits at a certain period. higher profitability of a bank, make the level of profit achieved by the bank and the better the bank's position is seen in terms of assets. On the contrary, if the bank continues to suffer a huge amount of losses, then the customers' trust will decrease. In addition, the bank profitability will be decrease, consequently many customers who leave the bank which in the end can lead to bankruptcy and bank closure.

In addition to profitability that is suspected to affect earnings management, as for other factors that allegedly affect earnings management is the deferred tax burden. In PSAK No. 40 IAI (2009) states the value of deferred tax assets should be reviewed (at balance sheet date). The Company should lower the value if the fiscal profit is unlikely to be sufficient to compensate, in part or in all deferred tax assets. The decline should be re-adjusted if the probable fiscal profit is sufficient. With the obligation to conduct a review at the balance sheet date, each management year must make an assessment to determine the balance of deferred tax assets and deferred tax assets, while management's assessment to determine the deferred balance of the deferred tax asset is subjective.

Earnings management as a deliberate management intervention in the process of determining profits to gain some personal gain [1]. Earnings management as follows: earnings management is the selection of accounting policies by managers of existing Financial Accounting Standards and can naturally maximize their utility or market value [2].

A. Profit Management Theory

1) *Agency theory*: Agency theory has the assumption each individual is solely motivated by the welfare and self-interest of both the principal and agent. This is causes an imbalance of information owned by the principal and agent and is known as information asymmetry.

2) *Positive accounting theory*: This theory is based on the view the company is a nexus of contracts, the meaning company is the estuary for the various contracts come to it.

B. Profit Management Type

Selection of accounting methods in order to make earnings management must be done with full accuracy by managers to not known by users of financial statements. Therefore, managers must have a strategy so that the management of profits made is not known to outside parties.

The strategies taken relate to what type of profit management is used. Scott suggests that there are four types of earnings management, is [2]:

- Taking a Bath, will do it Performed during adverse and unavoidable adverse events in the current period, by recognizing costs in future periods and current period losses. Consequently, management conducts a "self-cleaning" by charging foreseeable forecasts and resulting in subsequent period earnings to be higher than it should be.
- Income Increasing, Earnings management is do it by management when the profitability of the company is very high with the intention of so that not getting attention by the parties concerned. Policies taken can include the imposition of advertising costs, research and development costs, etc.
- Income Maximization made the company's performance effort looks good. This type of earnings management usually occurs in companies that determine management compensation based on the profit generated, companies that are facing a contract agreement of debt or credit and companies that will conduct IPO.
- Income Smoothing is the most popular form of earnings management and is often done because through income management smoothing can increase and decrease profit.

C. Deferred Tax

Deferred tax is the balance of the account on balance sheet as tax benefit whose amount is the estimated amount to be recovered in the coming period as a result of temporary differences between the financial accounting standards and the taxation laws and the consequence of loss balances that can be compensated in future periods in accordance with PSAK No. 46 IAI [3]. Deferred tax liabilities and deferred tax assets may occur in the following cases [4]:

- If the pre-tax income is greater than the taxable income, the tax burden will be greater than the tax payable, resulting in a Deferred Tax Liability. Deferred tax liabilities can be calculated by multiplying the temporary differences with applicable tax rates.
- Conversely, if the income before tax is less than the taxable income, the tax burden will be smaller than the tax payable, so it will result in Deferred Tax Assets. Deferred tax assets are similar to temporary differences with tax rates at the time the differences are recoverable.

D. Profitability

Profitability is ability of companies to earn profits where each measurement is associated with the volume of sales, total assets and capital [5]. Profitability ratio is a ratio that describes the ability of the company in obtaining profit through all the existing capabilities and resources such as sales activities, cash, capital, amount of employees, branches [6]. The high level of profitability indicates the company's performance is good and supervision is running well, whereas with low profitability level indicates that the company's performance is not good, and management performance looks bad in the eyes of Indri's principal [7].

E. Types of Profitability Ratios

The profitability ratios included:

- Gross Profit Margin
- Net Profit Margin
- Economic Profitability / Basic Earning Power
- Return on Investment or Return on Assets
- Return on Equity

II. METHOD

A. Research Methods and Models

This study used the expost facto method. Expost facto is one method of research by collecting data on facts, events or past events, meaning that data is collected after all events have taken place. The nature of the expost facto research is that the researcher does not have control over variables, and researchers do not make arrangements or manipulate variables. The research model can be seen in the picture below:

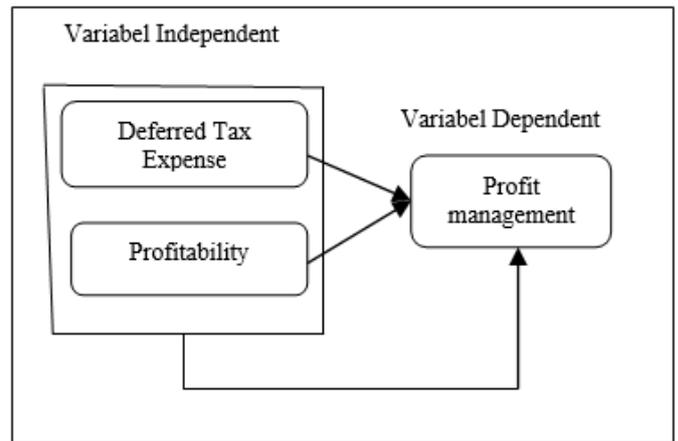


Fig. 1. Research model.

B. Population and Research Sample

The research population in this study is financial sector service companies listed on the Indonesia Stock Exchange (IDX) in 2010-2015. Sampling in this study was conducted using non probability sampling through purposive sampling

method. The criteria set for selecting companies that are sampled are as follows:

- Financial sector service companies and listed on the Indonesia Stock Exchange in 2010-2015.
- The company has issued financial statements for the period 2010-2015.
- The company uses currency in the form of rupiah and a company that has positive profits since 2010 - 2015.

Based on the criteria set, the final sample was obtained as many as 35 sample companies.

TABLE I. SAMPLE SELECTION PROCESS BASED ON CRITERIA

No	Information	Total
1	The financial sector service companies listed on the Indonesia Stock Exchange (IDX) for the period 2010-2015	64
2	The company does not issue financial statements for the period 2010-2015	0
3	The company uses foreign currency in financial reporting for the period 2010-2015	0
4	Companies that do not have consecutive earnings in period financial reporting for 2010-2015	(29)
	Total of samples of companies studied	35
	Total years of research	6
	Total of research samples	210

C. Data Analysis Method

The method of analysis in this study is a method of quantitative data analysis using panel data regression method. Analysis is done by processing data through Eviews program version 8.0 to see descriptive statistics and regression of panel data generated.

After obtaining the required data in this study, the researcher will perform a series of steps to calculate and manage the data in order to support the proposed hypothesis. The stages of calculation are carried out as follows:

- how to Calculate deferred tax expense according is [8] :

$$\frac{\text{Deferred Tax Expense}}{\text{Total Assets}} - 1$$

- Calculating ability of the company with all capital working in it to generate operating profit company (ROA) which is used in percentage, while the formula calculate ROA is [9] :

$$\frac{\text{Earning After Tax}}{\text{Total Assets}} \times 100\%$$

D. Estimation Method Data Panel Regression

There are three methods commonly used to estimate regression models with panel data, including:

1) *Common effect model / Pooled Least Square (PLS)*: The technique used in the Common Effect / Pooled Least Square (PLS) method is only by combining time series and cross section data. By simply combining the two types of data,

the OLS method can be used to estimate the panel data model. In this approach does not pay attention to individual dimensions or time, and it can be assumed that the behavior of data between companies is the same in various time frames. This assumption is clearly very far from the actual reality, because the characteristics between companies both in terms of territories are clearly very different.

2) *Fixed effect model*: The technique used in this study is the Fixed Effect method. Method by using a dummy variable to capture differences in intercepts. This method assumes that the regression coefficient (slope) remains between companies and between times, but the intercept is different between companies but is the same time (time invariant). However, this method brings weaknesses, namely the reduction of degrees of freedom, which in turn reduces the efficiency of parameters.

3) *Random effects model*: The technique used in the Random Effect Method is to add an error variable (error terms) that might appear in the relationship between time and between districts / cities. OLS method techniques cannot be used to obtain an efficient estimator, so it is more appropriate to use the Generalized Least Square (GLS) Method.

E. Model Data Panel Selection

The three of panel data method approaches, the next step is to sort and choose the best model for panel data analysis. The tests performed are using the Chow Test and the Hausman Test.

Chow test or Likelihood test used to compare between Common Effect Models and Fixed Effect Models, how to calculate them using the regression results of Fixed Effect Model. The hypothesis in this test is:

H0: Common Effect Model

Ha: Fixed Effect Model

The basis for rejecting H0 is to take into consideration Chi-Square Statistics, if the probability of the Chow-test results is greater than 0.05, H0 is accepted and Ha is rejected so that the test is finished until the Chow Test only. However, if the probability of the Chow-test results is less than 0.05, H0 is rejected and Ha is accepted so that the test continues on the Hausman Test.

The Hausman test can be done if the Chow Test results show that the Chi-square Cross-section Probability value is smaller than 0.05. Hausman test compares between Fixed Effect Model and Random Effect Model, how to calculate it using the Random Effect Model regression results. The hypothesis in this test is:

H0: Random Effect Model

Ha: Fixed Effect Model

The basis for rejecting H0 is by considering the Chi-Square Statistics, if the probability of the Hausman-test results is greater than 0.05, H0 is accepted and Ha is rejected. However, if the probability of the Hausman-test results is less than 0.05, H0 is rejected and Ha is accepted.

III. RESULT AND DISCUSSION

This research is a hypothetical research, in order to analyze and find empirical evidence about the effect of the effect of deferred tax proxied by Deferred Tax Expenses (DTE), profitability proxied by Return on Assets (ROA) on earnings management proxied by MJL.

This study uses secondary data obtained from annual reports and financial reports published on the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id. The analysis used in this study uses panel data regression analysis. By being processed using Eviews 8.0 software.

Sampling was done by purposive sampling method. Based on the criteria in the selection of samples in table 1, the sample of companies used in this study are 35 companies which are presented in the table 2 as follows:

TABLE II. COMPANY LIST

No	Nama Perusahaan	Kode Perusahaan
1	PT. ADIRA FINANCE TBK	ADMF
2	PT. BUANA FINANCE TBK	BBLB
3	PT. BANK PERMATA TBK	BNLI
4	PT. HD FINANCE TBK	HDFA
5	PT. KRESNA GRAHA SECURINDO TBK	KREN
6	PT. ASURANSI BINA DANA ARTA TBK	ABDA
7	PT. PASIFIC STRATEGIC FINANCIAL TBK	APIC
8	PT. ARTHA VEST TBK	ARTA
9	PT. AURANSI DAYIN MATRA TBK	ASDM
10	PT. ASURANSI JASA TANIA TBK	ASJT
11	PT. ASURANSI RAMAYANA TBK	BACA
12	PT. BANK CAPITAL INONESIA TBK	BACA
13	PT. BANK CENTRAL ASIA TBK	BBCA
14	PT. BANK BUKOPIN TBK	BBKP
15	PT. BANK NIAGA INDONESIA TBK	BBNI
16	PT. BANK RAKYAT INDONESIA TBK	BBRI
17	PT. BANK DANAMON INDONESIA TBK	BDMN
18	PT. BFI FINANCE INDONESIA TBK	BDMN
19	PT. BANK MANDIRI (PERSERO) TBK	BMRI
20	PT. BANK BUMI ARTHA TBK	BNBA
21	PT. BANK CIMB NIAGA TBK	BNGA
22	PT. BANK INTERNATIONAL INDONESIA TBK	BNII
23	PT. BATAVIA PROSPERINDO FINANCIAL TBK	BPFI
24	PT. BANK SINAR MAS TBK	NSIM
25	PT. BANK TABUNGAN Pensiun NASIONAL TBK	PTPN

Table 2. Cont.

26	PT. BANK VICTORIA INTERNATIONAL TBK	BVIC
27	PT. CLIPAN FINANCE INDONESIA TBK	CFIN
28	PT. DANA SUPRA ERA PACIFIC TBK	DEFI
29	PT. BANK MAYA PADA INTERNASIOANAL TBK	MAYA
30	PT. BANK MEGA TBK	MEGA
31	PT. BANK OCBC NISP TBK	NISP
32	PT. PANIN INSURANCE TBK	PNIN
33	PT. PANIN SEKURITAS TBK	PANS
34	PT. PANCA GLOBAL SECURITIES TBK	PEGE
35	PT. VERENA MULTI FINANCE TBK	VRNA

A. Data Panel Linear Regression Results

In the previous test, parameter estimation in the panel data of this model according to the Hausman Test is to use Random Effect Model.

TABLE III. RANDOM EFFECT MODEL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.196423	0.020217	9.715760	0.0000
PAJAK TANGGUHAN?	-0.131230	0.058395	-2.247272	0.0257
ROE?	-0.179368	0.092202	-1.945371	0.0531
Random Effects (Cross)				
Effects Specification				
			S.D.	Rho
Cross-section random			0.057289	0.1707
Idiosyncratic random			0.126263	0.8293
Weighted Statistics				
R-squared	0.034734	Mean dependent var	0.103319	
Adjusted R-squared	0.025408	S.D. dependent var	0.128204	
S.E. of regression	0.126564	Sum squared resid	3.315838	
F-statistic	3.724319	Durbin-Watson stat	1.389507	
Prob(F-statistic)	0.025761			
Unweighted Statistics				
R-squared	0.054052	Mean dependent var	0.154469	
Sum squared resid	3.991899	Durbin-Watson stat	1.154182	
Cross-section random		0.057289	0.1707	
Idiosyncratic random		0.126263	0.8293	

Table 3. Cont.

Weighted Statistics			
R-squared	0.034734	Mean dependent var	0.103319
Adjusted R-squared	0.025408	S.D. dependent var	0.128204
S.E. of regression	0.126564	Sum squared resid	3.315838
F-statistic	3.724319	Durbin-Watson stat	1.389507
Prob(F-statistic)	0.025761		

Source: Data are processed, 2017

The results of the regression analysis above, we can see the probability value shows that only the Deferred Tax variable has a significant effect on the dependent variable/ tied to Earnings Management with a result of 0.0257 while ROE has no effect on Earnings Management because of its probability value > 0.05 which is equal to 0.0531.

B. Test Result t (t-Test)

T test aims to determine effect of independent variables consisting of Deferred Tax (X1) and Profitability (X2) on Profit Management (Y). T test is do it by looking at significance (α), where in this study α used is 5% or 0.05.

TABLE IV. Uji T

Dependent Variable: MANAJEMENLABA?				
Method: Pooled EGLS (Cross-section random effects)				
Date: 09/20/17 Time: 13:14				
Sample: 2010 2015				
Included observations: 6				
Cross-sections included: 3				
Total pool (balanced) observations: 210				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.196423	0.020217	9.715760	0.0000
PAJAK TANGGUHAN ?	-0.131230	0.058395	-2.247272	0.0257
ROE?	-0.179368	0.092202	-1.945371	0.0531

Source: Data are processed, 2017

Based on results of data processing in the table 4 above, it can be seen influence between each independent variable to its dependent variable is:

1) *First Hypothesis (H1)*: The calculation results obtained from table 4 above statistically shows the value of regression coefficient of -0.131230 and significant on the probability value of Deferred Tax (X1) that is smaller than α (0.0257 < 0.05). Then it can be concluded that Deferred Tax variable (X1) has a significant effect on Profit Management.

2) *Second Hypothesis (H2)*: The result of calculation obtained from above table 4 statistically shows regression coefficient value of -0.179368 and the results not significant on value of profitability. The profitability value (ROE) (X2) is greater than α (0.0531 > 0.05). It can be concluded that profitability (X2) has no effect on Profit Management.

C. Test F Statistics

F statistic test is used to find out relationship between independent variables simultaneously affect dependent variable. F test is do it by using the level of significance and

hypothesis analysis, ie the level of significance or α used in this research is 5%.

TABLE V. F TEST

Effects Specification		
	S.D.	Rho
Cross-section random	0.057289	0.1707
Idiosyncratic random	0.126263	0.8293
Weighted Statistics		
R-squared	0.034734	Mean dependent var
Adjusted R-squared	0.025408	S.D. dependent var
S.E. of regression	0.126564	Sum squared resid
F-statistic	3.724319	Durbin-Watson stat
Prob(F-statistic)	0.025761	
Unweighted Statistics		
R-squared	0.054052	Mean dependent var
Sum squared resid	3.991899	Durbin-Watson stat

Source: Data are processed, 2017

From table 5 above obtained value of probability significance 0.025761 (smaller than 0.05) which means significant effect, indicating that Deferred Tax and Profitability (ROE) together effect on Profit Managemen.

IV. CONCLUSION

Based on results of tests that have been done then can be drawn conclusion as follows :

- Based on result Partiall test Deferred Tax Expense take effect on Profit Management with negative direction. The results of this study accept hypothesis 1 which states that deferred tax burden will affect earnings management.
- Partially Profitability has no effect on Profit Management, this result rejects hypothesis 2 which states that profitability affects earnings management, in other words based on the results of this study large or small profitability will not affect earnings management.
- Simultaneously Deferred Tax Expense and Profitability Affect Earnings Management. The results of this study received Hypothesis 3 which states that Deferred Tax Expense and Profitability will jointly affect the Profit Management.

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