



Effect of Tax Planning, Deferred Tax Charge, and Good Corporate Governance on Company Value With Profit Management as an Intervening Variable

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ABSTRACT

This study uses earnings management as an intervening variable to examine the effects of tax planning, deferred tax expense, and good corporate governance. Regression analysis was the study approach employed, and a sample of seventeen businesses in the textile and garment subsector that were listed on the Indonesia Stock Exchange between 2014 and 2021 was obtained using a purposive sampling technique. The research results demonstrate that while deferred taxes, profitability, and leverage have no appreciable impact on earnings management, good corporate governance and tax planning have a favorable and considerable impact. Additional findings indicate that firm value, deferred tax expense, and tax planning all significantly and favorably increase the value of a company. Earnings management, however, can not considerably mediating the impact of sound corporate governance and tax planing on firm value.

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INTRODUCTION

The end of the twentieth century saw a rapid advancement in technology, which resulted in a change in production away from land, jobs, and physical capital – the old definition of capital – and toward a new idea of capital (Momani et al., 2021). The top five industries in Indonesia's Gross Domestic Product (GDP) are the textile and garment subsector, which is followed by the food and beverage at 6.66%, chemical, pharmaceutical, and traditional medicine at 1.96%, metal goods, computers, electronics, and electrical equipment by 1.57%, transportation equipment at 1.46%, and textile and garment industries by 1.05% (Ministry of Industry, 2021). Imports of textile products from China experienced a very significant increase in various countries from 2005 to 2019, the highest being Pakistan from 56% to 83.4%, Philippines from 29.4% to 75.6%, Vietnam from 25.6% to 60.2%, Malaysia from 30 % to 65.7%, Indonesia from 28.1% to 58.8% and Mexico from 7.6% to 27%. The slump in Indonesia's textile and garment sub-sector has reduced investor confidence in the company's performance. Company performance can be assessed by knowing the company's financial condition or is simultaneously known as Firm value.

Firm value is an investor's perception of a company and is often associated with stock prices. High stock prices will increase the value of the company. Business actors continuously try to increase the company's value to survive in the long term. Business competition in the era of globalization is overgrowing, demanding that companies continue to improve performance, through investments including yielding for the highest rate of return, using optimal finance, being transparent, in the field of information, increasing monitoring and control, being able to carry out all company obligations, and always trying to scale up. The company gets bigger.

According Ross et al., (2017) that firm value, which is often determined by the price to book value ratio, represents the price that investors are willing to pay for a company. Jensen & Meckling (1976) assert that a company's firm value is a critical and determining factor in its sustainability. The primary purpose of building a company is to increase its value of the company. High-value companies will gain more trust from investors and the public, which will impact great investment opportunities for

the company and ultimately provide a positive signal for the company's growth. Companies that can maintain their sustainability in the long term have high value for investors and society. Several factors that affect the firm value are Tax Planning, Deferred Tax Expenses, and Good Corporate Governance.

Tax planning is the first component. Taxes are a component of profit deduction that can be invested by the business or shared with investors in order to reduce their impact and maximize net profit. Deferred tax expense comes in second. A component of the tax expense recognized in commercial profit or loss is the deferred tax expense, which represents temporary differences, and the current tax expense, which reflects the outcomes of the accounting-mandated earnings reconciliation because of the existence of both temporary and permanent differences. The good corporate governance process comes in third. It has been determined that rising income and inequality are directly related to good corporate governance (Mun et al., 2002). The company's efforts to reduce earnings management and improve the quality of financial reports is the existence of a good corporate governance.

The novelty of this study lies in the variable measurement determination model, namely all indicators of each variable are calculated, and factor analysis is carried out in SPSS Software Version 25 to get the best model, the best model is used as the model in this study. Another difference lies in the selection of the research sample to be used. In previous studies generally used a sample of companies from all manufacturing and financial sectors. However, in this study, the sample was focused on textile and garment sub-sector companies. Companies in the textile and garment sub-sector have more complex operational activities, starting from the processing of raw materials to finished goods, so it can be suspected that earnings management practices may occur during this complex process. Therefore, the textile and garment sub-sector is ideal for research related to its earnings management.

Examining and analyzing the impact of tax planning, deferred tax, and good corporate governance on firm value through earnings management mediation are the research goals to be fulfilled by this study.

MATERIALS AND METHODS

This research is quantitative and causality research. This study consists of independent variables: tax planning, deferred tax, and good corporate governance; The dependent variable consists of Firm Value, and the intervening variable consists of Earnings Management

Table 1. Measurement Variables

Variables		Formulas
Dependent	Firm Value	$PBV = \frac{\text{Market price per Share}}{\text{Book value per share}}$
Intervening	Earning Management	$DA_{it} = \frac{TA_{it}}{A_{it-1}} - \left[\beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it-1}} - \frac{\Delta REC_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) \right]$
Independent	Tax Planning	$ETR = \frac{\text{total tax expense}}{\text{Pre tax income}}$
	Deferred Tax	$DTE = \frac{\text{Deferred tax}}{\text{Total Assets}}$
	Good Corporate Governance	Diversitas Usia= $\frac{\text{Jumlah Dewan Direksi Berusia 40 - 50}}{\text{Jumlah Seluruh Dewan Direksi}}$

The study's population consists of 21 company at textile and garment subsector Stock Exchange's Indonesia in 2022. Purposive sampling was utilized to choose the sample for this study, which yielded 12 sample companies. An annual cross-sectional and time series set of data is called research data. The financial reports of companies that have undergone audits provide the data. Path Analysis was used to do a step-by-step descriptive and inferential analysis of the data. The following equations were employed in this study:

Linear Regression Equation 1

$$CV = \beta_1.TP + \beta_2.DTE+ \beta_3.GCG+ \beta.EM+ e_2$$

Linear Regression Equation 2

$$EM = \beta_1.TP + \beta_2.DTE + \beta_3.GCG + e_1$$

RESULT AND DISCUSSION

Table 2. Statistic Descriptive

Statistic Descriptive					
	N	Min	Max	Mean	Std. Deviation
TP	96	-1.5097	4.0678	.2602	.7414
DTE	96	-.0049	.1664	.0193	.0329
GCG	96	.1429	1.0000	.5739	.2838
EM	96	-.7375	1.3120	-.0225	.3185
Valid N (listwise)	96				

Source: SPSS Version 25, (2023), Data processed

Statistical test results show that tax planning has a mean value of 0.2602, which means that companies carry out tax planning of 26.02%. On average, textile and garment companies are companies that have good tax planning.

The results of the descriptive statistical test show that the deferred tax expense has a mean value of 0.0193, which means that the company takes advantage of the deferred tax expense of 1.93%. On average, textile and garment companies are companies that have good deferred tax, this is because they have a deferred tax expense value of only 1.93%.

The results of the descriptive statistical test show that good corporate governance (GCG) has a mean value of 0.5739, which means that companies taking advantage of good corporate governance (GCG) of 57.39% on average, textile and garment companies are companies that have good corporate governance (GCG).)

which is good because it has a good corporate governance (GCG) value of 57.39%. Companies tend to disclose high governance transparency because it is above 50%.

Table 3. Classic Assumption Test

Test	Criteria	Test Results	
		Equation-1	Equation -2
Normality	Asymp Sign value > 0.05: normal data distribution	The asymp Sign value is 0.055, the data distribution is normal	The asymp Sign value is 0.055, the data distribution is normal
Multicollinearity	VIF value < 10	All independent variables have VIF < 10, so multicollinearity does not occur	All independent variables have VIF < 10, so multicollinearity does not occur
Autocorrection	dU < DW < 4-dU	There is no autocorrelation	There is no autocorrelation
Heteroscedasticity	Glejser test sign > 0.05	Glejser test sign > 0.05	Glejser test sign > 0.05

Table 4. Model 1 of Linear Regression Equation

Model		Standardized Coefficients	t	Sig.
		Beta		
1	(Constant)		-5.144	.000
	TP	.205	2.319	.023
	DTE	-.148	-2.079	.041
	EM	.197	2.135	.036

	R-square	0,567		
	R-square	0,501		
	FCount		6,78	0,0001

Source: SPSS Version 25, (2023), Data processed

Tax Planning, DTE, GCG and Profit Management significantly affect Company Value. It has a significant effect because this variable has an alpha significance value below the standard 0.05. Therefore, the equations that can be formed in Model 2 are as follows:

$$FV = 0.205 TP - 0.148 DTE + 0.023 GCG + 0.197 EM + e$$

Model 1 is appropriate (meets the goodness of fit) because the calculated F is at a value of 6.78 and the significance value is below the standard alpha of 0.0001. While the coefficient of determination of Tax Planning, DTE, GCG Mechanism, and Profit Management has a significant influence on Firm Value, it has a coefficient of 0.501 or 50.10%, while the remaining 49.90% is outside the study.

Table 5. Model 2 of Linear Regression Equation

Model		Standardized Coefficients	t	Sig.
		Beta		
1	(Constant)		-.936	.352
	TP	.235	2.395	.019
	DTE	.024	.295	.769
	GCG	.380	3.024	.003
	R Square	0,652		
	Adjusted R Square	0,425		
	F Count		10,951	0,000

Source: SPSS Version 25, (2023), Data processed

Tax planning, DTE and GCG have a significant effect on Earnings Management. It has a significant effect because this variable has an alpha significance value below

the standard 0.05. Therefore, the equations that can be formed in Model 1 are as follows:

$$EM = 0.235 TP + 0.024 DTE + 0.380 GCG + e$$

Model 2 is appropriate (meets the goodness of fit) because the calculated F is at a value of 10.951 and the significance value is below the standard alpha of 0.000. While the coefficient of determination of Tax Planning, DTE, and GCG has a significant effect on Profit Management has a coefficient of 0.452 or 45.20%, while the remaining 54.80% is outside the study

Table 6. Result of Intervening Using the Sobel Test

X-->Z --> Y	a	Se_a	b	Se_b	a x b	Sobel Z test	Z tabel	p- value
TP	0.101	0.235	1.456	0.682	0.147056	0.4213	1.96	0.6735
DTE	0.233	0.024	1.456	0.682	0.339248	2.0851	1.96	0.0371
GCG	0.426	0.380	1.456	0.682	0.620256	0.9925	1.96	0.3210

Source: SPSS Version 25, (2023), Data processed

Based on the table for the Intervening variable Deferred Tax Expense (DTE) affects firm value through earnings management, it is proven significant with a Z count of 2.085 > 1.96 and a p-value of 0.0371 < 0.05.

A useful factor in determining company earnings management, based on agency theory on tax planning. Information disclosure has a relationship with tax planning and can help reduce conflicts between managers and owners of the company. Specifically, an increase in the after-tax value of the company, particularly in those with low levels of good corporate governance, will increase the opportunities for managers to transfer costs for personal gain.

The results of this study have no effect because companies in Indonesia that take advantage of loopholes to carry out earnings management by using deferred tax expense in their financial statements will be corrected when they inspect fiscal

statements. Tax regulations provide stricter limits in tax calculations, namely only recognizing the amount of income or expenses when received or issued as the basis for calculating the taxable profit or loss. In other words, taxation only recognizes tax expenses for the period. It does not recognize any deferred tax expense so that the presence or absence of deferred tax expense cannot affect management in carrying out earnings management actions. Through the implementation of an excellent corporate governance mechanism, earnings management actions in the company will be reduced due to monitoring carried out by the company, monitoring is a supervisory activity with the aim of supervising management to minimize the scope of management in carrying out earnings management, if the supervision that exists in the company carried out strictly, it will be difficult for managers to manipulate earnings.

The signaling theory highlights the significance of comprehensive, pertinent, precise, and timely information that investors require in the capital market. This information is used as an analytical tool by corporations to make judgments about investments made by parties other than the company. Because it provides details, observations, or explanations about the past, present, and future circumstances pertaining to a company's survival and its securities market, information is crucial for investors and business people. The amount of profit that the business reports is likewise inextricably linked to the taxes that the business must pay. Not only do people refuse to pay personal income taxes, but they also refuse to pay all other types of taxes, such as the corporate income tax that businesses must pay. Accounting profit differs greatly from taxable profit when a corporation has a large tax burden, which might lower the company's worth.

The results of this study are different where the more independent commissioners in a company cannot prevent earnings management practices by managers. This has several possibilities. First, the size of the company's independent board of commissioners needs to improve communication so that it can interfere with the supervisory process. Second, decision making becomes inefficient in a large independent board of commissioners compared to a small independent board of commissioners. Finally, the independent board of commissioners must have sufficient expertise in carrying out their duties.

Signaling theory is most suitable for use in research on firm value because this theory says that, this theory is a signal or indication of actions taken by company managers, so that investors can view company prospects based on the company manager's performance conveyed. Based on this signal, investors can find out which companies have high and low company values. Based on the description above, signaling theory is more suitable for use in research on firm value because firm value itself is an investor's view of company performance as seen from its share price, which if the company's stock price is high then the firm value of the company is also high. According to signaling theory, investors get information from company management in the form of information.

According to signaling theory, a business should indicate certain things to people who use its financial statements. This signal takes the shape of details regarding the actions taken by management to fulfill the owner's requests. Signals might take the shape of advertisements or other content that highlights the company's superiority over other businesses.

In comparison to the cost of replacing capital, the market value of the company is high, and the acquisition of new plant and equipment will result in lower costs. In comparison to the cost of the plant and equipment they purchase, companies are able to issue equity and earn high prices. Due to the company's ability to purchase more new investment items with only a minor stock issue, investment spending will rise. Consequently, a deferred tax charge will have an even greater impact on the company's value if it leads to a larger deferred tax and raises the debt value of the business. Companies that carry out earnings management seek to maintain investor confidence in company performance, this is in line with the concept of signal theory, where information about the company's financial performance issued is critical to be known by external parties as an investment decision.

Earnings management in a company can occur because of an agency relationship between the agent or manager and the principal or shareholder. In agency theory, agency relationships will be explained between shareholders and managers. Earnings management is one factor that reduces the credibility of financial statements. Manipulation can result in a loss of trust from investors, resulting in these investors

canceling their investments. This shows that the implementation of good corporate governance can protect the interests of investors.

CONCLUSION

The authors draw the following conclusions from the research and discussion in previous chapters. Earnings management is significantly affected by tax planning. The of earnings management is not significantly impacted by deferred tax. Earnings management is significantly affected by good corporate governance. Firm value is significantly affected by tax planning. Firm value is significantly affected by deferred tax. Firm value is not significantly affected by good corporate governance. Firm value is significantly affected by earning management. There is no discernible impact of earnings management on the correlation between tax planning and company value. According to mediation testing, firm value considerably mediating the impact of deferred tax on the firm value. Earnings management, however, can not considerably mediating the impact of sound corporate governance and tax planing on firm value.

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