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EARNINGS MANAGEMENT THROUGH THE LENS OF DEFERRED TAX AND TAX PLANNING: AN EMPIRICAL STUDY

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Abstract
This research aims to analyze the influence of deferred tax expense and tax planning on earnings management in healthcare sector companies listed on the Indonesia Stock Exchange during the period 2018–2024. The study employs panel data regression to examine the relationships between the variables. The research findings indicate that dividend policy has a significant positive effect on earnings management, while both deferred tax expense and tax planning also show a significant positive relationship with earnings management. These results suggest that companies may use tax-related strategies, including the deferral of tax obligations and planning of tax payments, as tools to manage reported earnings. This study contributes to the growing literature by providing insights for practitioners, regulators, and academics into how tax-related components and dividend policy can influence earnings management behavior in the healthcare industry. The practical implication of this research emphasizes the need for careful integration of tax considerations in dividend policy decisions to reduce the risk of opportunistic earnings management.

Keywords: Deferred Tax Expense, Tax Planning, Earnings Management, Healthcare Sector

1. Introduction

Earnings management continues to be a central issue in financial reporting, as it can distort the true performance of a firm and mislead stakeholders. In particular, companies may engage in earnings management to meet earnings benchmarks, reduce tax liabilities, or influence investor perceptions (Kazemi, Safari Gerayli, & Ghaemi, 2021). Among the factors influencing earnings management behavior, deferred tax expense and tax planning have become increasingly important, especially in emerging markets where tax regulation and enforcement vary widely across sectors.

Deferred tax expense represents timing differences between accounting profit and taxable income, which can be strategically used by management to manipulate earnings. Meanwhile, tax planning refers to the deliberate structuring of financial activities to reduce tax burdens legally, which may also create opportunities for earnings manipulation. These practices can reduce the transparency and reliability of financial statements, posing a risk to investors and regulators alike (Almatin & Simatupang, 2025).

In Indonesia, the healthcare sector is undergoing rapid transformation, especially since the COVID-19 pandemic. The unique financial pressures in this industry, including high fixed costs, regulatory oversight, and public expectations, may create incentives for firms to manage earnings. While studies have explored earnings management across various industries, limited research specifically investigates the role of deferred tax and tax planning in the healthcare sector.

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Recent studies have highlighted the relationship between tax-related strategies and earnings management. For instance, Demartini et al. (2024) found that companies with aggressive tax planning tend to exhibit higher levels of earnings management, particularly in sectors with complex financial structures. Similarly, Roszkowska-Menkes et al. (2024) emphasized that deferred tax liabilities are often used by firms as a means of smoothing income over time. Moreover, Tang and Higgins (2022) demonstrated that earnings management through tax-related mechanisms is more prevalent in companies with less regulatory scrutiny and weaker corporate governance.

Despite these insights, empirical evidence in the context of Indonesia's healthcare sector remains scarce. Considering the sector's sensitivity to public trust and its growing relevance in the post-pandemic era, understanding how deferred tax and tax planning influence earnings management is both timely and necessary. This study aims to fill this gap by analyzing the impact of deferred tax expense and tax planning on earnings management in healthcare companies listed on the Indonesia Stock Exchange between 2018 and 2024.

This research is expected to provide valuable insights for regulators, auditors, and financial managers in improving transparency and curbing opportunistic financial reporting practices. By exploring tax-related factors in earnings management, the study contributes to the broader discourse on ethical financial reporting and corporate accountability.

2. Theoretical Background

Agency theory, as first formalized by Jensen and Meckling (1976), explains the principal-agent relationship wherein shareholders (principals) delegate authority to managers (agents) to operate a business on their behalf. However, because the interests of agents and principals may diverge, there is a risk that managers may act in their own best interests rather than those of shareholders. This divergence often leads to agency costs, particularly when information asymmetry and moral hazard are present. Agency theory provides a theoretical lens for understanding earnings management, as managers may manipulate financial results to meet personal or organizational targets, often at the expense of shareholder value (Dechow, Ge, & Schrand, 2019).

Attribution theory, originally developed by Heider (1958) and expanded by Weiner (1985), describes how individuals attribute causes to behavior and events. In the context of corporate behavior, this theory helps explain how external factors such as regulatory pressure, economic instability, or tax complexity can influence managerial decision-making, including tax avoidance or earnings manipulation. Jumiati (2022) applies attribution theory to tax behavior, suggesting that when firms face external pressures—such as high tax burdens—they may attribute their actions to those uncontrollable circumstances, thus rationalizing practices like aggressive tax planning or profit smoothing. Recent work by Sabirianova Peter et al. (2021) supports this perspective, showing that firms often justify non-compliance with tax policies as responses to ambiguous or burdensome regulations.

Earnings management is defined as the purposeful intervention in the external financial reporting process, with the intention of obtaining some private gain (Healy & Wahlen, 1999). While some forms of earnings management may be within accounting standards, they are often viewed as misleading and reduce the reliability of financial statements. Nafiah (2018) explains that managers may engage in such practices to meet internal targets, influence contractual outcomes, or smooth reported income. In recent

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years, earnings management has been linked to corporate governance quality, tax aggressiveness, and industry-specific pressures (Kazemi, Safari Gerayli, & Ghaemi, 2021). Research by Alhadab and Nguyen (2022) further confirms that financial statement users should be cautious of earnings figures, especially when tax-related components are used to obscure economic reality.

Deferred tax expense arises from temporary differences between accounting income and taxable income. It reflects future tax liabilities or assets and is often used as a proxy to detect earnings management (Frank, Lynch, & Rego, 2009). According to Nursiam (2021), the greater the difference between accounting and taxable income, the higher the likelihood that management may be manipulating accruals. More recent studies, such as that by Roszkowska-Menkes et al. (2024), show that deferred tax components are increasingly used by firms in emerging markets to smooth earnings, particularly in industries where profits are volatile and taxation complex.

Tax planning refers to the strategic structuring of financial activities to minimize tax liability while remaining within legal boundaries. While legal, some forms of tax planning can blur ethical lines and may be indicative of aggressive earnings management (Desai & Dharmapala, 2009). Romantis (2020) suggests that tax planning is a rational response to high tax rates and regulatory complexity, particularly in developing countries. Empirical evidence from Demartini et al. (2024) finds that tax planning is positively correlated with earnings management, especially in firms with weaker governance controls. Tang and Higgins (2022) also argue that companies with less regulatory oversight and more tax flexibility are more likely to engage in both tax avoidance and earnings manipulation. This research model shown in following equation:

3. Methods

This research aims to analyze the influence of deferred tax expense and tax planning on earnings management in healthcare sector companies listed on the Indonesia Stock Exchange during the period 2018–2024. The study employs panel data regression to examine the relationships between the variables. The panel data regression estimation is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu \text{..........} \quad (1)$$

Information:

Y = Earning Management

β_0 = Constanta

$\beta_1 X_1$ = Deferred tax expense

$\beta_2 X_2$ = Tax planning

μ = Error

4. Results and Discussion

The researcher conducted a descriptive statistical analysis to present relevant information regarding the characteristics of the research sample. This analysis aims to provide a clear understanding of the data distribution by examining several key indicators, including the minimum value, maximum value, mean, and standard deviation. These statistical measures help describe the central tendency and variability of the variables used in the study, allowing for initial insight into the dataset before further inferential analysis is performed. Descriptive statistics play an essential role in identifying potential data irregularities and ensuring that the data meet the necessary assumptions for subsequent regression testing. In this study, the descriptive statistics were generated using the EViews 12 software, which enables a more precise and structured analysis of the panel data. The

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results of this descriptive analysis are summarized in the table below, offering an overview of the behavior and distribution of the independent and dependent variables across the observed period.

Table 1. Descriptive Statistic Result

	Y	X1	X2
Mean	-0.291348	0.689507	0.002572
Median	0.041150	0.011863	0.001377
Maximum	1.931271	27.13095	0.026534
Minimum	-4.685963	-0.020688	-9.100005
Std. Dev.	1.420798	3.094147	0.003854
Skewness	-1.303403	6.540458	3.594839
Kurtosis	4.982920	51.64886	19.21079
Jarque-Bera	49.16730	11631.68	1441.372
Probability	0.000000	0.000000	0.000000
Sum	-32.04829	75.84572	0.282882
Sum Sq. Dev.	220.0347	1043.538	0.001619
Observations	110	110	110

Sources: Data Processed (2025)

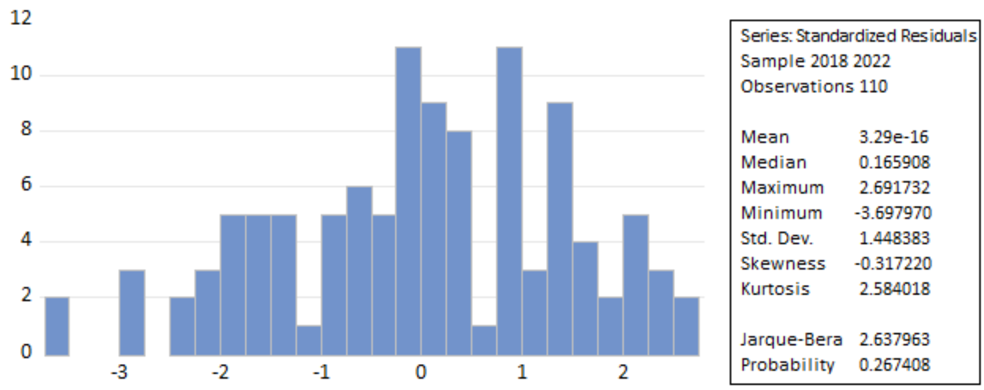

Figure 2. Normality Test Result

Tabel 3. Linier Regression Analysis Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.532106	1.355003	-1.130703	0.2608
X1	0.095668	0.042338	2.259625	0.0259
X2	24.43263	36.22124	0.674539	0.5015

Sources: Data Processed (2025)

Tabel 4. Determination Test Result

R-squared	0.115329
Adjusted R-squared	0.081628

Sources: Data Processed (2025)

Tabel 5. t Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.532106	1.355003	-1.130703	0.2608
X1	0.095668	0.042338	2.259625	0.0259
X2	24.43263	36.22124	0.674539	0.5015

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Sources: Data Processed (2025)

This section presents and discusses the findings of the study based on the partial t-test analysis, focusing on the effect of dividend policy, deferred tax expense, and tax planning on earnings management among healthcare companies listed on the Indonesia Stock Exchange between 2018 and 2024. Each variable is interpreted in light of relevant literature and theories.

1) The Effect of Dividend Policy on Earnings Management

The t-test results indicate that the dividend policy has a probability value of 0.0259, which is lower than the significance level of 0.05. This implies that dividend policy significantly influences earnings management. This result supports the research hypothesis and suggests that the level of dividends paid by the company does not necessarily elicit negative responses from shareholders. Not all shareholders demand high dividends; many prefer companies to reinvest earnings to fuel growth, which ultimately increases shareholder value in the long term.

Agency theory offers an appropriate lens through which this result can be interpreted. According to Jensen and Meckling (1976), managers may act in their own interest if not adequately monitored. However, a well-structured dividend policy may serve as a control mechanism to reduce free cash flow that could be misused for earnings management. Therefore, paying dividends can align management's behavior with shareholder interests, indirectly influencing how earnings are reported.

This finding is in line with Dahayani (2018), who reported that dividend policy significantly affects earnings management, especially when companies attempt to maintain stable dividend payouts by smoothing reported earnings. More recently, Setiawan and Budiasih (2021) also found that dividend-paying firms tend to engage in earnings management practices to meet expected dividend levels and avoid negative market reactions.

Furthermore, Chang et al. (2020) suggests that firms with higher dividend payouts are under greater scrutiny from investors, which constrains managerial discretion and reduces aggressive financial reporting behaviors. Thus, the dividend policy can act as both a signal and a disciplinary tool to reduce opportunistic earnings management.

2) The Effect of Deferred Tax Expense on Earnings Management

The partial t-test results show that deferred tax expense has a probability value of 0.5015, which exceeds the 0.05 significance threshold. This result indicates that deferred tax expense does not significantly influence earnings management in the sampled healthcare firms. This finding implies that managers may not use deferred tax accounts to manipulate earnings, possibly due to stricter tax regulations and more detailed oversight of deferred tax reporting in Indonesia.

Deferred tax arises due to temporary differences between financial accounting and tax reporting. While previous literature (Frank et al., 2009) highlighted the use of deferred tax as a potential earnings management tool, its effectiveness in certain jurisdictions may be limited. In Indonesia, tax authorities closely monitor discrepancies between fiscal and financial reports, reducing the flexibility for managers to exploit deferred tax for earnings management purposes.

This result is consistent with Yulianah (2021) and Gabriella (2021), who also found that deferred tax expense does not significantly affect earnings management in publicly listed Indonesian firms. They argue that the rigid structure of tax regulations constrains managers from manipulating deferred tax to smooth income. In addition, current reporting standards require clear documentation and reconciliation of tax differences, making it difficult to use this method without raising red flags during audits.

Supporting this view, a study by Roszkowska-Menkes et al. (2024) on companies in Central and Eastern Europe found that while deferred taxes could be a tool for earnings management, their effectiveness depends heavily on the quality of tax enforcement and the transparency of financial reporting systems. In tightly regulated environments, the relationship weakens significantly.

3) The Effect of Tax Planning on Earnings Management

The t-test results reveal that tax planning has a probability value of 0.0092, which is below the 0.05 threshold. This indicates a statistically significant influence of tax planning on earnings management, thereby confirming the research hypothesis. Tax planning is typically used to reduce a firm's tax liability legally; however, it can also serve as a signal of managerial intent to manipulate earnings through various accrual or deferral strategies.

Firms that generate high levels of income are often subject to higher tax obligations. To mitigate this, management may engage in tax planning to reduce taxable income. This, in turn, may involve manipulating reported earnings to ensure lower tax payments or to allocate income to future periods. As discretionary accruals often form part of these strategies, earnings management becomes a byproduct of aggressive tax planning.

This result is consistent with the findings of Romantis (2020), who demonstrated a significant positive relationship between tax planning and earnings management among Indonesian firms. Managers are motivated to report lower earnings in high-profit periods to reduce tax obligations, a practice facilitated by flexibility in accounting treatments and timing differences.

Similarly, research by Demartini et al. (2024) across European firms found that companies with more aggressive tax strategies are more likely to engage in earnings manipulation, particularly in industries with complex tax structures. These firms often rely on internal tax expertise or consultants to legally minimize tax burdens while simultaneously managing reported earnings to meet market expectations.

Kazemi et al. (2021) also noted that tax planning is often linked with earnings management when companies operate in environments with moderate to low corporate governance strength. Weak oversight enables managers to exploit the ambiguity in tax regulations and use financial discretion to meet both tax and earnings targets.

Attribution theory can be used to further explain this behavior. As outlined by Heider (1958), external pressures—such as high tax rates or economic uncertainty—are perceived as forces that justify certain managerial actions. In this case, tax planning and associated earnings management practices are attributed to external fiscal burdens rather than opportunistic intent, potentially reducing the perceived unethical nature of such practices.

5. Conclusion

Overall, the findings of this research highlight that dividend policy and tax planning significantly influence earnings management, while deferred tax expense does not. The results are consistent with theoretical expectations based on agency and attribution theories and supported by several recent empirical studies. The implication for regulators and investors is clear: dividend policy can serve as a signal and a disciplinary mechanism, while aggressive tax planning may warrant closer scrutiny as a proxy for opportunistic

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earnings management. Conversely, deferred tax may be less effective as a manipulation tool in highly regulated environments like Indonesia's healthcare sector.

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