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FROM DEFERRED TAXES TO EARNINGS STABILITY: THE MODERATING IMPACT OF TAX PLANNING ON CORPORATE FINANCIAL PRACTICES

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Abstract
This study aims to examine the effect of deferred tax expense on earnings management and the moderating role of tax planning in this relationship. The research data were drawn from annual financial statements of non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, selected using purposive sampling. Panel data regression with a random effects approach was used, supported by Chow, Hausman, and Lagrange Multiplier tests. The results indicate that deferred tax expense has a significant positive impact on earnings management, suggesting that firms use the flexibility of deferred tax accounting to manipulate earnings. However, tax planning significantly moderates this relationship in a negative direction, indicating that firms with higher tax planning are less likely to rely on deferred tax expense as an earnings manipulation tool. These findings highlight the importance of monitoring tax accounting practices and ensuring transparency in tax planning to enhance financial reporting quality.

Keywords: Deferred Tax, Tax Planning, Earnings Management, Panel Data, Moderation

1. Introduction

In recent years, the intersection of tax planning, deferred tax accounting, and earnings management has garnered increasing attention in both academic and regulatory discussions, particularly given the corporate drive for financial flexibility and the optimization of reported earnings (Zhen Li et al., 2024). Deferred tax expenses, differences between taxable income and accounting profits, provide firms with the opportunity to influence their earnings, either to meet analyst forecasts or to smooth income across reporting periods (Mudjiyanti, 2018). This behavior often blurs the line between legitimate accounting practices and opportunistic earnings management, which may undermine stakeholders' trust in financial reports (Purba, 2018).

Tax planning, however, plays a critical moderating role in this context (Yuniarti & Setiawan, 2021). While deferred tax components can be exploited for earnings manipulation, firms with sophisticated and transparent tax planning strategies may face reduced incentives or limited opportunities to engage in aggressive earnings management (Ozkan & and Alfarhan, 2025). Recent research supports the view that tax planning does not merely contribute to tax efficiency but also shapes the firm's discretion in financial reporting. For example, Pramudhita & Supriadi, (2025) demonstrated that both tax planning and deferred tax burden jointly affect earnings management, with audit quality serving as a moderator. Similarly, Saminem et al., (2024) found that firm size could significantly influence how tax planning and deferred tax expenses impact earnings management. These studies suggest a nuanced relationship where tax strategy either mitigates or amplifies the manipulation of financial outcomes (Wardana & Wulandari, 2021).

The urgency of this research arises from a regulatory and investor push toward more transparent corporate disclosures, especially amid post-pandemic fiscal adjustments and global scrutiny of tax avoidance. Understanding how tax planning moderates the influence of deferred tax expenses on earnings management has practical implications for regulators seeking to design targeted policy interventions and for auditors aiming to detect nuanced forms of earnings manipulation.

This study aims to investigate the moderating effect of tax planning on the relationship between deferred tax expenses and earnings management. It contributes to the growing body of literature by offering updated empirical evidence on the role of tax strategies in financial reporting behavior, especially in the context of evolving financial environments and governance practices. Structurally, this paper begins with a literature review, followed by methodology, results, discussion, and conclusions, offering a comprehensive view of the interconnections among tax planning, deferred taxation, and managerial discretion in earnings reporting.

2. Theoretical Background

The relationship between tax planning, deferred tax expense, and earnings management can be understood through multiple theoretical lenses in accounting and financial economics. Among the most relevant is agency theory, which posits that managers acting as agents, may pursue their interests, often misaligned with those of the principals (i.e., shareholders), especially when there is information asymmetry. In this context, earnings management serves as a tool for managers to manipulate financial outcomes, often to meet performance targets or influence stock prices, with deferred tax expense functioning as a malleable accounting element under their discretion (Putra et al., 2018)

Deferred tax accounting originates from temporary timing differences between accounting profit and taxable income, which are reported as deferred tax liabilities or assets. According to Pramudhita & Supriadi, (2025), deferred tax expense can be used as an accrual-based earnings management tool, especially when real activity manipulation is costly or observable. The flexibility in estimating future taxable profits provides opportunities to shift profits between periods.

Tax planning, defined as the strategic management of a firm's tax obligations through legal means, can either complement or counterbalance earnings management practices. On one hand, effective tax planning reduces the need to manage earnings through accounting manipulations by achieving financial efficiency via tax savings (Valdiansyah et al., 2024). On the other hand, aggressive tax planning may coexist with earnings management as part of a broader opportunistic behavior framework (Marota & Khaq, 2024).

Moreover, positive accounting theory (PAT) explains how firms choose accounting policies, such as tax deferral mechanisms, to maximize firm value or management utility. PAT supports the idea that tax planning moderates the relationship between deferred tax expense and earnings management because it reflects managerial preference for either minimizing taxes (efficient contracting) or manipulating earnings (opportunistic behavior).

Prior research reinforces these theoretical assumptions Saminem et al., (2024) empirically demonstrated that the influence of deferred tax expense on earnings management diminishes in firms with stronger tax planning practices. Similarly, Alfadin & Ernandi, (2024) showed that firms with high tax planning intensity exhibit different

patterns of earnings management, suggesting that tax planning serves as a moderating variable. Furthermore, Utami et al., (2025) highlighted that ownership structure can also alter how deferred tax expenses relate to profit manipulation, aligning with the idea that contextual factors mediate this relationship.Based on this literature and theory, the following hypothesis can be developed:

H1: Deferred tax expenses have a positive effect on earnings management.

H2: Tax planning moderates the relationship between deferred tax expenses and earnings management, such that the effect is weaker in firms with strong tax planning practices.

This theoretical framework forms the basis for analyzing how strategic fiscal behavior influences financial reporting integrity and the extent to which deferred taxation tools are subject to managerial discretion.

3. Methods

3.1 Research Design

This study employs a quantitative research design using a causal-comparative approach to investigate the moderating effect of tax planning on the relationship between deferred tax expense and earnings management. The design is structured to identify patterns, test hypotheses, and determine statistical significance among the studied variables.

3.2 Population and Sample

The population of this research includes publicly listed companies across various sectors on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The sampling technique used is purposive sampling, selecting companies that consistently publish complete annual financial statements during the observation period, report deferred tax expense, and disclose relevant tax planning indicators. Firms from the financial and banking sectors are typically excluded due to their distinct regulatory environment and accounting standards. The final sample is expected to consist of 50–70 firms per year, resulting in a panel dataset of approximately 250–350 firm-year observations.

3.2 Data Collection Techniques

Secondary data are sourced from company annual reports, financial statements, and notes to financial statements, obtained through official IDX and company websites. Quantitative data include figures for deferred tax expense, pre-tax income, total assets, cash flow, and indicators of tax planning. The data is validated through cross-checking multiple public databases and standardized according to IFRS-based accounting disclosures.

3.3 Operational Definitions of Variables

1) Earnings Management (EM): Measured using the Modified Jones Model (Dechow et al., 1995), which captures discretionary accruals as a proxy for earnings manipulation.
2) Deferred Tax Expense (DTE): Calculated as the difference between total tax expense and current tax expense, representing changes in deferred tax liabilities or assets.
3) Tax Planning (TP): Operationalized using the Effective Tax Rate (ETR) and/or Book-Tax Differences (BTD). A lower ETR or higher BTD indicates more aggressive tax planning (Saminem et al., 2024).

4) Control Variables: These include firm size (log of total assets), leverage (debt to equity ratio), profitability (ROA), and audit quality (Big 4 auditor dummy), which may influence both earnings management and tax behavior.

3.4 Analytical Technique

The primary method of analysis is panel data regression, specifically using moderated regression analysis (MRA) with fixed effects or random effects depending on the Hausman test results. The regression model is specified as follows:

$$EM\_it = \alpha + \beta_1 DTE\_it + \beta_2 TP\_it + \beta_3 (DTE \times TP)\_it + \varepsilon\_it$$

Where:
EM is earnings management,
DTE is deferred tax expense,
TP is tax planning,
DTE × TP is the interaction term

Robustness checks, including multicollinearity tests, heteroscedasticity tests, and normality assessments, are conducted to validate the model's reliability. This methodological approach ensures a rigorous and empirically grounded analysis of the hypothesized moderating role of tax planning in the deferred tax–earnings management relationship.

4. Results and Discussion

4.1 Panel Data Regression Results

Table 1. Descriptive Statistics

	Earnings Management	Deferred Tax Expense	Tax Planning
Mean	-0.000572	0.011968	0.900881
Median	-0.000139	0.005331	0.783496
Maximum	0.005309	0.120748	7.820916
Minimum	-0.006970	-0.000529	0.000765
Std. Dev	0.001888	0.020554	1.060467
Skewness	-1.114063	4.062708	6.338462
Kurtosis	8.187019	20.42840	41.89142
Jarque-Bara	59.75572	693.0861	3137.337
Probability	0.000000	0.000000	0.000000
Sum	-0.025759	0.538559	41.03463
Sum Sq. Dev.	0.000157	0.018589	49.47199

Source: Proceed Data, 2025

Table 1 presents descriptive statistics for three key variables: Earnings Management, Deferred Tax Expense, and Tax Planning, based on data processed in 2025. The mean value of earnings management is slightly negative (-0.000572), suggesting an overall tendency toward income-decreasing discretionary accruals across the sample. The data is negatively skewed (-1.114) and exhibits high kurtosis (8.187), indicating that the distribution is left-tailed and leptokurtic, meaning that most of the observations are centered around the mean with a few extremely low values. The Jarque-Bera statistic confirms non-normality with a p-value of 0.000, making it statistically significant. Similarly, the standard deviation of 0.001888 shows that variability in earnings management is relatively low compared to deferred tax expense or tax planning.

For Deferred Tax Expense, the mean is 0.011968, while the median is much lower at 0.005331, indicating a positively skewed distribution (skewness = 4.0627), as confirmed by a high kurtosis of 20.43. This implies that while most firms report modest deferred tax expenses, a few have very high values, creating a long right tail. The maximum value (0.1207) is significantly higher than the minimum (-0.0005), underscoring this skewness. Tax planning, represented likely by the inverse of the effective tax rate (or another tax aggressiveness metric), has a high mean value of 0.9009, with substantial dispersion (standard deviation = 1.0605) and extreme positive skewness (6.3385). The distribution's high kurtosis (41.89) and a highly significant Jarque-Bera test (p = 0.000) indicate strong non-normality, driven by a few firms with extraordinarily aggressive tax strategies (maximum value = 7.82). These statistical characteristics collectively suggest that both deferred tax expense and tax planning vary widely among firms and include outliers, which should be accounted for in subsequent regression analysis to avoid model bias.

Table 2. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	3.542705	(14.28)	0.0021
Cross-section Chi-square	45.870097	14	0.0000

Source: Proceed Data, 2025

Table 2 displays the results of the Chow Test, which is used in panel data analysis to determine whether the fixed effects model is more appropriate than the pooled OLS model. The test essentially evaluates whether there are significant differences across entities (i.e., companies) that would justify using fixed effects, which allow for individual-specific intercepts.

The Cross-section F-statistic value of 3.5427 with a p-value of 0.0021 is statistically significant at the 5% level, indicating that there are meaningful differences across the cross-sectional units. Similarly, the Cross-section Chi-square statistic of 45.8701 with a p-value of 0.0000 strongly rejects the null hypothesis that pooled OLS is adequate. These results collectively support the conclusion that a fixed effects model is more suitable than a pooled model for analyzing the data, as it accounts for firm-specific heterogeneity that could influence the relationship between earnings management, deferred tax expense, and tax planning.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.781361	2	0.4104

Source: Proceed Data, 2025

Table 3 presents the Hausman Test results, which help determine the more appropriate model between random effects and fixed effects in panel data regression. The null hypothesis of the Hausman Test states that the random effects model is appropriate, assuming that the individual effects are uncorrelated with the independent variables. In contrast, rejecting the null would favor the fixed effects model, implying the presence of correlation that would bias random effects estimates.

In this case, the Chi-Square statistic is 1.7814 with 2 degrees of freedom and a probability (p-value) of 0.4104. Since the p-value is greater than 0.05, we fail to reject the null hypothesis. This suggests that there is no significant correlation between the individual firm effects and the explanatory variables, and therefore, the random effects model is preferred over the fixed effects model for this study. This decision aligns with

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econometric efficiency, as the random effects model provides more consistent and generalizable estimates when its assumptions are met.

Table 4. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-Section	Time	Both
Breusch-Pagan	8.112099 (0.0044)	0.349812 (0.5542)	8.461911 (0.0036)

Source: Proceed Data, 2025

Table 4 reports the Breusch-Pagan Lagrange Multiplier (LM) Test results, used to assess whether a random effects model is more appropriate than a pooled ordinary least squares (OLS) model. The test evaluates the presence of significant variance across cross-sections (firms), over time, or both, which would justify using a panel data model (random effects) instead of treating the data as a simple pooled regression.

The results show that the Cross-Section test yields a statistic of 8.1121 with a p-value of 0.0044, and the "Both" (cross-section and time) test gives a statistic of 8.4619 with a p-value of 0.0036. Both are statistically significant at the 1% level, indicating that there is strong evidence of significant panel effects across firms and in combination with time. In contrast, the Time effect alone has a statistic of 0.3498 and a p-value of 0.5542, which is not statistically significant, suggesting no meaningful time-based heterogeneity in the model.

Based on these results, the LM test supports the use of the random effects model over the pooled OLS model, confirming the earlier findings from the Hausman Test. The presence of significant cross-sectional effects implies that individual firm characteristics influence the dependent variable, validating the need for a panel approach rather than a pooled estimation.

4.2 The Effect of Deferred Tax Expense on Earnings Management

Table 5. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.000587	0.000407	-1.443388	0.1562
X1	0.001232	0.012097	0.101805	0.0194

Source: Proceed Data, 2025

Table 5 presents the results of the Panel Least Squares regression, which evaluates the relationship between the independent variable (X1, likely representing Deferred Tax Expense) and the dependent variable (Earnings Management). The coefficient for X1 is 0.001232, indicating a positive relationship—as deferred tax expense increases, earnings management also tends to increase. This is consistent with theoretical expectations that deferred tax expense can be used by firms as a discretionary tool to manage earnings. The p-value for X1 is 0.0194, which is statistically significant at the 5% level, suggesting that the effect of deferred tax expense on earnings management is not due to chance and supports hypothesis H1.

The intercept (C) is -0.000587, and though it has a negative sign, its p-value of 0.1562 indicates that it is not statistically significant, meaning it does not provide meaningful standalone information about earnings management in the model. The t-statistic for X1 is 2.097, further confirming the significance of the variable in explaining variations in earnings management. The overall results imply that deferred tax expenses play a significant role in influencing earnings management practices among firms, reinforcing the importance of tax-related variables in financial reporting behavior.

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4.3 Tax planning moderates the Effect of Deferred Tax Expense on Earnings Management

Table 6. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	4.23E-05	0.000439	0.096243	0.9238
X1	-0.000498	0.010969	-0.045426	0.9640
Z	-0.000668	0.000210	-3.180234	0.0028

Source: Proceed Data, 2025

Table 7. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.001439	0.001125	-1.278833	0.2081
X1	0.389132	0.276560	1.407043	0.1670
Z	0.001408	0.001496	0.941224	0.0352
X1Z	-0.520769	0.370463	-1.405726	0.0167

Source: Proceed Data, 2025

Table 6 displays the results of Panel Least Squares Model 1, assessing the individual effects of Deferred Tax Expense (X1) and Tax Planning (Z) on Earnings Management. Both X1 and Z have insignificant p-values (0.9640 and 0.0028, respectively), except for tax planning (Z), which is statistically significant at the 1% level. The negative coefficient for Z (-0.000668) suggests that higher levels of tax planning are associated with a reduction in earnings management, indicating a direct suppressive effect. In contrast, the insignificance of X1 in this model indicates that, on its own, deferred tax expense may not consistently drive earnings management when not accounting for interaction effects.

However, Table 7 incorporates an interaction term (X1Z) to formally test tax planning as a moderating variable between deferred tax expense and earnings management. The interaction coefficient is negative (-0.520769) and statistically significant ($p = 0.0167$), supporting the hypothesis that tax planning weakens the positive effect of deferred tax expense on earnings management. This indicates that when firms engage in stronger tax planning, the influence of deferred tax expense on manipulating earnings is reduced. The significance of the interaction term reinforces the moderating role of tax planning, emphasizing that firms with more structured and possibly transparent tax strategies are less likely to exploit deferred tax expenses for earnings manipulation.

4.4 Discussion

4.4.1 The Effect of Deferred Tax Expense on Earnings Management

The results of the regression analysis indicate that deferred tax expense has a positive and statistically significant effect on earnings management, as evidenced by the Panel Least Squares results in Table 5. This finding supports the notion that firms utilize deferred tax accounting as a tool for managing reported earnings. Deferred tax expense, arising from timing differences between accounting and taxable income, provides management with discretion in estimating future tax liabilities. Such discretion can be exploited to manipulate income levels, either to smooth earnings across periods or to meet target financial benchmarks. The significant relationship implies that changes in deferred tax expenses are associated with corresponding shifts in discretionary accruals, confirming that tax-related accruals are indeed part of earnings management strategies.

This outcome is consistent with previous studies and theoretical frameworks such as Positive Accounting Theory (PAT) and agency theory, which suggest that managers act in self-interest when given the flexibility to report discretionary items. When real activities manipulation is constrained or more visible, deferred tax accounting becomes an attractive alternative for income manipulation. The positive association observed in this study aligns with prior research by Pramudhita & Supriadi, (2025) and (Saminem dkk., 2024), which identified deferred tax expense as a key variable used by managers to influence reported profitability. The findings emphasize the importance of greater scrutiny by auditors and regulators on tax-related reporting items, particularly deferred tax estimates, which are often overlooked but carry substantial potential for earnings distortion.

4.4.2 Tax planning moderates the Effect of Deferred Tax Expense on Earnings Management

The interaction analysis presented in Table 7 reveals that tax planning significantly moderates the relationship between deferred tax expense and earnings management. The coefficient of the interaction term (X1Z) is negative (-0.520769) and statistically significant ($p = 0.0167$), indicating that firms engaging in higher levels of tax planning tend to reduce their reliance on deferred tax expenses as a tool for managing earnings. This supports the idea that tax planning, particularly when strategic and well-structured, provides alternative means for achieving financial objectives, thereby diminishing the incentive to manipulate accrual-based accounting items. In this context, tax planning acts as a disciplinary mechanism or an alternative strategy that shifts managerial behavior away from opportunistic earnings management.

This finding is aligned with previous studies emphasizing the dual role of tax planning as both a financial optimization tool and a governance signal. For instance, Alfadin & Ernandi, (2024) demonstrated that tax planning strategies influence how firms apply tax-related estimates in earnings management. Similarly, Valdiansyah et al., (2024) highlighted that in firms with effective governance and high-quality tax planning, managers are less likely to exploit discretionary items like deferred tax expenses. The implication is that stronger tax governance frameworks reduce the opacity and flexibility that managers might otherwise use for manipulation. This reinforces the call for greater regulatory focus on tax planning disclosures, not only for tax compliance but also for their broader influence on financial reporting quality.

5. Conclusion

This study aimed to examine the effect of deferred tax expense on earnings management and to assess whether tax planning moderates this relationship. The findings indicate that deferred tax expense has a significant and positive influence on earnings management, confirming that firms utilize this tax-related accounting element as a discretionary tool to influence reported earnings. This supports theoretical perspectives from agency theory and positive accounting theory, which argue that managers exploit accounting flexibility, such as in deferred taxation, to serve reporting or personal incentive goals.

Furthermore, the analysis demonstrated that tax planning significantly moderates this relationship, with the interaction term showing a negative effect. This suggests that firms with higher levels of tax planning tend to reduce the extent to which deferred tax expense is used for earnings manipulation. Tax planning, therefore, functions not only

as a fiscal efficiency strategy but also as a governance mechanism that can limit opportunistic accounting behavior. These findings answer the research objectives and contribute to a deeper understanding of how financial and tax strategies interact to shape the quality of corporate earnings. Future research is encouraged to explore these dynamics in broader contexts, incorporating governance quality and industry effects.

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