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EARNING MANAGEMENT'S, FIXED ASSET INTENSITY'S EFFECT ON TAX MANAGEMENT WITH MANAGEMENT COMPENSATION AS INTERVERNING VARIABLE

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ABSTRACT

This study aims to examine and analyze the effect of earnings management and fixed asset intensity on tax management with management compensation as an intervening variable in primary consumer goods manufacturing companies. The data source used in this study is secondary data in the form of published company financial reports. In this study, the population consisted of 76 primary consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. Meanwhile, the determination of the research sample used a purposive sampling method in order to obtain sample data of 64 companies or 120 research sample data. The analytical method used in this study is the panel data linear regression method and the data analysis technique used in this study is an application named eviews 10. The results show that partially earnings management has a significant effect on tax management, but asset intensity still has no effect on management tax. And simultaneously earnings management and fixed asset intensity affect tax management. Management compensation can mediate the effect of Earnings Management on Tax Management, but management compensation cannot mediate the effect of fixed asset intensity on tax management.

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INTRODUCTION

Taxes are the largest source of state revenue in the posture of the 2021 state budget (APBN), where the government in running the government, the source of state revenue is dominated by tax revenues as the largest source of financing both in running government and development. APBN revenues sourced from tax revenues until the end of 2021 amount to IDR 1,547.84 trillion or 76.96% of the total state revenue, which is IDR

2,011.35 trillion. However, if tax revenue is compared to the target set in the 2021 APBN, it can be seen that the achievement of tax revenue has exceeded the target of 107.15% (the target of tax revenue in APBN is IDR 1,444.54 trillion). On the other hand, tax revenue in 2021 has grown by 20.44% (yoy) when compared to tax revenue in the 2020 APBN, which is Rp. 1,285.14 trillion. Ministry of Finance (2021).

The increase in tax revenue shows that the government will always try to maximize revenues from tax. But on the other hand, companies consider taxes to be a burden that can reduce company profits, so companies tend to try to minimize the tax burden by reducing the amount of tax payments both legally (tax avoidance) and illegally (tax evasion). Companies can legally minimize the tax burden (tax avoidance) by taking advantage of loopholes in tax regulations. In order not to get caught up in illegal embezzlement (tax evasion), companies need tax management (Piani and Safii, 2022).

Tax management can be influenced by several factors such as; the first factor, earnings management. Earnings management is an action taken by a manager to increase or decrease profits in the current period of the company without causing an increase and decrease in profits earned in the company in the long term in order to earn profits. Tax for the company is calculated through the company's net profit on the income statement in the company's financial statements. The second factor that affects tax avoidance is the age of the company. Company age is a reflection that shows survival in the company (Wardani et al, 2019). The third factor that influences tax management is Fixed Asset Intensity. The intensity of fixed assets is also one of the factors that can affect a company's tax management. The intensity of fixed assets has an effect because in fixed assets there are depreciation costs attached to fixed assets, where the depreciation costs in taxes are deductible expenses in the company's pre-tax profit (deductible expense). Companies that have high fixed assets will also bear a high tax burden. This is because the company has fixed assets whose economic benefits have run out, but recognition has not been discontinued as fixed assets and also for movable assets owned such as vehicles if they are brought home by the user then not all depreciation or maintenance costs can be charged but only 50% (Ghozali, 2017). The fourth factor, management compensation. Management compensation can also affect tax management. This is evidenced by the results of Putri's research (2017) that management compensation has a positive and significant effect on tax management. With the right compensation policy, the company owner hopes that management can improve the company's performance through efficiency in paying taxes which will affect the value of the company as a whole. Therefore, the higher the level of management compensation given to the board of directors, the more optimal the tax management carried out by the company will be.

LITERATURE REVIEW

Agency theory explains that agency relationships arise when one or more people (principal) hire another person (agent) to provide a service and then delegate decision-making authority to the agent (Jensen and Meckling, 1976). Meanwhile, Hendriksen and Michael (2000) stated that the agent closes the contract to perform certain tasks for the principal and the principal closes the contract to reward the agent. The company is attached to a set of contracts between company managers and shareholders. The principal or owner of the company gave authority to management of the company to the run company’s business operation. Managers as parties who are authorized over company activities and are obliged to provide financial reports will tend to report something that maximizes its utility and sacrifices the interests of shareholders. In this relationship conflicts often arise due to interest differences.

Earning Management is a method that can be chosen by managers to systematically influence the amount of income and choose certain accounting procedure policies with the aim of maximizing company value (Scott, 2015). Meanwhile, Nurhayati et al (2018) explained that the company is decreasing income in an effort to avoid taxes, this is because profit is the benchmark in calculating the amount of the tax burden that must be paid by the company. Therefore, the management will report company profits according to its budget by using an accounting method that will reduce profits or decrease income as a form of tax avoidance, because managers have the freedom to choose and use certain accounting methods to record and compile company financial reports.
H_1: Suspected that Earning Management partially influences Tax Management.

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to other parties, or administrative purposes and are expected to be used during more than one period. This type of asset is a non-current asset that is usually purchased for use in operations and not intended for resale. Fixed assets usually obtain relief in tax treatment, except for the land, fixed assets are subject to depreciation (PSAK No. 16 of 2017). According to Afifah and Hasymi (2020), Fixed Asset Intensity is an investment activity carried out by a company related to its investment in the form of fixed assets. Fixed Asset Intensity can show how efficient a company is in using its fixed assets to generate sales. Almost all fixed assets experience depreciation, and depreciation costs can reduce the amount of tax paid by the company (Damayanti and Gazali, 2018) in Afifah and Hasymi (2020).
H_2: Suspected that Fixed Assets Intensity has a partial effect on Tax Management.

According to Sulistyanto (2014: 6), earnings management is an effort made by management to influence information in financial reports by using accounting methods and procedures used by companies to regulate company profits. So that earnings management is carried out by management because of the authorization of a manager to choose and use certain accounting methods when recording and compiling information in financial statements. Through this authority, it provides flexibility for management in managing company profits listed in the financial statements in accordance with their interests, which is obtaining incentives from their performance results as measured by the amount of profit achieved. Meanwhile, according to agency theory, each individual will act in his own self-interest. The existence of differences in management has an interest in obtaining the desired compensation, in this case management utilizes depreciation of fixed assets to reduce the tax burden on the company so that reducing the tax burden will increase the company's work performance and the compensation desired by managers (Pucantika, Wulandari, 2022).
H_3: Suspected that Earning Management has a partial effect on Management Compensation.

Managers can use depreciation to reduce the amount of expenses corporate tax. The manager will invest the company's idle funds to invest in fixed assets, with the aim of obtaining benefits in the form of depreciation which can be used as a tax deduction. By taking advantage of depreciation, managers can improve performance company to achieve the desired compensation from manager performance (Dewi et al, 2022).

H_4: Suspected that Fixed Assets Intensity has a partial effect on Management Compensation.

According to Piani and Safii (2022), compensation is defined as a form of remuneration that can be in the form of direct or indirect financial items given to employees as a reward for their contribution and performance in the company. The provision of compensation is considered to increase work performance and employee motivation. If employees think that compensation is inadequate, then work performance, motivation, and job satisfaction of employees will also decrease. Management compensation can also affect tax management and companies that have greater resources are considered capable of influencing management according to their wishes in carrying out tax management and their activities in achieving optimal tax savings through providing compensation to management. By providing management compensation, it is hoped that it can trigger management to find a good strategy in implementing tax management so that management can increase corporate value through tax payment efficiency.
H_5: Suspected that Management Compensation has a partial effect on Tax Management.

Compensation is the provision of remuneration, either directly in the form of money (financial) or indirectly in the form of awards (non-financial). Compensation is a counter-performance given to a person or group of people for their performance or services that have been sacrificed. In other words, compensation is a fair and proper reward for employees for their work performance (Kadarisman, 2014) in Darma (2021). Management as an agent certainly wants bonuses for their performance, which is mostly measured by profit so that management tends to be more opportunistic to avoid taxes, while the owners want the company's future to be guaranteed to be sustainable and their investments to remain safe so that the company owners provide some compensation to management in order to reduce opportunistic management in tax evasion.
H_6: Suspected that Earning Management partially influences Tax Management by mediating Management Compensation.

The greater the executive compensation, the smaller the tax management, meaning that the greater the executive compensation, the lower the level of tax evasion. This can happen because compensation will help align the interests of managers and shareholders. The existence of a relationship between payment and performance (pay and performance) makes agents act in the direction of the principal's interests. This situation also occurs when the basis for determining compensation is profit before tax (earn before income tax). Managers tend to take opportunistic actions by advancing future profits to the present, but this can increase current income taxes (Yuwono, 2019).
H_7: Suspected that Fixed Asset Intensity has a partial effect on Tax Management by mediating Management Compensation.

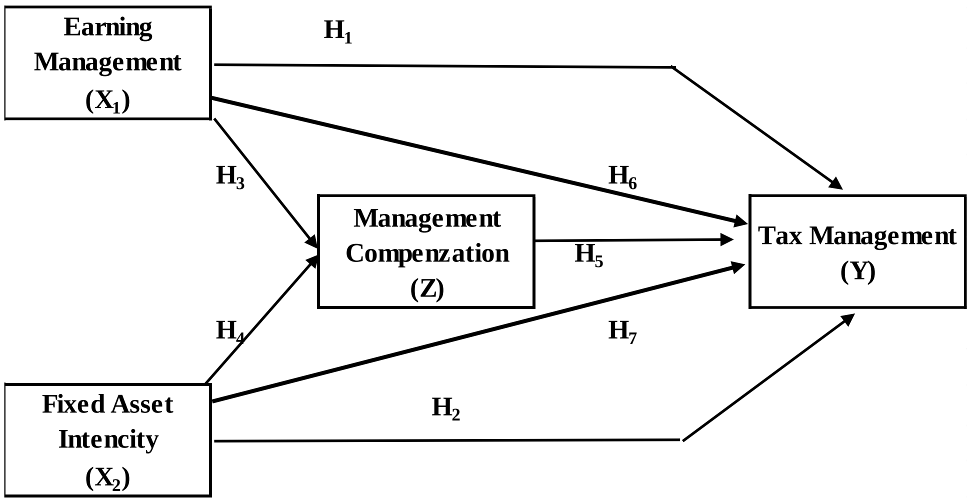

Figure 1. Framework

RESEARCH METHODS

Variables and Measurements

Variables and measurements can be seen in table 1.

Table 1. Variables and Measurements

No	Variable	Definition	Proxy / Indicator
1	Earning Management (X_1)	Behavior of managers in disclosing financial statements by increasing (decreasing) profits that will benefit	$\frac{\text{(Earning at year t)- (Earning at year t - 1)}}{\text{Market Value of Equity at year t - 1}}$
2	Fixed Asset Intencity (X_2)	Number of fixed assets owned by the company.	$\frac{\text{Fixed Asset Total}}{\text{Total Asset}}$
3	Tax Management (Y)	Means to fulfill tax obligations properly but the amount of tax paid can be kept as low as possible in order	$\frac{\text{Income Tax Expense}}{\text{Earning before Tax}}$
4	Management Compenzation (Z)	Remuneration given to employees as a reward for their contribution and work to the company.	Total Compensation received by the Executive during the Year

Populations and Samples

The data source used in this study is secondary data from published company financial reports. Population consisted of 76 primary consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. Meanwhile, the determination of the research sample used a purposive sampling method in order to obtain sample data of 24 companies or 120 research sample data.

Data Analysis Technique

Analytical method used in this study is the panel data linear regression method and the data analysis technique used in this study is using eviews 10 application.

RESULTS AND DISCUSSION

Partial Influence of Earning Management on Tax Management

Partial effect of Earning Management on Tax Management is tested using statistical tests (t test) and a significance level of 5% (0.05) and degrees of freedom (df) with the formula: df = n-k, where n is the amount of research data, and k is the number of variables studied. The t-table value in this study is k = 3, n = 120; then n-k = 117 with a significance level of 5% (0.05) obtained a t-table value of 1.65798.

Based on Table 3. The results of the Regression Panel Data Structure 2 test show that the Earning Management variable has a t-count value < t-table (-2.726764 <-1.65798) and a significance level of 0.0076 <0.05 then H_0 is accepted and H_1 is accepted, this means that the variable Earning Management partially has a significant effect on Tax Management.

Partial Influence of Fixed Assets Intensity on Tax Management

Based on Table 3. The results of the Regression Panel Data Structure 2 test show that the Fixed Asset Intensity Variable has a t-count value < t-table (0.057899 < 1.65798) and a significance level of 0.0076 < 0.05 then H_0 is accepted and H_2 is rejected, this means that the Fixed Asset Intensity variable is not partially significant effect on Tax Management.

Partial influence of Earnings Management on Management Compensation

To find out partially the effect of Earning Management on Management Compensation, a test was carried out using a statistical test (t test) and a significance level of 5% (0.05) and degrees of freedom (df) with the formula: df = n-k, where n is the number research data, and k is the number of variables studied. The t-table value in this study is k = 2, n = 120; then n-k = 118 with a significance level of 5% (0.05), then a t-table value of 1.65787 is obtained

Based on Table 2, the results of the Regression Panel Data Structure 1 test show that the Earning Managemment variable has a t-count > t-table (5.744606 > 1.65787) and a significance level of 0.00000 <0.05, so Ho is rejected and H1 is accepted. This means that the variable Earning Managemment partially has a significant effect on Management Compensation.

Partial Influence of Fixed Assets Intensity on Management Compensation.

Based on Table 2, the results of the Regression Panel Data Structure 1 test show that Fixed Asset Intensity Variable has a t-count > t-table (-0.408778 > -1.65787) and a significance level of 0.6834 > 0.05 then Ho is accepted and H2 is rejected. This means that the Fixed Asset Intensity variable is significantly partial has no significant effect on Management Compensation.

Table 2. Panel Data Regression t Test Results Structure 1

Dependent Variable: KM
Method: Panel EGLS (Cross-section random effects)
Date: 01/11/23 Time: 13:20
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24.20045	0.335702	72.08909	0.0000
EM	2.428902	0.422814	5.744606	0.0000
IAT	-0.197488	0.483118	-0.408778	0.6834

Effects Specification

	S.D.	Rho
Cross-section random	1.420667	0.9761
Idiosyncratic random	0.222228	0.0239

Weighted Statistics

R-squared	0.221074	Mean dependent var	1.685358
Adjusted R-squared	0.207759	S.D. dependent var	0.249103
S.E. of regression	0.221721	Sum squared resid	5.751750
F-statistic	16.60339	Durbin-Watson stat	1.169276
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	-0.002513	Mean dependent var	24.15079
Sum squared resid	232.2908	Durbin-Watson stat	0.028952

Source: Secondary Data, processed with Eviews (2023)

Partial Influence of Management Compensation on Tax Management

Based on Table 3, the results of the Regression Panel Data Structure 2 test show that the Management Compensation (KM) Variable has a t-count value < t-table (-1.894208 <-1.65798) and a significance level of 0.0613 > 0.05, so Ho is rejected and H_5 is accepted, this means that the Management Compensation variable has a partial effect on Tax Management.

Table 3. Panel Data Regression t Test Results Structure 2

Dependent Variable: MP
Method: Panel Least Squares
Date: 01/11/23 Time: 13:35
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.199233	1.027197	2.141005	0.0349
EM	-0.551155	0.202128	-2.726764	0.0076
IAT	0.011824	0.204212	0.057899	0.9540
KM	-0.080282	0.042383	-1.894208	0.0613

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.420465	Mean dependent var	0.260135
Adjusted R-squared	0.258444	S.D. dependent var	0.106043
S.E. of regression	0.091317	Akaike info criterion	-1.753842
Sum squared resid	0.775515	Schwarz criterion	-1.126656
Log likelihood	132.2305	Hannan-Quinn criter.	-1.499139
F-statistic	2.595132	Durbin-Watson stat	2.138248
Prob(F-statistic)	0.000440		

Source: Secondary Data, processed with Eviews (2023)

Partially of Earnings Management influence Tax Management through Management Compensation as mediation.

To find out the indirect effect of Earnings Management on Tax Management through Management Compensation using the t-test, t-table (n;0.05) (120-2;0.05) = 1.65787, where the t-count is -1.7745 < t- table of -1.65787 then Ho is rejected and Ha is accepted. This means that there is an indirect effect between Earning Management on Tax Management through Management Compensation where the effect is negative by 0.195.

Effect of Fixed Asset Intensity on Tax Management with Management Compensation as Mediation.

To find out the indirect effect of Fixed Asset Intensity on Tax Management through Management Compensation using the t-test, t-table (n;0.05) (120-3;0.05) = 1.65798, where the t-count is 0.355089 < t-table of 1.65787 then Ho is accepted and Ha is rejected. This means that there is no indirect effect between the Intensity of Fixed Assets on Tax Management through Management Compensation the effect is negative of 0.195.

CONCLUSION

Based on the results of processing secondary data from consumer sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2017-2021 or for 5 years, it can be concluded that partially Profit Management has a significant effect on Management Compensation, while Asset Intensity is still no influence on Management Compensation. Then simultaneously Profit Management and Fixed Assets Intensity have a significant effect on Management Compensation. And Management Compensation can mediate the effect of Profit Management on Tax Management. However, on the other site, Management Compensation does not mediate the effect of Fixed Asset Intensity on Tax Management. While partially Profit Management and Management Compensation have an effect on Tax Management, however, Fixed Asset Intensity has no effect on Tax Management.

For further research, it is hoped that it will be able to increase the number of research samples, the number of years of observation and the use of other sectors as well as adding research variables beyond those that have been studied, so that it will have an impact on Tax Management. In addition to information related to the Effect of Earnings Management, the Intensity of Fixed Assets on Tax Management is mediated by Management Compensation. Since the results of Fixed Asset Intensity have no effect on Tax Management, the government is expected to pay more attention to the quality of fixed assets so that Taxpayers are more obedient in fulfilling their tax rights and obligations.

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