

THE EFFECT OF DEFERRED TAX EXPENSES AND POLITICAL CONNECTIONS ON EARNINGS MANAGEMENT

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Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh beban pajak tangguhan dan koneksi politik terhadap manajemen laba yang dilakukan terhadap perusahaan sektor property & real estate yang terdaftar di Bursa Efek Indonesia Tahun 2021-2024. Penelitian ini merupakan penelitian kuantitatif dimana data diolah dengan SPSS 24. Populasi dalam penelitian ini adalah perusahaan sektor property & real estate yang telah *gopublic*, yang terdaftar berturut-turut di Bursa efek Indonesia, dan menerbitkan annual report serta laporan keuangan di Bursa Efek Indonesia pada periode tahun 2021-2024. Penentuan sampel menggunakan metode *purposive sampling*. Dalam penelitian ini terdapat 65 sampel perusahaan. Penelitian ini menggunakan analisis regresi linier berganda. Hasil penelitian ini menunjukkan bahwa beban pajak tangguhan tidak berpengaruh terhadap manajemen laba, sedangkan koneksi politik berpengaruh terhadap manajemen laba.

Kata Kunci: *Beban Pajak Tangguhan, Koneksi Politik, Manajemen Laba*

Abstrak

This study aims to analyze the influence of deferred tax expense and political connections on earnings management carried out on property & real estate sector companies listed on the Indonesia Stock Exchange in 2021-2024. This research is a quantitative research where data is processed with SPSS 24. The population in this study is a property & real estate sector company that has *gone public*, which is listed successively on the Indonesia Stock Exchange, and publishes annual reports and financial statements on the Indonesia Stock Exchange for the period 2021-2024. Sample determination using *the purposive sampling* method. In this study, there are 65 company samples. This study used multiple linear regression analysis. The results of this study show that the deferred tax expense has no effect on earnings management, while political connections have an effect on earnings management.

Keywords: *Deferred Tax Expense, Political Connections, Earnings Management*

A. INTRODUCTION

Financial statements play an important role in providing relevant and reliable information about the state and performance of the company, especially regarding revenue or profit. Profit is an important measure in assessing operational success and becomes the basis for economic decision-making by internal management. Profit information is also the basis for determining the amount of tax that must be paid by the company. There is pressure to show good performance, encouraging management to take manipulative actions to regulate the amount of profit to look more profitable and stable.

An unstable company's financial condition, such as liquidity pressures or tax burdens, can be an additional challenge that interferes with business continuity. This situation encourages management to look for ways to reduce tax liability. One of them is by reducing the amount of profit reported through earnings management practices. Rahmawardani & Muslichah (2020) stating that earnings management is an action taken by management to manage information in financial statements with the aim of showing a good image of company performance in the eyes of investors. Earnings management practices can occur when a company's profit results do not meet the target. So that management makes adjustments to accounting methods that allow the company's profits and performance to appear profitable.

One of the earnings management cases that has occurred in Indonesia is in PT Hanson Internasional Tbk (MYRX) in 2016. The company recorded revenue of IDR 732 billion from the sale of ready-to-build plots without a valid sale and purchase agreement. Thus, the company's profit was reported to be overstated up to Rp613 billion, which does not show the actual financial condition. Then, the OJK punished management and external auditors for violating applicable accounting standards. This condition suggests that the pressure to display good financial performance can encourage companies to engage in manipulative practices in reporting. In

particular, in the property & real estate sector which has room for flexibility in revenue recognition, and the range of profit management practices (Prasongko, 2019).

Companies can guarantee profits by making deliberate adjustments in compiling financial statements for the benefit of individuals or certain groups. One of the factors that is considered to be able to encourage management to take such opportunistic actions is the burden of deferred taxes. Deferred tax expense is defined as an obligation arising from the difference in recognition time between accounting profit and fiscal profit (Devitasari, 2022). The difference in recognition is temporary and causes a delay in tax payments in future periods. The existence of deferred taxes can affect the amount of tax burden, whether the difference increases or decreases tax liabilities in the future. The tax borne by a company is a burden that reduces net profit. The larger the tax paid, the smaller the profit the company will get.

External factors that can influence a company's policies and strategic decisions are political connections. According to Saraswati et al. (2023), Political connections refer to the relationship between a business and the government, which allows influencing management decisions in carrying out company activities. Companies that have political connections tend to get easier access to sources, more favorable regulations, or lenient protection from other parties. This convenience has an impact on various aspects of the company's operations and finances, such as tax avoidance and financial reporting practices (Kesaulya et al., 2023). Therefore, it is important to know the extent to which political relations play a role in regulating the relationship between internal parties and financial behavior.

Some previous studies have shown inconsistent results regarding the burden of deferred taxes and the political connection to earnings management. Research conducted by Ningsih et al. (2020), Fahri & Setiadi (2022) and Syria (2022) shows the results that the deferred tax expense has an effect on earnings management. This means that when there is a deferred tax expense on a company, management tends to manipulate or engineer the profits reported in the financial statements. However, in contrast to research conducted by Yanuarizky et al. (2023) and

Murtiningtyas et al. (2025) shows that the deferred tax burden has no effect on earnings management. This means that the existence or magnitude of the deferred tax burden on a company is not a factor that can encourage management to implement earnings management. Research Putri & Supatmi (2022) and Darmayanti et al. (2018) show the results if political connections affect earnings management. However, research Sumardi & Wati (2022), Annisa & Lastanti (2025) and Wasril & Puspitasari (2024) argues that political connections have no effect on earnings management.

This study aims to test and quantify empirical evidence on the influence of deferred tax expense and political connections on earnings management. In practice, companies often use political connections to gain benefits related to the deferred tax burden. The company's proximity to the government can provide special treatment that allows earnings management to occur, such as a shift in the time for the recognition of tax burdens. The results of this study are expected to be considered for management, investors, and regulators in assessing the quality of financial statements and potential risk of manipulation. In addition, this research can provide input for policymakers who support transparency and accountability of corporate finances.

1. THEORETICAL AND HYPOTHESIS STUDIES

Signal Theory

In accounting, signal theory describes how a company's management uses financial information, such as income statements, to provide information to external parties. Investors and creditors can know about the company's financial condition and future prospects (Ross, 1973). With the existence of information asymmetry between management who is more aware of the company's internal conditions and external parties, the delivery of information or signals through accounting policies is believed to reduce uncertainty. It can also increase the trust of stakeholders.

Earnings Management

According to Adam & Faridah (2021), earnings management is an action taken by the company's manager to modify or influence information in the financial statements, with the aim

of shaping the perception of stakeholders on the company's performance and condition. One of the goals of an earnings management practice is to demonstrate better corporate performance to increase investor confidence and maintain relationships with stakeholders (Silvera et al., 2023). Therefore, the company's management strives strategically to communicate the company's financial condition and future prospects in a way that is expected to be understood by external parties in a certain way.

Deferred Tax Expense

Deferred tax expense is a tax liability caused by the time difference between the calculation of profit according to tax provisions and the calculation of profit according to commercial accounting, which will be settled in a future period (Faqih & Sulistyowati, 2021). Deferred tax expenses are very important to consider, as they can affect reported net income and indicate the company's future liabilities (Yuliana et al., 2023).

The deferred tax expense is essentially more indicative of the consequences of changes in fiscal and commercial rules than the practice of profit manipulation. As a result, the existence of a deferred tax burden does not fully reflect the manager's efforts in engineering profits (Zai & Pangaribuan, 2024).

H1 : Deferred tax expense has no effect on earnings management

Political Connections

Relationships between businesses or individuals and political parties, government officials, or politicians that can influence tax and regulatory policies are referred to as political connections (Pinandito & Juliarto, 2024). In a political context, political connections can include different types of relationships, such as cooperation, political influence, or collaboration, that impact the policies and decisions made by the company. Political connections allow a company to gain special advantages, such as easy access to capital, low risk of tax audits, and lower government pressure (Solikin & Slamet, 2022).

The existence of political relationships provides benefits for companies, such as providing access to government resources and support. As a result, managers are more motivated to maintain

their financial image, one of which is by implementing profit management practices to maintain the support and trust of related parties (Kesaulya et al., 2023).

H2 : Political connections affect earnings management

B. METHOD

This study uses quantitative data with a causal approach. This study aims to provide empirical evidence on the influence of deferred tax expense and political connections on earnings management. The data collection technique uses purposive sampling. The main data in this study comes from the company's annual financial statements that have been officially published on the Indonesia Stock Exchange (IDX), namely [the www.idx.co.id](http://www.idx.co.id) and website of each company which includes cash flow, profit/loss, LPK, and defects in the financial statements. This research was conducted on *Property & Real Estate Sector Companies* listed on the Indonesia Stock Exchange (IDX) which can provide annual reports and financial statements for the period 2021-2024. The criteria used in this study are as follows:

Table 1. Sample

Information	Sum
Number of companies in <i>the property & real estate sector</i> for the period 2021-2024	93
Number of <i>property & real estate sector companies</i> that are not listed on the IDX consecutively for the period 2021-2024	(17)
<i>Property & real estate companies</i> that do not publish annual reports or financial statements for the 2021-2024 period	(11)
Total	65
Total observation samples (68x4)	260

Based on the table above, the population in this study is 93 property & real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period. The sample used in this study was 65 companies with 4 years of observation, so that 260 data were obtained.

C. RESULTS AND DISCUSSIONS

1. Descriptive Statistics

Descriptive analysis is a statistical technique that provides a comprehensive picture of the properties of each research variable, including the value of *Mean* (mean), maximum value, and standard deviation (Scott, 2018).

Table 2. Descriptive Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Deferred Tax Expense (X1)	260	-0,05	0,14	0,001	0,01
Political Connections (X2)	260	0	1	0,31	0,46
Earnings Management (Y)	260	-5889,15	4589,06	39,33	542,39
Valid N (listwise)	260				

2. Normality Test

The normality test aims to determine whether the residues in the regression model are normally distributed. The data is considered to be normally distributed when the *significance value* > 0.05 (Scott, 2018). This test uses an SPSS analysis tool with a test *Kolmogorov-Smirnov* next:

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		166
Normal Parameters ^{a,b}	• Mean	0,0000000
	Std. Deviation	4,85057703
Most Extreme Differences	Absolute	0,069
	Positive	0,069
	Negative	-0,046
Test Statistic		0,069
Asymp. Sig. (2-tailed)		0,052 ^c

Based on the results of the normality test with *the Kolmogorov-Smirnov* test, it shows that the value of Asymp.Sig. 0.052. So that the value is normally distributed, because the value is above 0.05.

3. Hypothesis Test (F Test)

The F test aims to find out whether all independent variables have a simultaneous influence on dependent variables (Scott, 2018).

Table 4. Test F

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	211,696	2	105,848	4,631	0,011 ^b
	Residual	3725,515	163	22,856		
	Total	3937,212	165			
a. Dependent Variable: Earnings Management						
b. Predictors: (Constant), Deffered Tac Expense, Political Connections						

Based on the results of the statistical test F above, the sig value is $0.011 < 0.05$. So it can be concluded that independent variables have a simultaneous effect on dependent variables.

4. Multiple Determination Coefficient (R²) Test

The R² multiple determination coefficient test aims to measure how well the regression model is able to explain variations from dependent variables using a combination of independent variables present in the regression model (Scott, 2018). The results of the determination test in this study are:

Table 5. R² Test

Model Summary ^b			
Model	R	R Square	Adjusted R Square
1	0,576 ^a	0,332	0,324
a. Predictors: (Constant), Deffered Tax Expense, Political Connections			
b. Dependent Variable: Earnings Management			

Based on the results of the determination coefficient test, it shows that the value of the Adjusted R Square is 0.324, which means that there is an influence of 32% between the independent variable, namely the deferred tax burden and the political connection to the dependent variable, namely earnings management.

5. Hypothesis Test (t-Test)

The t-test aims to find out *significance value* The influence of independent variables on dependent variables. If *significance value* < 0.05, there is an influence of the independent variable on the dependent variable. However, if *significance value* > 0.05, there is no influence of the independent variable on the dependent variable (Ghozali, 2018).

Table 6. T test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3,441	0,372		9,238	0,000
	Deffered Tax Expense	-4,256	3,266	-0,099	-1,303	0,194
	Political Connections	0,581	0,312	0,208	2,734	0,007
a. Dependent Variable: Earnings Management						

The variable of deferred tax burden in the test results showed that the deferred tax burden had a sig value of > 0.05 , which means that the deferred tax expense had no effect on earnings management. **H1 accepted.** This means that the size of the deferred tax burden does not encourage managers to do profit management. Deferred tax expenses are accounting in nature and relate to the time difference between tax reporting and financial reporting. Based on signal theory, deferred tax burden is not used as a tool to signal because it is considered less relevant in influencing market perception (Dewi et al., 2023). In addition, transparency and strict regulations limit managers' room to manage profits through deferred tax burdens. This study provides results that are consistent with previous research, namely Setyawan et al. (2021), Budiantoro et al. (2022), Lannai (2022) and Theis et al. (2023) which shows that the deferred tax expense has no effect on earnings management.

The political connection variable in the test results showed a sig value of < 0.05 , which means that political connections have an effect on earnings management. **H2 is accepted.** This means that companies with political connections often use profit management to maximize profits or organize finances to look better. Companies that have political relationships tend to perform profit management to maintain their reputations, reduce market pressure, or profit from those political relationships (Kesaulya et al., 2023). According to signal theory, companies use profit management to provide investors with information about the company's prospects and performance. Companies with political connections manage profits in order to send positive signals, so that they can maintain trust and political support (Angelia & Munandar, 2024). The results of this study provide results that are consistent with previous research, namely Darmawan (2018), Wati et al. (2020) and Nugroho (2021) which shows that political connections have an effect on earnings management.

D. CONCLUSIONS

The conclusion in this study is based on the results of a hypothesis test regarding the influence of deferred tax expense and political connections on earnings management in property & real estate companies listed on the IDX for the 2021-2024 period, resulting in several conclusions, namely:

1. The deferred tax expense has no effect on earnings management. This deferred tax burden arises because there is a difference in time recognition between commercial and fiscal accounting, so it is less relevant to be used as a basis for managers to carry out profit management practices.
2. Political connections affect earnings management. Companies with political connections tend to benefit, i.e. they are more protected from external pressure and internal oversight, thus providing an opportunity for managers to practice profit management.

E. SUGGESTIONS

This study has limitations, namely only using deferred tax burdens and political connections as independent variables, and measuring dependent variables (earnings management) using only a simple method, namely the ratio of changes in working capital to profit. The researcher is then expected to add other variables that are considered more accurate in showing profit management practices, as well as using more comprehensive measurements such as the Jones model.

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