

# Analysis Of Factors Affecting Earnings Management Of State-Owned Enterprises (Bumn) In 2018-2021 With Institutional Ownership As A Moderating Variable

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## Abstract

*This study aims to obtain empirical evidence that tax planning, deferred tax expense, free cash flow, and earning power moderated by institutional ownership can affect earnings management practices. This research was conducted on 16 state-owned enterprises listed on the Indonesia Stock Exchange in the 2018-2021 period. Earnings Management was proxied by profit distribution. This study concludes that the interaction between tax planning, deferred tax expense, and free cash flow weakens earnings management practices, while earning power strengthens earnings management practices. Then the results of the interaction of earning power and institutional ownership can weaken earnings management practices. Meanwhile, tax planning, deferred tax expense, and free cash flow that interact with institutional ownership strengthen earnings management.*

**Keywords:** Earnings Management, Tax Planning, Deferred Tax Expenses, Free Cash Flow, Earning Power, Institutional Ownership.

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## INTRODUCTION

State-owned Enterprises (BUMN) are organizations where most of their capital comes from the state through direct participation from separated state assets. The government has made fundamental changes to the ownership of several BUMNs in Indonesia by making them public companies whose shares can be owned by the general public. Therefore, other companies are competing to improve their quality, including those who have always been in the public spotlight regarding their existence in the business world and are one of the contributors to revenue for the state, such as revenue which increased from Rp. 303 trillion in 2014 to Rp. 7,210. Trillion, or increasing by an average of 9.8 percent per year, is in line with the ministry of finance records, which recorded BUMN assets increased from Rp 7,210 trillion (2017) to Rp 7,718 trillion (2018).

Unfortunately, the performance of BUMNs is not good, so it has drawn criticism regarding financial statement intervention by the company's management, which has caused state revenues to decrease and people's welfare to decline. It has the potential to harm the state, but it is still part of a state-owned company. A reasonably high debt occurred in 2017; it reached IDR 4,830 trillion, and in 2018 it reached 5,271 trillion. The worrying thing is that the debt-to-asset ratio reaches 68%, meaning that most of the assets owned by BUMNs are financed by debt. If this financial condition is not appropriately managed, BUMN might be trapped in liquidity difficulties (Rosyadi, 2019). Like the case experienced by the company PT Indofarma Tbk in 2004 and PT. Asuransi Jiwasraya Tbk in 2017, where the two companies applied windows dressing or beautifying financial statements. Because companies often place their investment funds in less fundamental or risky assets, budget deficits often lead to manipulation and corruption. These things the company does so that its financial statements look reasonable and profitable to attract investors.

This study uses earnings management as an independent variable proxied by the distribution of profits by Philips (2003) by utilizing tax planning using deferred tax expense in determining the size of the profits generated by the company. Earnings management is one of the strategies in accounting that is useful for knowing the company's condition and performance; besides that, management strategies are generally used by company managers in intervening information from the company's financial statements. The term intervention is used to assess earnings management as a form of fraud. However, others do not consider intervention as a form of fraud because these intervention activities are still carried out using

generally accepted accounting procedures and methods. Earnings management becomes interesting because it can provide an overview of managers' motivation in reporting their business activities. Research on earnings management by utilizing taxation costs was conducted by Philips et al. (2003), Ferry & Anna (2014), and Lubis & Suryani (2018). Earnings management is the most controversial and sensitive area in financial accounting. So here, the researcher combines it with other independent variables, namely tax planning, deferred tax expense, free cash flow, earning power, and institutional ownership as moderating variables.

Some of the BUMN cases above show that the practice of earnings management in financial reporting is not new. The competitive conditions and situations will create an incentive or pressure on the company to show good quality and performance, no matter the method used. It is a challenge for potential investors to assess whether the information in the financial statements reflects the actual facts and values or is only the result of window dressing from the management. One factor that allegedly encourages managers to practice earnings management is the company's earning power. This study also uses a moderating variable, namely institutional ownership. With institutional ownership, it is expected that a company can encourage a more optimal increase in supervision related to management performance to prevent opportunistic behavior by managers (Salehi et al., 2017). When it is viewed from agency problems, managers tend to manage the company for their interests without paying attention to shareholders' welfare. Still, in practice, institutional ownership is more effective in carrying out the supervisory function than managerial ownership (Arianandini & Ramantha, 2018). Then, a study conducted by (Raka & Suhartono, 2018; Saraswati & Atiningsih, 2021) stated that institutional ownership was able to strengthen the effect of earning power, and free cash flow, while Wirawan's research (2020) stated that institutional ownership weakened the effect of tax planning on earnings management. However, (Kusumayani & Suardana, 2017; Khuwailid & Hidayat, 2017; Wibowo, 2020) stated that institutional ownership could strengthen the deferred tax expense of tax planning in influencing earnings management practices.

By using a linear regression test on 16 samples of state-owned enterprises during the 2018- 2021 period (a total of 49 observations – firm-year data), it is concluded that tax planning, deferred tax expense, free cash flow, and institutional ownership that are interacted with earning power are unable or weaken earnings management actions by managers. Furthermore, this study finds that earning power and institutional ownership, which are interacted with tax planning, deferred tax expense, and free cash flow, have an effect or strengthen management actions in carrying out earnings management practices.

This research can contribute understanding and knowledge to the company's efforts to manipulate its financial statements with tax planning, deferred tax expense, free cash flow, and earning power owned by the company, as well as the involvement of institutions in influencing earnings management practices carried out by managers.

#### **Agency Theory**

Agency theory (Jensen and Meckling. 1976) is an explanation or description of the agency relationship in the form of a contract with one or more owners (principals) using other people or managers (agents) to run a company. This condition, of course, will cause a conflict of interest. The information asymmetry between the principal and the agent will encourage the agent to hide some information that the principal does not know, especially the information related to the agent's performance measurement, so that there is a gap in the information obtained, the company manager makes earnings management practices (Khuwailid & Hidayat, 2017). Agency theory assumes that each individual is solely motivated by welfare and self-interest. The principal is motivated to enter into a contract to prosper himself through the distribution of dividends or an increase in the company's stock price. Agents are motivated to improve their welfare through increased compensation (Loen, 2022).

The correlation between agency theory and the variables in this study is that managers will look for ways to use techniques and methods of assessing assets, liabilities, capital, income, and expenses that do not conflict with government regulations related to taxation, namely tax planning, then the variable deferred tax expense. The higher the level, the more excellent the opportunity for earnings management; this happens due to the difference in the information received between the principal and the manager. To prevent agency problems, the company must provide considerable compensation for managers so that

managers remain loyal to the company. In this variable earnings power, the principal is motivated to maximize his welfare with the company's increasing profitability. In comparison, management is motivated to maximize its welfare by choosing accounting principles that follow its goal of maximizing its interests. To overcome this agency problem, the company can provide bonuses so that managers are always loyal. The relationship with the free cash flow variable occurs because of different interests between managers and owners. This agency problem can be solved by increasing funding through debt (leverage) and distributing dividends to shareholders.

#### **Positive Accounting Theory**

Positive accounting theory explains and predicts the consequences if managers make confident choices which estimates are based on the contract process or agency relationship between managers and other parties (creditors, investors, government institutions, capital market managers, and auditors). According to this theory, companies can choose the accounting procedures used to maximize firm value and minimize contract costs. It motivates or encourages companies to do so that it can benefit their company's satisfaction. Watts and Zimmerman (1986) in Indira (2004) stated that there are three hypotheses of encouragement or motivation, namely as follows: 1. Bonus Plan Hypothesis, 2. The Debt Equity Hypothesis, and 3. Political Cost Hypothesis.

#### **Earnings Management**

Earnings management is a management intervention that is intentionally carried out when determining profits to obtain some personal benefits by influencing information in financial statements to deceive stakeholders who want to know the condition and performance of the company (Sumomba, 2010; Dyah, 2019). The interval aims that the efforts made by managers to influence the information in the financial statements to trick stakeholders who want to know the performance and condition of the company (Sulistyanto, 2008). So it can be concluded that earnings management is the same as the process of influencing financial statements in the form of cash flows, both cash in (income) or cash out (expenditures), as well as personal gain, which is the authority of managers (manager discretion) by manipulating data or information using accounting methods that by accounting principles so that the company gets a profit. This management applies techniques such as (a) Seizing opportunities to make accounting estimates, (b) Changing accounting methods, and (c) Shifting periods of costs or revenues. Earnings management in this study is measured based on the distribution of earnings by Philips (2003) because managers understand that external parties, especially investors, banks, and suppliers, use earnings thresholds in assessing manager performance; therefore, this distribution formula is appropriate to use because it can assess which companies avoid declining profits and companies that avoid reporting losses.

$$\Delta E = \frac{E_{it} - E_{it-1}}{MVE_{it-1}}$$

MVE<sub>it-1</sub>

#### **Tax Planning**

According to the general provisions of the law and taxation procedures, No. 16 article 1 of 2009, tax is a mandatory contribution to the state owed by an individual or entity that is coercive under the law, without receiving direct compensation and being used for state for the greatest prosperity of the people. Tax planning, according to Chairil Anwar Pohan (2018), is the process of organizing or preparing taxpayers' businesses in such a way that their tax debts, both income taxes, and other taxes, are in a minimum amount, as long as this does not violate the provisions of applicable laws and regulations. "Thus, tax planning is a process carried out by corporate or personal taxpayers by carrying out tactics or strategies to minimize the payment of tax costs by companies to the government so that the profits obtained are even more significant.

Tax planning is carried out to minimize the tax burden payable, maximize profit after tax, and fulfill tax obligations efficiently and effectively based on applicable regulations. The strategies used in tax planning are a) Considering the form of business before starting the business, b) Reconsidering the business structure, c) Considering transactions, projects, and asset acquisition to minimize the tax burden, and d) Maximizing deductible costs.

In this study, tax planning is measured by the tax retention rate because, according to Hapsari &

Manzilah (2016), TRR is more effective in managing corporate tax burdens accurately but still legal according to applicable regulations.

$$\text{TRR} = \frac{\text{Net Income} - \text{Pretax Income (EBIT)}}{\text{Total asset}}$$

#### Free Cash Flow

According to Hastuti et al. (2018), Free cash flow is cash flow that can be paid to all investors after the company pays all its obligations and makes investments. It is considered a benchmark to measure the company's performance and shows the amount of cash owned by the company after spending on asset maintenance or development, as well as be a crucial parameter for investors to take into account the company's work performance and company growth from year to year. Free cash flow is helpful for companies to pay dividends and interest to debt holders for principal loans and provide shares owned by shareholders or other companies which are non-operating assets.

$$\text{FCF} = \text{CFO} - \text{CFI}$$

Total asset

#### Deferred Tax Expense

Deferred Tax Expense is part of the account balance in the balance sheet or the total income tax payable as well as the recoverable amount of income tax in the coming year due to temporary differences between financial accounting standards and tax regulations that can be deducted from the remaining compensated losses. The recognition of this deferred tax will impact reduced profits or net loss due to possible deferred tax expense and deferred tax benefits (IAI, 2009). Then the deferred tax expense arises because of the temporary difference between accounting profit and fiscal profit (Harnanto, 2013).

The existence of a deferred tax expense can imply a significant time difference that has been multiplied by a marginal tax rate. This time difference arises because of specific accrual policies that are applied so that there is a difference in the timing of income or expense recognition between accounting and taxation. This time difference can also cause an increase or decrease in deferred tax liability or tax assets that must be treated as a deferred tax expense and presented or reported in the current year's income statement together with the current tax expense but presented separately (Wijayanti, 2015). The difference must be adjusted first between the accounting profit from the commercial financial statements and the fiscal profit in the fiscal financial statements before calculating the amount of taxable income (PKP). This adjustment is the reconciliation of accounting financial statements with fiscal corrections.

In this study, the deferred tax expense is calculated by comparing the deferred tax expense with total assets. The comparison of this expense with total assets in the previous period is carried out to obtain a proportionally calculated value (Anggraeni et al., 2017).

$$\text{BBPT} = \frac{\text{deferred tax expense of t-period}}{\text{Total asset of t-1 period}}$$

#### Earning Power

Earning power is a competency to determine the company's efficiency by looking at the company's size in generating profits (Mukhtar, 2016; Paniran and Agung 2021). Investors assume that high earning power will guarantee a return on investment funds, provide reasonable profits, and be used as motivation by the company to carry out earnings management practices. The level of earnings power can be determined by several factors of financial ratios: 1) Return on assets (ROA), to show how high the involvement of assets is in realizing good net income. Then it can be helpful to measure the nominal net profit generated based on each rupiah fund invested in total assets and vice versa. The lower the ROA, the amount of net profit generated is very low from the value of the rupiah invested. 2) Profit margin, to measure the quantity of profit on net sales in the form of a percentage, where the higher the profit margin, the higher the profit generated from net sales, and vice versa. If the profit margin is low, the profit generated is negligible. 3) Return on investment (ROI), this ratio is the ratio of return on investment. ROI can also be said as the ratio of net profit to costs.

In this study, earning power is measured using the ROA method because it can estimate the company's

ability to use its average assets to generate profits and create new investment relationships, shown in net cash flow linked to the total assets used by the company.

$$\text{ROA} = \frac{\text{Net Earning}}{\text{Total Asset}}$$

### Institutional Ownership

Institutional ownership is the share ownership percentage of institutional investors such as mutual funds, securities companies, insurance, pension funds, financial institutions, and others (Lin and Fu, 2017). The total proportion of ownership by financial institutions such as insurance companies, pension funds, mutual funds, and investment banks, except for subsidiaries and other institutions with special relationships (affiliated companies and associated companies). Institutional ownership plays a vital role in monitoring manager behavior and forces managers to be more careful when making opportunistic decisions by adjusting the relationship between free cash flow and asset use.

**The number of shares owned by the company  $\frac{\text{Shareholder's Equity}}{\text{Total Equity}} \times 100\%$**

### HYPOTHESIS

Taxpayers carry out tax planning to minimize the burden of paying taxes as small as possible to obtain large profits. This statement is supported by Negara & Suputra (2017), Bunaca & Nurdayadi (2019), Hadi & Pitaloka (2020), Lubis & Suryani (2018), and Wirawan (2020), which explain that companies can practice earnings management by utilizing good tax planning by utilizing deferred tax expense accounts to reduce tax payments to the state.

Suppose the company has a high value of free cash flow and earning power. In that case, management will increasingly use it to practice earnings management by lowering the profits earned to avoid demands for a higher amount of profit in the future or by increasing the number of profits earned to cover the actions taken. Managers who are less than optimal due to carrying out investment missions (Raka & Suhartono (2018), Loen (2022), Hastuti et al. (2018), and Widyaningrum et al. (2018), therefore the conclusions are:

H1: Tax planning contributes a positive effect on earnings management practices

H2: Deferred tax expense contributes a positive effect on earnings management practices

H3: Free Cash Flow contributes a positive effect on earnings management practices

H4: Earning power contributes a positive effect on earnings management practices

This study uses a moderating variable, namely institutional ownership. The existence of institutional ownership in a company can encourage an increase in more optimal supervision of the performance of management. Viewed from the agency's problems, the manager will control the company for personal interests without paying attention to the shareholders' welfare. Still, institutional ownership is considered more effective in functioning as a supervisory function. It is supported by Wirawan (2020), Khuwalid & Hidayat (2017), and Wibowo (2017), which state that institutional ownership can weaken managers' actions in practicing earnings management. In contrast to research conducted by Hartati (2018), Mayesti (2017), Saraswati & Atiningsih (2021), Amrulloh (2020), and Umami (2018) which state that institutional ownership encourages managers to carry out earnings management, this may only because the supervision from the institution is not optimal. It is also possible that the institutional party is motivated to earn profits. Therefore, institutional ownership interacting with free cash flow and earning power strengthens earnings management practices carried out by the company. Hence the conclusion:

H5: Institutional ownership significantly weakens the effect of deferred tax expense on earnings management.

H6: Institutional ownership significantly weakens the effect of tax planning on earnings management.

H7: Institutional ownership significantly strengthens the effect of free cash flow on earnings management practices.

H8: Institutional ownership significantly strengthens the relationship between earning power and

earnings management.

## RESEARCH METHOD

It applied causal research to determine the role of independent and moderating variables in influencing the dependent variable, including quantitative research with secondary data derived from documentation in each company's financial statements. The research population is State-Owned Enterprises for 2018-2021 listed on the IDX. The sampling technique in this study was purposive sampling based on the following criteria considerations:

Table 1 Research Sample Determination Process

No.	Sample Criteria	Total
1	State-owned enterprises registered in Indonesia in 2018-2021	20
2	Companies that do not publish financial and annual reports published on the company website in 2018-2021	(0)
3	State-owned enterprises whose financial statements are not stated in Indonesian currency or rupiah (Rp)	(3)
4	Companies that do not have a research variable component	(1)
Number of companies that meet the criteria		16
Total research data (16 companies x 4 years)		64
Data Outlier		15
<b>Number of samples used</b>		<b>49 samples</b>

Source: Data research. 2022

## Research Model

This study used Multiple Linear Regression and Moderated Regression Analysis (MRA) assisted with SPSS for Windows Version 26 statistical application.

1. The Multiple Linear Regression Model:

$$Y = \alpha + \beta_1 TRR + \beta_2 BPT + \beta_3 FCF + \beta_4 ROA + e$$

2. The Moderated Regression Analysis (MRA) model:

$$Y = \alpha + \beta_1 (TRR) + \beta_2 (BPT) + \beta_3 (FCF) + \beta_4 (ROA) + \beta_5 (TRR\_KI) + \beta_6 (BPT\_KI) + \beta_7 (FCF\_KI) + \beta_8 (ROA\_KI) + e$$

In addition to testing the hypothesis, this study will also test the classical assumption (classical linear regression test) in the form of a heteroscedasticity test, autocorrelation test, multicollinearity test, and normality test to ensure that the hypothesis test is robust.

## RESULTS AND DISCUSSION

### Descriptive Statistics Test Results

Table 2. Descriptive Statistical Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Tax Planning	49	-0.05977	0.97598	0.6650560	0.23449813
Deferred Tax Expense	49	-0.00822	0.01015	0.0005687	0.00308780
Free Cash Flow	49	-0.03086	0.32755	0.0840980	0.08047881

Earning Power	49	-0.08993	0.10009	0.0170995	0.02732420
Institutional Ownership	49	0.25060	0.999700	0.90718571	0.124148641
Earnings Management	49	-0.52212	0.489215	-0.00689012	0.107891677
Valid N (list wise)	49				

Source: Results of Data Processing with SPSS Version 26.

Based on table 2, the results of descriptive statistical analysis tests can be described as follows:

1. Tax Planning

The minimum value of tax planning was -0.059 at PT Jasamarga, and the maximum was 0.975 at PT Waskita Karya. The mean (average) value of this tax planning variable was 0.665, with a standard deviation of 0.234.

2. Deferred Tax Burden

The maximum value of deferred tax expense was 0.010, with a minimum value of -0.008 at PT Semen Batu Raja and PT Timah. The mean value was 0.0005, and the standard deviation was 0.003.

3. Free Cash Flow

The minimum value of the free cash flow variable was -0.030, and the maximum value was 0.327, found in the PT Bank Negara Indonesia and PT Timah companies. The average value (mean) was 0.084, with a standard deviation of 0.080. The variables were well spread, and the gap level was not too sharp because the mean value was more significant than the standard deviation.

4. Earning power

The minimum earning power value was -0.089 at PT Waskita Karya, and the maximum was 0.100 at PT Bukit Asam. This earning power variable's mean (average) value was 0.017, with a standard deviation of 0.027.

5. Institutional Ownership

The minimum value of institutional ownership was 0.250 at PT Indofarma, and the maximum value was 0.999 at PT Kimia Farma. This institutional ownership variable's mean or average value was 0.907, with a standard deviation of 0.124.

6. Earnings Management

The minimum value of the earnings management variable was -0.522, and the maximum was 0.489 at PT Waskita Karya. This earnings management variable's mean (average) was -0.006 with a standard deviation of 0.107.

Then the classical assumption test met the test requirements, which included the normality test, autocorrelation test, multicollinearity test, correlation coefficient test of determination, and heteroscedasticity test. Hence, the model was feasible to use and predict.

### Multiple Linear Regression Test Results

Table. 3 Multiple Linear Regression Test Results

Variable Std. Error	Unstandardized B	Coefficients	Std. Coefficients Beta	t	Sig
(Constant)	0.185	0.0493		4.307	0.000
Tax Planning	-0.284	0.059	-0.618	-4.846	0.000
Deferred Tax Expense	-11.393	4.441	-0.326	-2.565	0.014
Free Cash Flow	-0.537	0.168	-0.4	-3.188	0.003
Earning Power	2.871	0.527	0.727	5.449	0.000

Source: Results of Data Processing with SPSS Version 26.

Based on table 3, the results of multiple linear regression can be described as follows:

- The value of the constant ( $\alpha$ ) is 0.185. If tax planning, deferred tax expense, free cash flow, and earning power is equal to 0 or eliminated, earnings management will increase by 18.5%.
- The value of the X1 variable coefficient is -0.284. The tax planning variable on earnings

management has a negative or opposite effect, meaning that if the planning variable increases by 1%, earnings management will decrease by -28.4%, with the assumption that the other variables of the regression model are fixed. Then the value of  $t$  arithmetic  $-4.846 > t$  table 1.678 with a significance value of  $0.000 < 0.05$ . So it can be concluded that tax planning significantly affects earnings management practices, but because the  $t$ -count result is negative, the effect is negative. Therefore, the first hypothesis, which states that tax planning has a significant positive effect on earnings management, is rejected.

This study agrees with the research conducted by Noviana et al. (2018) and Jayanti et al. This study proves that tax planning is not one factor that triggers managers to carry out earnings management. It happens because the company carries out tax planning activities in legal ways. At the same time, earnings management uses a tax utilization gap related to tax costs to produce negative corrections so that later the taxable profit is small and the tax payment is also small. However, to do this sometimes requires expert review, which requires many costs increasing the company's burden. Then the tax rate changes in 2022 to 22% from the previous 20% in 2019, so management needs to review modifying the tax planning that has been made previously. Then it can also be due to differences in objectives, where companies generally carry out earnings management to increase profits so that the profits they generate are large, while the purpose of tax planning is to reduce the profits presented to a minimum so that the tax payments are small. A state-owned company will surely be in the spotlight if it has big profits but pays little taxes. Therefore, tax planning cannot affect earnings management practices.

3. The value of the X2 variable coefficient is -11.93. The variable deferred tax expense on earnings management has a negative or opposite effect, so if the variable deferred tax expense increases by 1%, earnings management will decrease by 1.193%.

Then the value of  $t$  count  $-2.565 > t$  table 1.678 with a significance value of  $0.014 < 0.05$ . So it can be concluded that the deferred tax expense variable significantly affects earnings management. Still, because the  $t$  value is negative, the effect given is negative, as approximately 84% of the companies sampled have negative results in calculating deferred tax expense during the research time because the deferred tax expense is smaller than the company's net income, it makes the company less likely to do earnings management. The smaller the tax burden paid, the greater the net profit obtained. Suppose the manager uses the deferred tax burden to deal with it later; in that case, the fiscal income statement will still be corrected even failed to affect the deferred tax expense account so that it cannot be used as a profit deduction when the company's profit increases, and because there are regulations on deferred tax expense in commercial and fiscal accounting, where in tax regulations the tax calculation only recognizes the number of costs or income when issued or accepted as the basis in the calculation of taxable income, in other words, taxation only recognizes tax expense for the period and does not recognize deferred tax expense. Therefore, the second hypothesis, which states that deferred tax expense has a significant positive effect on earnings management, was rejected. This research is continuous with research conducted by Noviana et al. (2018), Novi et al. (2019), Lubis & Suryani (2018).

4. The value of the X3 variable coefficient is -0.537. The variable deferred tax expense on earnings management has a negative or opposite effect, so if the variable deferred tax expense increases by 1%, earnings management will decrease by 53.7%. Then the  $t$ -count value is -3.188 with a significance level of 0.003. Because the  $t$ -count value is  $3.188 > t$ -table 1.678 and the significant value is  $0.003 < 0.05$ , it can be concluded that free cash flow affects earnings management, but because the  $t$ -count is negative, it can be concluded that negative or debilitating effect. Therefore, the third hypothesis, which states that free cash flow has a positive and significant effect on earnings management, is rejected.

This study agrees with research conducted by Saraswati and Atiningsih (2021), Wijaya and Nora (2021), Suhono et al. (2021), which state that the existence of free cash flow in companies harms earnings management practices. Whereas if the company has a high free cash flow value, the company is considered to be in a healthy condition because it has available cash for operational activities and debt payments, BUMN companies are considered able to increase their market share prices so that investors are interested in investing their capital and buying shares of BUMN companies. Because most investors are temporary owners of companies that will focus on free cash flow information owned by the company, companies that have high cash flows without practicing earnings management can even increase their share prices because investors think the company has excess cash to pay debts, company growth, and pay

dividends to investors regularly and appropriately.

5. The coefficient value of the X4 variable is -2.871. The variable deferred tax expense on earnings management has a negative or opposite effect, so if the variable deferred tax expense increases by 1%, earnings management will decrease by 287.1%. Then the t-count value is 5.499, and the significance level is 0.000 because the t-count value is  $5.499 > t$  table. Therefore, the earning power variable has a positive and significant effect (because  $0.000 < 0.05$ ) on the earnings management variable. So that the fourth hypothesis from this study which states that the earning power variable has a positive and significant effect on earnings management, is accepted.

This statement can be proven by the results of the sample research PT Telkom Indonesia Tbk in 2020 has a ROA of 12% with an earnings management value of 0.000005011. Still, in 2018, it had a higher ROA value of 13% but a small earnings management value of -0.00001300 and the case experienced by the company PT Semen Indonesia Tbk. It means that companies with high and low ROA values continue to manage earnings by increasing or decreasing the amount of profit generated. This research is in line with research conducted by Loen (2022), Saraswati and Atiningsih (2021), as well as Raka and Suhartono (2018), which stated that to succeed in earnings management practices at certain levels desired by managers, managers use an income distribution technique that is carried out when earnings companies that go up, managers will lower profits and vice versa to keep them stable at a certain level, and also managers carry out income smoothing techniques on the bonus scheme in the form of actions taken if profits have passed a specific limit, the manager will manage and arrange for reported profits be not too high by utilizing the deferred tax expense account. The excess profit will be reported or presented by the manager later in the year when the company's profit level is below the requirement to receive a bonus.

#### Moderation Regression Test Results

Table 4. MRA Test Results

Variable	Unstandardized B	Coefficients Std. Error	Std. Coefficients Beta	t	Sig
(Constant)	2.167	0.441		4.916	0.000
BPT_KI	107.424	66.693	2.836	1.611	0.115
PP_KI	2.843	0.613	5.947	4.640	0.000
FCF_KI	6.199	1.694	4.223	3.612	0.001
EP_KI	-29.69	8.91	-6.683	-3.332	0.002

Source: Results of Data Processing with SPSS Version 26.

Based on table 4, the results of the MRA regression test can be described as follows:

1. The regression coefficient of the deferred tax expense variable, which is interacted with the institutional ownership variable, is 107.424, which means that the interaction between these variables is positive and unidirectional. Then the t-count value is 1.611 with a significant level of 0.11. Then the value of t arithmetic  $1.611 < t$  table 1.678 and a significance level of  $0.115 > 0.005$  means that there is no influence between variables or institutional ownership cannot moderate the relationship of deferred tax expense to earnings management practices. Therefore, the fifth hypothesis, which states that institutional ownership interacted with deferred tax burden weakens earnings management, is rejected. The moderating variable in this relationship is homologized moderation (potential moderation).

This research is consistent with the results of Setiawan (2019), Khuwalid & Hidayat (2017). The presence or absence of institutional ownership will not change the manager's decision to practice earnings management. Even more support from the institution to manipulate earnings data by deliberately increasing pre-tax profit and causing fiscal profit to rise so that the deferred tax burden is high to minimize tax payments, because for some companies, if the company (manager) increases and decreases the value of its profits by utilizing tax costs, it will still affect fiscal correction (although small) so that the effect is that small tax payment accompany the profits recorded by small companies or it could be by recognizing the company's obligations earlier and postponing the current period's income to the next

period. It is considered adequate to affect the profits to be obtained. The tax expense is also suspected of detecting and illustrating that a company is practicing earnings management because when compiling the income statement, the increased deferred tax expense plus the current tax expense component will get a high tax expense value then a high burden is used to reduce profits. Therefore, the higher the reported deferred tax expense, the smaller the profit generated, and vice versa. The deferred tax expense account must be small if you want high profits. However, this research is not in line with Wibowo (2020), who argues that institutional ownership weakens earnings management practices when interacting with deferred tax expense.

2. The regression coefficient of the tax planning variable, which is interacted with the institutional ownership variable, is 2.843, which means that the interaction between these variables is positive and unidirectional. Then the value of t-count of 4.640 > t table of 1.678, with a significance level of

0.000 < 0.05. Thus, institutional ownership can significantly strengthen the relationship between tax planning and earnings management practices. Therefore, if the sixth hypothesis, which states that institutional ownership weakens the effect of tax planning on earnings management practices, is rejected, then the moderating variable in this relationship is pure moderation. This research is in line with the research conducted by Anggreni et al. (2016) this happens because the presence of institutional parties triggers management's desire to carry out earnings management, in this case, institutional ownership is considered as an investor in a company that wants dividends or large profits to be owned. Bunaca & Nurdayadi (2019) state that there are three ways to perform earnings management with tax planning, namely:

- Asset-Liability Method
- Net-Off Tax Method
- Deferred Method

Most companies use the third method because, in the third method, managers and institutional owners look for differences between accounting and taxation treatment from an income statement perspective which causes the difference in income from the tax base and income from accounting to occur, such as making changes or delaying the time of income and taking advantage of costs leading to a fiscal correction. Then if a state-owned company with a subsidiary or holding company can take advantage of the subsidiary due to the relatively lower tax rate difference, it can do income shifting to reduce taxes. Therefore, earnings management with the help of tax planning will run very well. However, this study is not in line with research conducted by Wibowo (2020), Wirawan (2020), Kusumayani and Suardana (2017), Khuwalid and Hidayat (2017), they argue that with the ownership of management institutions, they cannot perform earnings management properly.

3. The regression coefficient for free cash flow interacting with the institutional ownership variable is 6.119, which means that the interaction between these variables is positive and unidirectional. Then the t-count is 3.612 with a significance level of 0.001 because the significance value is 0.001 < 0.05. The conclusion is that institutional ownership influences moderating (strengthening) the relationship of free cash flow to earnings management. Therefore, the seventh hypothesis, which states that institutional ownership can strengthen free cash flow on earnings management, is accepted. The moderating variable in this relationship is pure moderation.

The results of this study are consistent with the results of research from Mayesti (2017), Hartati (2018). With institutional ownership that has a function to carry out intensive supervision of company activities, they can find loopholes to encourage or motivate managers to practice earnings management using free cash flow, especially if large companies own free cash flow. Differences of opinion between the principal and the agent are different interests in utilizing this free cash flow, such as to invest for company growth and dividend distribution, so earnings management practices may still occur even though there are institutions.

4. The regression coefficient of the earning power variable that interacts with the institutional ownership variable is 29.690, which means that the interaction between these variables is negative and

in the opposite direction. Then the t-count value of institutional ownership interacting with earning power on earnings management is -3.332 with a significant level of 0.002. Because the significance value is  $0.002 < 0.05$ , t count  $3.332 > 1.678$ , it can be concluded that  $H_0$  is rejected, which means that institutional ownership variables moderate the relationship between tax planning and earnings management. Still, because the t value is negative, it can weaken the relationship between tax planning variables and earnings management moderated by institutional ownership.

Therefore, the eighth hypothesis, which states that institutional ownership significantly strengthens the relationship between earning power and earnings management, is rejected. Then, the moderating variable in this relationship is pure moderation. This research is in line with Amrulloh (2020), Raka & Suhartono (2018). Institutional ownership carries out its function correctly, namely strict monitoring related to the preparation and presentation of its financial statements or the company's operational activities, especially if there are many institutions so that it can suppress, limit or weaken management's desire to practice earnings management.

## CONCLUSIONS

Based on the discussion above, it can be concluded that tax planning, deferred tax expense, and Free Cash Flow negatively affect earnings management. Earning power has a positive effect on earnings management. Institutional ownership can weaken the effect of tax planning, deferred tax burden, and earning power on earnings management practices. Still, institutional ownership strengthens the effect of free cash flow on earnings management practices.

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