

THE INFLUENCE OF CORPORATE TAX RATE CHANGES TOWARD EARNINGS MANAGEMENT

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ABSTRACT

This study aims to examine whether companies that earn profits will make earnings management in response to corporate tax changes, according to tax incentives or non-tax incentives. The research samples are 50 companies in manufacturing sector listed in Indonesia Stock Exchange, which have published its financial statements for the year 2008-2010. The method of analysis used in this study is multiple regression analysis and test different. T-test using One sample t-test is used as a means of testing these differences. Multiple regression analysis is used to test whether companies that earn profit do earnings management to respond corporate tax rate changes. Furthermore, T-test is used to test the level of discretionary accrual between before and after the reduction income tax rate corporation. The result of this study proves that: (1) The companies make earnings management in order to respond corporate tax changes, (2) earnings management performed by profit firm is influenced by tax incentives (tax planning) (3) earnings management performed by profit firm is influenced by non-tax incentives (earnings pressure and debt). This research contributes to the literature by adding new evidence about the association between tax policy and earnings management in an emerging market, Indonesia. This research also suggests that accounting choice is used to respond regulatory policy for maximizing economic benefits of the company.

Keywords: Corporate tax rate changes, earnings management, tax incentives, and non-tax incentives

INTRODUCTION

The different interest of financial statement users, between internal and external parties, may cause company earnings manipulation done by management. According to Scott (2012), management is flexible to decide the alternative in recording any transactions as well as to choose the existing options with the same accounting treatment. Tax motivation is one of supporting items that encourages management to carry out profit management. The company would prefer an accounting method that can earn lower reported profit than it should be, so that the payable tax will be lower as well (Scott, 2012). In 2008, the government issued Law No. 36 year 2008 regarding the corporate income tax rate changes using a single rate, in which the rate for 2009 was 28% and for 2010 was 25%. Meanwhile, the Public Company with minimum 40% of the paid stocks traded in Indonesia Stock Exchange pays 5% lower than the applicable tax rate. One of the effort made by management to gain from a change in the corporate tax rate is to move the profit before changes in tax rates for the year after the change in tax rates.

There were several previous researches regarding the tax rate changes associated with earnings management. The research done by Guenther (1994) in United States, examining the practice of earnings management in response to the tax rate changes, has successfully shown an empirical proof that negative discretionary accrual occurred before the rate reduction applied. Moreover, the research done by Yin and Cheng (2004) in United States has tested the influence of tax incentive and non-tax incentive toward earnings management as a response of tax rate reduction. The result showed that earnings management performed by profit firm is influenced by tax incentive and non-tax incentive, while earnings management conducted by loss firm is only influenced by non-tax incentive. In Indonesia, various researches regarding earnings management practice in response to corporate tax rate changes have been carried out. The research conducted by Setiawati (2001), Hidayati and Zulaikha (2004) in detecting earnings management with discretionary accrual approach failed to prove the existence of earnings management by the company in response to tax rate reduction. On the other hand, the research done by Subagyo and Oktavia (2010) has successfully verified that earnings management performed by profit firm is influenced by tax incentive and non-tax incentive in response to the tax rate changes, while earnings management conducted by loss firm got the influence from non-tax incentive. Wijaya and Martani (2011) have developed the research conducted by Subagyo and Oktavia (2010) and added net deferred tax liability variable which was expected to detect the possibility of a company to do earnings management. The result of their research indicated earnings management conducted by profit firm is affected by tax incentive, namely tax planning, net deferred tax liability, as well as non-tax incentive (earnings pressure). Furthermore, the earnings management performed by loss firm is influenced by tax incentive (net deferred tax liability) and non-tax incentive (earnings pressure). This research attempts to develop the previous researches done by Subagyo and Oktavia (2010) as well as Wijaya and Martani (2011) by adding the year 2010 into the research, considering the tax rate changes to 25% at that time. So, the research period in this research is longer than before.

According to Adhikari (2005), there are many reasons for a company to make earnings management. One of them is the policy changes regarding tax. Tax policy changes by the government will give incentive to companies to make tax

management through earnings management mechanism. Management has the opportunity to perform earnings management using accounting policy by delaying profit recognition to next year, from before the tax policy changes to the period after the tax policy change.

In accordance with several researches above mentioned, this research aims to examine whether companies manage their earnings as the impact of tax rate changes policy in 2008, 2009, and 2010, so the economic incentive is given to companies. To prove the existence of earnings management action, this research follows Guenther (1994), Khotari et al (2005), as well as Wijaya and Martani (2011) whose researches classified accrual into current accrual which has an influence towards corporate tax and non-current accrual which has no influence at all.

This research is expected to give contribution through the research literature related to earnings management in response to tax rate changes. This research also empirically proves that the regulators must anticipate each policy they create. Besides that, this research shows that accounting policy is used by the company in conducting earnings management to gain economic incentive towards tax rate changes done by regulator.

LITERATURE REVIEW

Earnings Management

According to Scott (2012), earnings management is a management action to choose the accounting policy of a certain standard to manage profit as they want to be through the management of internal factors owner or uses by the company. Earnings management is the management intervention in the financial reporting process in order to give benefit to managers. In addition, Belkaoui (2006) defined earnings management as an ability to manipulate the available options and to make the appropriate choices in order to achieve the expected profit. Earnings management is accomplished through managerial discretion over accounting choices and operating cash flow (Healy and Wahlen, 1999). The underlying assumption in preparing the financial statements is that managers exercise discretion to manage the book income upward without increasing the taxable income (Mills and Newberry, 2001).

Discretionary Accrual (DA), which is an accrual component chosen by manager as the policy in preparing financial statement, can be used to detect the existence of earnings management in a company. Sanjaya (2008) and Yulianti (2013) mentioned that the high or positive discretionary accrual measurement result indicates the income increasing done by manager. On the contrary, the low or negative positive discretionary accrual measurement result indicates the income decreasing done by manager. If the discretionary accrual measurement result is zero, then the manager does not perform earnings management.

The discretionary accrual calculation is done by applying Jones model (1991) which has been modified by Guenther (1994). Such model uses current accrual from total accrual to estimate the value of discretionary accrual and nondiscretionary accrual because current accrual influences taxable income (Wijaya and Martani, 2011). Following is the calculation for current accrual:

$$CACC_{it} = (\Delta \text{Current Assets}_{it} - \Delta \text{cash}_{it}) - (\Delta \text{Current Liabilities}_{it} - \Delta \text{current Maturities Long term Debt}_{it} - \Delta \text{income Tax Payable}_{it})$$

According to Wijaya and Martani (2011), Jones model (1991) in the modification of Guenther (1994) assumed that during the absence of earnings management, nondiscretionary accrual is a function of the sales changes. The estimated model for nondiscretionary accrual is as follows:

$$CACC_{it} / \text{Total Asset}_{it-1} = \beta (\Delta \text{Sales}_{it} / \text{Total Asset}_{it-1}) + \epsilon_{it}$$

Then, discretionary accrual is estimated by subtracting the estimated nondiscretionary accrual from the total accruals as follows:

$$U_{it} = CACC_{it} / \text{Total Asset}_{it-1} - \beta (\Delta \text{Sales}_{it} / \text{Total Asset}_{it-1})$$

Tax Incentive and Non-Tax Incentive

According to Dessler (2011), incentive is a financial reward for employees whose performance exceeds the standard set previously. While tax incentive means an incentive offered to taxpayers which is expected to motivate them complying any tax regulations. Several types of tax incentives are tax holiday and tax allowance. In the research done by Yin and Cheng (2004), tax planning was used as a means to measure the tax incentive because the company should limit its tax planning in order to minimize corporate tax payment (Subagyo and Oktavia, 2010).

In conducting earnings management, a company is not only influenced by tax incentive but also by non-tax incentive. Non-tax incentive is an incentive which is performed by the company itself. The implementation of incentive is expected to improve employees' performance and to maintain their achievement so that they will stay in the company. Each company, either profit firm or loss firm, has its own way to implement the non-tax incentive. It will determine the management policy to respond tax rate changes by earnings management. Yin and Cheng (2004) mentioned in their research that non-tax incentive can be measured by earnings pressure, debt level, earnings baths, firm size, and managerial ownership.

HYPOTHESES

This part explains various hypotheses used in this research including the argumentation. Each hypothesis is described below.

1. Corporate Income Tax Rate Changes and Earnings Management

The Law No. 36 year 2008 issued by the government regarding tax rate changes, which previously applied progressive rate and now becomes single rate, provides incentives to management to perform earnings management. Scott (2012) explained taxation motivation as one of motivations in earnings management which means the company would prefer an accounting method that can earn lower reported profit than it should be, so that the payable tax will be lower as well.

In the stakeholder theory, Sun et al (2010) mentioned that manager is able to perform earnings management in order to obtain individual profit by sacrificing other stakeholders. Nevertheless, stakeholders will respond to damaging management action due to such earnings management practice. Thus, managers may have intention to control their actions by making the more informative and complete financial statement to minimize the dismissal possibility. With the issuance of Law No. 36 year 2008 regarding corporate income tax rate changes, managers are able to perform earnings management to minimize the tax for their personal interest. Therefore, the hypothesis formulation is:

H1: The company defers net income to the lower tax rate period in response to the reduction of corporate income tax rate.

The Influence of Tax Incentive towards Earnings Management

There are two tax incentive variables use in this research conducted by the company in response to the corporate income tax rate changes. Such tax incentives are:

2. Tax Planning and Earnings Management

The research done by Yin and Cheng (2004) showed that a company with good tax planning will earn tax shields and will minimize the tax payment. Company that has good tax planning will put on efforts to reduce the earnings in order to lower its tax liability. Tax rate change is not the only reason why managers conduct earnings management practices. Tax incentive and non-tax incentive are the reasons as well. In the stakeholder theory, when managers conduct earnings management to obtain personal profit, tax planning becomes one of the means to perform for the efficiency purpose on total tax paid to government. So the company can conduct tax planning by minimizing company earnings to obtain profit from tax without any violations on the applicable law and regulations. The greater a company conducts earnings management to lower company profit, the greater the tax planning undertaken by the company. The hypothesis of explanation above is as follows:

H2: Tax planning influences earnings management.

3. Net Deferred Tax Liability and Earnings Management

Yulianti (2005) as well as Wijaya and Martani (2011) stated that deferred tax liability increase when a company accelerates the earnings recognition or defers the debt recognition (accelerate the debt or defer the earnings) for accounting purposes as compared to corporate tax purposes. With such pattern, the company will report higher accounting earnings compared to earnings from the tax. As a result, it will increase net deferred tax liability of the company, and vice versa (Wijaya and Martani, 2011). Based on description above, the hypothesis is as follows:

H3: Net deferred tax liability influences earnings management.

The Influence of Non-Tax Incentive towards Earning Management

Following are non-tax incentive variables used in this research:

4. Earnings Pressure and Earnings Management

Besides tax incentive, earnings management is influenced by non-tax incentive as well. One of the non-tax incentives is earnings pressure. Yin and Cheng (2004) as well as Wijaya and Martani (2011) stated that for companies which have reached their target profit, then the decline in profit can be reduced by earnings pressure. If the current earnings has exceeded the target set by the manager (at least equal to last year profit), then the company can perform accrual reduction to decrease earnings in order to carry out income smoothing. From such explanation, a hypothesis can be inferred as follows:

H4: Earnings pressure influences earnings management

5. Corporate Debt Level and Earnings Management

Guenther (1994) as well as Wijaya and Martani (2011) stated that companies can obtain earnings in form of tax deduction which is related to interest payment on debt. Debt Covenant Hypothesis (Watt and Zimmerman, 1986) expressed that company would prefer to choose the profitable accounting method. Debt level is the size of company liability caused by the past transaction and must be paid in the future. Debt level is the opposite of earnings. So, if the company debt is big, then the company earnings will be small, and vice versa. In relation with tax, the higher earnings a company obtains, the higher tax liability a company should pay as well. Considering such condition, the company tries to minimize or to manipulate its earnings in order to pay less tax liability. To manipulate earnings, increasing debt level can be performed (Tiearya, 2012).

In relation to tax rates reduction, companies tend to increase the debt. Such action leads to the increasing loan interest that can reduce earnings, so the tax liability is smaller. The hypothesis of explanation above is as follows:

H5: Debt level influences earnings management.

6. Earnings Bath and Earnings Management

Earnings bath or usually known as taking a bath is a management's attempt to divert the expected future cost to the present in order to have a greater opportunity to earn profits in the future than it should be. Such thing is one of the ways to conduct earnings management (Scott, 2012). When the company earns small profit, manager will not increase the total accrual but decrease it in order to obtain compensation in the future.

Chaney et al. (1995) explained that if companies obtain low earnings (below the target), then managers will tend to perform "big bath" or "taking a bath". Taking a bath is usually done by managers when companies are at loss or drop. It normally happens during CEO replacement, when they admit the expenses in the future and the loss in the current year, especially when unfavorable conditions are not avoided during that period. Therefore, management conducts earnings management by removing some of the assets and charging the estimated future expenses, so that the reported earnings in the next period increase.

According to Chaney et al. (1995) as well as Subagyo and Oktavia (2010), if companies obtain low earnings (below the target), then managers will tend to perform "big bath". Earnings management in response to tax rate reduction is expected to have a relation with company earnings level in a certain industry sector. From such explanation, the hypothesis inferred is:

H6: Earnings bath influences earnings management.

7. Firm Size and Earnings Management

Richardson and Lanis (2007), Guenther (1994), as well as Watts and Zimmerman (1978) said that a bigger company will be more sensitive to political expenses. So, it will be more likely to adopt accounting method that can decrease the net income in financial statement. Big companies have adequate resources to manipulate political process as they wish, for example by tax planning or managing their activity to achieve the optimum tax savings. It is expected that big companies will be able to decrease profit financial statement and defer taxable income in response to a decrease in tax rates. The explanation above generates following hypothesis:

H7: Firm size influences earnings management.

8. The Percentage of Total Paid Stocks Traded in IDX and Earnings Management

In accordance with Law No. 36 year 2008 regarding Income Tax article 17 paragraph 2(b), there is a tax incentive as much as 5% rate reduction lower than the normal rate (28% in 2009 and 25% in 2010) for public company whose at least 40% of the paid stocks are traded in IDX. It is alleged that such company will conduct earnings management in response to income tax rate changes (Wijaya and Martani, 2011). So, the hypothesis developed from explanation above is:

H8: The percentage of total paid stocks traded in IDX influences earnings management.

RESEARCH METHOD

Research Population and Sample

This research uses secondary data, in which the data studied are quantitative and in the form of financial statement of manufacturing company in 2008-2010 obtained from the financial statement publication by Indonesia Stock Exchange and Indonesian Capital Market Directory (IMCD).

The research population is manufacturing company listed in Indonesia Stock Exchange (IDX). The samples were chosen by using purposive sampling method which is considered as non-probability sampling method and adjusted with certain criteria. Below are several criteria need to be fulfilled in choosing samples of this research:

1. Engaged in manufacturing sector and listed in Indonesia Stock Exchange in 2008 – 2010.
2. Have complete financial data within 2008 – 2010 needed to measure the whole research variables.
3. No merger during 2008 – 2010.
4. Use Indonesian Rupiah (IDR) in the financial statement.

Based on such criteria, 50 samples were chosen and processed for this research during the observation period (2008 – 2010). Within the observation period, 150 data were gathered. Unfortunately, 21 company observational data suffered losses. As a result, only 129 data can be processed further.

Operational Definition and Variable Measurement

Variable measurement shows how a variable is measured in order to make the process easier. Following are the variable measurement used in this research:

1. Discretionary Accrual (DA)

Discretionary Accrual (DA), an accrual component chosen by manager as the policy in preparing financial statement, can be used to detect the existence of earnings management in a company.

The calculation of discretionary accrual utilizes Jones model (1991) modified by Guenther (1994). Such model uses current accrual from total accrual to estimate the value of discretionary accrual and nondiscretionary accrual because current accrual influences taxable income (Wijaya and Martani, 2011). Following is the calculation for current accrual:

$$CACC_{it} = (\Delta \text{Current Assets}_{it} - \Delta \text{cash}_{it}) - (\Delta \text{Current Liabilities}_{it} - \Delta \text{current Maturities Long term Debt}_{it} - \Delta \text{income Tax Payable}_{it})$$

According to Wijaya and Martani (2011), Jones model (1991) in the modification of Guenther (1994) assumed that during the absence of earnings management, nondiscretionary accrual is a function of the sales changes. The estimated model for nondiscretionary accrual is as follows:

$$CACC_{it} / \text{Total Asset}_{it-1} = \beta (\Delta \text{Sales}_{it} / \text{Total Asset}_{it-1}) + \varepsilon_{it}$$

Then, discretionary accrual is estimated by subtracting the estimated nondiscretionary accrual from the total accruals as follows:

$$U_{it} = CACC_{it} / \text{Total Asset}_{it-1} - \beta (\Delta \text{Sales}_{it} / \text{Total Asset}_{it-1})$$

2. Tax Planning (TAXPLAN)

Tax planning (tax planning) is a step taken by the taxpayer to minimize the current year tax as well as the next years in order to reduce the tax paid as efficient as possible through various ways that meet tax regulations (Wijaya and Martani, 2011).

In this research, the researchers calculate tax planning by taking the formula from the previous researcher (Yulianti, 2013), considering the similar period between the researchers and the previous one, compared to the other previous researchers (Wijaya and Martani, 2011) who were only used in 2008 and 2009 as the observation period. In addition, the calculation performed by the researchers aims at calculating the tax planning each year, started from 2008 when the Law No. 36 was issued, 2009 when the tax rate changed from 30% to 28%, and 2010 when the tax rate changed from 28% to 25%.

Tax Plan is calculated by using the following formula:

a. Year 2008

$$TAXPLAN = \frac{\sum_{2007}^{2008} (30\%.PTI - CTE)}{TA^{it}}$$

b. Year 2009

$$TAXPLAN = \frac{\sum_{2008}^{2009} (28\%.PTI - CTE)}{TA^{it}}$$

c. Year 2010

$$TAXPLAN = \frac{\sum_{2009}^{2010} (25\%.PTI - CTE)}{TA^{it}}$$

Note:

TAXPLAN	= Tax Planning
PTI	= Pre-tax Income
CTE	= Current portion of total tax expense
TA _{it}	= Total company assets I on year t

3. Net Deferred Tax Liability (NDTL)

Net deferred tax liability is one of the variables that can be used to detect the existence of earnings management done by the company. According to Wijaya and Martani (2011), net deferred tax liability changes is calculated by using the deferred tax assets and deferred tax liabilities presented in corporate income tax records divided by total assets at the beginning of the year.

4. Earnings Pressure (EPRESS)

In this research, earnings pressure is obtained from the earnings changes in a company (current year earnings subtracted by last year earnings) divided by total assets at the beginning of the year. The formula is as follows:

$$EPRESS = \frac{(Current\ year\ earnings - Last\ year\ earnings)}{Total\ assets\ at\ the\ beginning\ of\ the\ year}$$

5. Debt Level (DEBT)

To assess the debt level, ratio of long term debt to total assets at the beginning of the year is used, as the following formula:

6. Earning Bath (ERANK)

In this research, the researchers decided to follow the opinion from Wijaya and Martani (2011). ERANK is 1 if it is in the lowest quintile (the lowest 10%) and ERANK is 0 for others.

7. Firm Size (SIZE)

The SIZE symbol represents the firm size, whether it is small or big. This variable is measured by using total assets logarithm. Wats and Zimmerman (2003) in Wijaya and Martani (2011) stated that bigger companies tend to apply accounting method that can decrease the net income in financial statement.

8. The Percentage of Total Paid Stocks Traded in IDX (STOCK)

Based on the research done by Wijaya and Martani (2011), this variable is measured by using dummy variable. If the company's paid stocks traded in IDX are less than 40% then it will be represented 0, whereas if the paid stocks traded in IDX are greater than or equal to 40% then it will be symbolized by 1.

DATA ANALYSIS

To test the various hypotheses mentioned above (H1 - H8), the following regression model is applied:

$$DA_{it} = \alpha + \beta_1 YD_{2008} * TAXPLAN_{it} + \beta_2 YD_{2009} * TAXPLAN + \beta_3 YD_{2010} * TAXPLAN + \beta_4 NDTL_{it} + \beta_5 EPRESS_{it} + \beta_6 DEBT_{it} + \beta_7 ERANK_{it} + \beta_8 SIZE_{it} + \beta_9 STOCK_{it} + \varepsilon_{it}$$

Note:

- DA_{it} : discretionary accrual of company i in observation period t
- TAXPLAN_{it} : tax planning of company i in observation period t
- NDTL_{it} : yearly net deferred tax liability of company i in observation period t
- YD₂₀₀₈ : 1 for year 2008, and 0 for other years
- YD₂₀₀₉ : 1 for year 2009, and 0 for other years
- YD₂₀₁₀ : 1 for year 2010, and 0 for other years
- EPRESS_{it} : earnings pressure of company i in observation period t
- DEBT_{it} : debt level of company i in observation period t
- ERANK_{it} : earnings bath of company i in observation period t
- SIZE_{it} : firm size of company i in observation period t
- STOCK_{it} : percentage of paid stocks of company i traded in IDX in observation period t
- α : constant
- β1 β2....β7 : coefficients of explanatory variables
- ε_{it} : disruptive variable of company i in observation period t

RESEARCH RESULTS

Descriptive Statistics

Following table consists of descriptive statistics from 129 observations conducted in profit manufacturing firm in 2008-2010.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DA	129	-1,72316	1,69404	-,0234583	,68409790
TAXPLAN	129	-,01466	,09760	,0251274	,02622051
NDTL	129	,00087	,07022	,0227132	,01854354
EPRESS	129	-,10837	,14128	,0315162	,04939158
DEBT	129	,00096	,54182	,1522346	,15886078
ERANK	129	0	1	,09	,292
SIZE	129	11,3614	16,8372	13,816766	1,3116329
STOCK	129	0	1	,25	,434
Valid N (listwise)	129				

Table 1. shows the number of companies and descriptive statistics being studied (N) as much as 129 companies. From such research samples, it can be concluded that the mean of discretionary accrual (DA) is negative, tax planning (TAXPLAN) is positive, net deferred tax liability (NDTL) is positive, earnings pressure (EPRESS) is positive, debt level (DEBT) is positive, earnings bath (ERANK) is positive, firm size (SIZE) is positive, and the percentage of paid stocks traded in IDX (STOCK) is positive.

Earnings Management Test

Table 2 shows the result of earnings management test from the sample companies.

Tabel 2. One-Sample Statistics

DA Years	N	Mean	T	Sig.(2-tailed)
DA2008	129	-,0446615	-84,822	,000
DA2009	129	,0220312	-82,095	,000
DA2010	129	-,0138332	-76,693	,000

Table 2 shows the result of hypothesis test for H1. The mean of DA in 2008 is negative, while in 2009 is positive. In 2010, it is negative. Thus, H1 for 2008 and 2010 is accepted, which means that companies defer income (net) to the period that has lower tax rate in response to the reduction of corporate tax rate. The H1 for 2009 is rejected, which means the company does not defer income (net) to period that has lower tax rate in response to the reduction of corporate tax rate. This research is in line with the research done by Wijaya and Martani (2011) showing that DA negative occurred because companies deferred their earnings and accelerated debt recognition in 2008 and 2010 due to the reduction of tax rate. On the contrary, DA positive occurred in 2009 because the deferred earnings in 2008 was recognized in 2009 causing the increment of DA value. So, it can be concluded that companies try to do tax liability payment savings in response to the reduction of tax rate.

Test on the Influence of Tax Incentives and Non-Tax Incentives toward Discretionary Accrual

Table 3 shows the regression result of the influence of tax incentives and non-tax incentives toward discretionary accrual in the sample companies.

Table 3. Regression Result

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	,670	,951		,705	,482
YD08*TP	3,248	4,197	,078	,774	,441
YD09*TP	4,892	3,759	,129	1,301	,196
YD10*TP	7,867	3,777	,187	2,083	,039
NDTL	-1,437	2,002	-,061	-,718	,474
EPRESS	1,138	,572	,220	1,989	,049
DEBT	1,489	,457	,287	3,259	,001
ERANK	-,017	,292	-,005	-,057	,955
SIZE	-,074	,071	-,103	-1,048	,297
STOCK	-,089	,214	-,039	-,417	,678
Adjusted R-Squared	0,104				
F-Statistik	2,645				
Prob (F-Statistik)	0,008				

The adjusted R-Square value on table 3 is 10,4%, while the value of F probability from such model is 0,008 < 5% which means all variables in this research significantly influence the earnings management. Variable YD08*TP and YD09*TP show less influence to the discretionary accrual because the companies had insufficient time to prepare the tax planning strategies in 2008 and 2009, so the companies could not respond tax rate reduction since the new Tax Regulations were just issued by the government in 2008. Meanwhile, YD10*TP significantly influences the discretionary accrual due to the adequate time for tax planning, started from 2008 and 2009 to plan strategies for saving greater tax because the tax rate applied in 2010 was only 25%, much lower than tax rate in 2008 and 2009.

The Net Deferred Tax Liabilities (NDTL) variable shows no significant influence on discretionary accruals. Even though the net deferred tax liability is the main variable used to detect the earnings management, but this research is unable to prove that net deferred tax liability influences companies to conduct earnings management in response to the tax rate reduction.

The Earnings Pressure variable (EPRESS) significantly influences discretionary accruals. This research is in line with research done by Wijaya and Martani (2011) that companies which have reached their target earnings, then the decline in earnings can be reduced by earnings pressure. If the current earnings has exceeded the target set by the manager (at least equal to last year profit), then the company can perform accrual reduction to decrease earnings in order to carry out income smoothing.

Debt variable (DEBT) significantly influences the discretionary accruals. The company raises the debt level in order to increase the loan interest. The purpose is to reduce company earnings in response to the reduction of corporate income tax rate. Such result is in line with Debt Covenant Hypothesis theory from Watts and Zimmerman (1986).

ERANK variable shows no significant effect on discretionary accruals. According to Chaney at al. (1995) as well as Subagyo and Oktavia (2010), if companies obtain low earnings (below the target), then managers will tend to perform "big bath". Taking a bath is usually done by managers when companies are at loss or drop. Therefore, management conducts earnings management by removing some of the assets and charging the estimated future expenses, so that the reported earnings in the next period increase.

The firm size variable (SIZE) has no significant influence on discretionary accruals. According to Richardson and Lanis (2007), Guenther (1994), as well as Watts and Zimmerman (1986), bigger company will be more sensitive to political

expenses. So, it will be more likely to adopt accounting method that can decrease the net income in financial statement. It is expected that big companies will be able to decrease profit financial statement and defer taxable income.

The number of outstanding stocks variable (STOCK) has no significant influence on discretionary accruals. It shows that the number of paid stocks traded IDX does not affect company to perform earnings management in response to corporate tax rate reduction.

CONCLUSION

The result of this research shows that companies conduct earnings management in response to the Law No. 36 year 2008 regarding corporate income tax rate changes. Earnings management done by companies is influenced by tax incentives, namely tax planning. However, net deferred tax liability has no influence on earnings management in response to the corporate income tax rate reduction. Besides that, earnings management done by companies is influenced by non-tax incentives as well, consisting of earnings pressure and debt level. On the other hand, earnings bath, firm size and the percentage of paid stocks traded in IDX have no influence on companies to conduct earnings management in response to the corporate income tax rate reduction. Such result indicates that the tax rate changes policy made by the regulator will be responded by companies using earnings management which is expected to give economical incentives for companies. In creating tax planning, accounting policy is used to respond the regulatory policy. Tax planning, earnings pressure and debt level influence earnings management and such things have been empirically proven in this research. The result of this research is in line with the research done by Guenther (1994) as well as Wijaya and Martani (2011).

SUGGESTIONS

This research has several limitations. Therefore, some suggestions are presented below:

1. For the next researchers, it is expected not only investigating manufacturing companies, but also any other companies from various sectors as the research samples. Furthermore, loss firm can also be used as research samples so that this research continues to grow.
2. For the academics, this research is expected to enhance insight and knowledge about earnings management related to income tax rate changes mentioned in the applicable law in Indonesia.
3. For the government, as the tax policy maker, it is expected to observe and anticipate the taxpayers behavior before issuing regulations in order to get proper response from taxpayers.

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