CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Financial reports are significant information for both inward and outside stakeholders in a business. A financial report is a report given by the board that tries to convey monetary realities and firm execution throughout a particular time period. Financial information and company execution are things that internal & external parties expect, every one of whom has a personal stake in utilizing budget reports. The company has the essential objective of maximizing investor wealth. Managers are shared by investors with control the business cycles of the organization. Investors believe the board should create top-level salary and limit costs with the goal that the profits appropriated are expanded. The Management will attempt to keep up with its situation in the organization by satisfying the shareholders' wishes. The company's, Management needs to show outstanding financial performance by maximizing benefits to investors, yet then again, the Management also tries to minimize tax profit for tax purposes (Fitriany, 2016).

The company's profit is one of the information focuses within the financial statements. Profit is characterized as the contrast between the sum collected from the client for the products or administrations given and the sum went through on normal assets or other costs brought about within the generation of the merchandise or administrations. The company will make a assortment of effort in arrange to maximize profit. Earning Management is one of the things that companies will do to cover their shortcomings in arrange to realize high profit. The management goal is to realize a high profit, which is related to the reward that will be gotten by Management, since the higher the profit earned, the higher the reward that will be given by the company to the administration as the supervisor specifically. The significance of profit data is the management responsibility, whose execution is measured by the sum of profit earned. This circumstance permits managers to deviant things known as earning management practices. (Astutik & Mildawati, 2016).

Earnings management is an attempt to change and manipulate the numbers in the financial statements procedures used by the company (Sulityanto, 2008). The company's efforts to manipulate information through earnings management practices have become the main factor that causes financial statements to no longer reflect the value of a company. With the Management that smothers and makes the tax expense as small as possible, the Management tends to minimize tax payments. Efforts to reduce the tax burden in this euphemism are often referred to as tax planning (tax planning) or tax shelter (Suandy, 2003). Between the outside and inside parties, as users of financial statements, sometimes different interfaces can lead to clashes that can harm parties with mutual interests. This struggle occurs because the Management attempts to increase welfare, whereas the shareholders need to improve their wealth. With the Management's craving to suppress and make the tax expense as little as conceivable, the Management tends to minimize tax payments or often referred to as tax planning (Ferry and Anna, 2013).

In addition to tax planning, there are moreover that can affect earnings management, namely deferred tax expense. According to Philips, Pincus, and Rego (2003), deferred tax expense is an expense arising from temporary differences between accounting profit (ie profit in financial statements for the benefit of external parties) with fiscal profit (profit that is used as the basis for calculating taxes). The difference can cause difficulties in determining the amount of profit, so it can influence the position of the financial statements and cause an imbalance in the ending. Therefore, fiscal reconciliation is needed to adjust the balance between accounting profit and budgetary profit. With the difference between accounting profit and taxable income, it becomes one of the rebellious for managers to carry out earnings management. It will reflect a better level of manager policy in manipulating earnings (Deviana, 2010).

So research on management earnings uses many variables this time I was a researcher who use tax planning & deferred tax expense as variables in this research, and I am interested in researching manufacturing companies (consumer goods sector) listed on Bursa Efek Indonesia (IDX) 2019 -2021.

1.2. Research Issues and Problem Statement

There are still various kinds of statements produced by researchers regarding how tax planning influences earnings management and how the effect of deferred tax expense on earnings management, there are still many results of the impact caused by differences in variables that exist

1.3 Objective of the Study

Based on the formulation of the above problems, the research objectives that the authors want to achieve are:

1. To prove whether Tax Planning affects Earnings Management.
2. To prove whether Deferred Tax Expense affects Earnings Management

1.4. Research Hypotheses

The research conducted within this paper aims to solve the following research questions:

RQ1. Does Tax Planning Affect Earning Management?

RQ2. Does Deferred Tax Expense Affect Earnings Management?

1.5. Significance of Study

The results of this study are expected to expand the literature on tax planning and Deferred Tax Expense towards earning management in Manufacture (Food and Beverage Sub Sector companies listed on the Indonesia Stock Exchange in 2018-2020). The results are expected to supply information or input for management in improve positive perceptions of Manufacture companies and expected to be useful for students or those who need a source of reference and knowledge for research.

1.6. Scope of Study

This research proves whether Tax Planning affects Earning Management and whether Deferred Tax Expense affects Earning Management in Manufacture Companies in Indonesia. The reason the researcher chooses a company in Indonesia is that this is important because taxes are the dominance of state income.

1.7. Proposod Chapter Organization

Discussion contained in this study consists of three chapters, which are as follows:

CHAPTER I INTRODUCTION

The discussion contained in this chapter is in the form of background, problem formulation, research objectives, research benefits, and systematic discussion.

CHAPTER II LITERATURE REVIEW

The discussion contained in this chapter is in the form of a theoretical basis that contains the theory used to support research as well as explanations related to research variables, previous research, frameworks, and hypotheses.

CHAPTER III RESEARCH METHODOLOGY

The discussion contained in this chapter is in the form of research scope, research design, data sources and types, population and samples, data collection methods, data analysis techniques, as well as operational definitions and measurement of variables.

CHAPTER IV RESULT AND DISCUSSIONS

The discussion contained in this chapter is in the form of a description of the research object, research results, and discussion of research results.

CHAPTER V CONCLUSIONS AND LIMITATIONS

The discussion contained in this chapter is in the form of conclusions and suggestions for researcher.