CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

According to previous research that has tried to identify the effects of tax planning and deferred tax expense towards earning Management, based on agency theory, previous research has also examined tax planning and tax deferral, in which these two independent variables still have inconsistency on earnings management where previous research used another company, while in this study we want to see the effect of tax planning and tax deferral in the manufacture companies (consumer goods). Therefore this study tries to examine tax planning & deferred tax expense in manufacture companies.

2.2 Tax Planning

According to Lestari (2018), tax planning is the first step in tax management. At this stage, tax regulations can be collected and studied to determine the type of tax savings to be apply. In general, minimizing tax obligations is a goal of tax planning. Tax planning is the first step in tax management. At this stage, tax regulations can be collected and studied to determine the type of tax savings to aplly. In general, tax planning aims to minimize tax liabilities (Anjarwi, 2019). According to Luhgiatno & Novius (2019), tax planning is the process of organizing the activities of individual taxpayers and business organizations in such a way as to take advantage of the various gaps that public companies can fill. Companies in the legal corridor (loopholes), so that businesses can pay taxes on time. The relationship between tax planning and profit management is that tax planning is a tool to reduce the amount of tax in a certain way so that the company gets the expected profit. There are two principles of tax planning: the first, by ensuring that each taxable business process is taxable, the amount of tax is reduced through several mechanisms. The second principle is an attempt to delay the financing of the business, one of which is the payment of the tax expense payable in the current year (Anjarwi, 2019).

2.3 Deferred Tax Expense

Deferred tax expense is an expense incurred as a result of a temporary difference between accounting profit (profit reported in financial statements to third parties) and tax profit (profit used as the basis for tax calculation) (Fitriany, 2016). Income tax expense comprises two components: the current tax expense and the deferred tax expense or income. Current tax is the amount of income tax that must be paid on taxable income for a given period.

2.4 Earning Management

Earnings management is choices made by managers in determining the accounting policies or specific actions that affect earnings to achieve the objective by reporting earnings. It is a way for company managers to interpret or influence the information in financial statements to influence the performance and condition of the business (Putra et al., 2018). Based on Scott (2003), earnings management is defined as actions taken by selecting accounting policies to achieve specific objectives, such as satisfying their interests or increasing their companies' market value. Therefore, based on the above two theories, the author concludes that earnings management is deliberate negligence of the Management to deceive external parties who want information about the company's performance and the state of the company.

2.5 Empirical Literature

There are several previous studies related to this research.

Table 2.1 Previous Research

No	Researcher Name (Year)	Variable Research	Research Result
1.	(Indarsari & winedar, 2020)	Dependent variable : earnings management	Tax planning doesn't effect on earnings management Deferred tax expenses has effect on earnings management

		Independent variables: tax planning, and deferred tax expense	Planning and the variable of deferred tax expense have an influence on earnings management simultaneously.
2.	(Hilmy & Sudradjat, 2020)	Dependent variable : earnings management Independent variables: tax planning, and deferred tax expense	Deferred tax expense has a effect on earnings management Tax planning has no significant effect on management practices.
3.	(Sari et al., 2019)	Dependent variable: earnings management Independent variables: deferred tax expense, tax planning, and profitability	Deferred tax expenses has effect on earnings management Tax planning doesn't effect on earnings management Profitability has effect on earnings management Deferred tax expense, tax planning and rofitability have effect on earnings management decisions simultaneously.
4.	(Soliman & Ali, 2020)	Deferred Tax Expense and Earning management	Management uses deferred tax to manipulate earnings Management depends on the value relevance of deferred tax to affect the investors’ decisions There is no mediation effect of earnings management practices on value relevance of deferred tax

5.	(Astutik & Mildawati, 2016)	Dependent variable: Earnings management Independent variables: deferred tax expense, tax planning	Tax planning has effect on earnings management Deferred tax expense effect on earnings management

2.6 Conceptual Framework

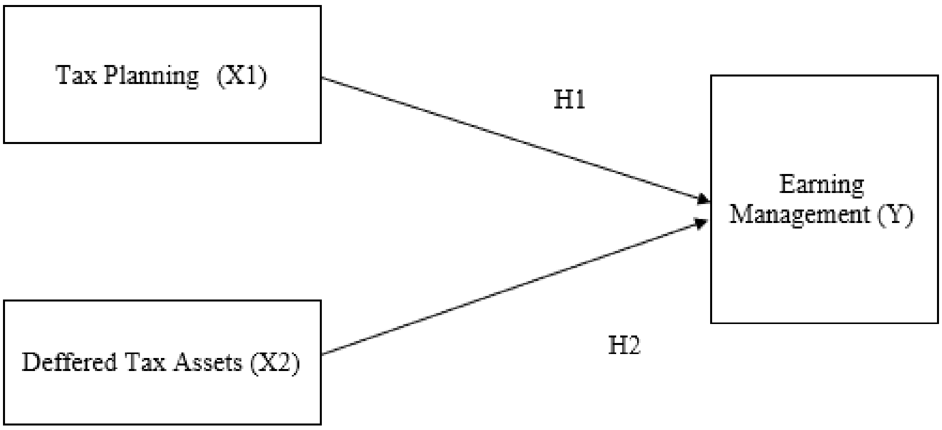

Figure 1. Conceptual Framework

The independent variables in this study are tax planning (X1), and Deffered Tax Assets (X2). The dependent variable in this study is earnings management (Y).

2.7 Research Hypothesis

H1: Tax planning has an effect on earnings management in the consumer goods sector manufacturing company listed on the Indonesia Stock Exchange.

H2 : Deferred tax expense affects on earnings management in the manufacture company consumer goods sector listed on the Indonesia Stock Exhange.

2.8 Summary

Several studies have looked at the factors that tax planning & deferred tax expense affect the earning management, for the dependent variable is earning management, and independent variables is tax planning and deferred tax expense. Each study has its own research findings, and they found that there is deferred tax expense has a effect on earning management, but tax planning has effect on management practices due to the inconsistency of independent variables from previous studies.