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The Influence of Tax Planning and Deferred Tax Burden on Profit Management in Banking Sub-Sector Companies Listed on the IDX for the 2023-2025

Ayu Kartika, Jusmani, Nurmala
Universitas PGRI Palembang, Indonesia
ayu445193@gmail.com; jusmani@univpgri-palembang.ac.id

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Abstract

Earnings management remains a critical concern in corporate financial reporting because it may reduce the reliability of earnings information used by stakeholders in decision-making. In the banking sector, this issue is particularly significant due to stringent regulatory oversight and the need to maintain the credibility of financial statements. Tax-related policies, particularly tax planning and deferred tax expense, are among the factors that may influence earnings management practices. This study aims to examine the effects of tax planning and deferred tax expense on earnings management in banking sub-sector companies listed on the Indonesia Stock Exchange during 2023–2025. A quantitative approach with an associative research design was employed. The sample comprised 27 banking companies, yielding 81 firm-year observations selected through purposive sampling. Secondary data were obtained from annual financial statements and analyzed using multiple linear regression with IBM SPSS Statistics version 26. The findings indicate that tax planning has a significant effect on earnings management, whereas deferred tax expense does not have a significant effect. Simultaneously, tax planning and deferred tax expense significantly influence earnings management. These results demonstrate that tax-related policies are relevant to understanding earnings management practices, although their individual effects differ. This study contributes recent empirical evidence on the determinants of earnings management in the banking sector and provides practical implications for companies in formulating tax strategies that remain compliant with applicable regulations, while also offering useful insights for investors and regulators in evaluating the reliability of financial reporting.

Keywords: Banking Sector; Deferred Tax Expense; Earnings Management; Tax Planning; Tax Policy

INTRODUCTION

The increasingly competitive business environment requires companies to maintain sustainable financial performance in order to preserve their competitiveness and enhance long-term corporate value (Cahya & Maryama, 2021). Under these circumstances, financial statements serve as the primary source of information for investors, creditors, regulators, and other stakeholders in evaluating a company's financial condition and supporting economic decision-making (Nofrivul et al., 2023). Among the various components presented in financial reports, earnings receive the greatest attention because they reflect a firm's ability to generate profits and provide signals regarding its future performance and growth prospects. Consequently, the quality of reported earnings has become a fundamental concern since it directly influences stakeholders' confidence in the credibility and reliability of financial reporting (Hartati, 2022).

Financial statements are designed not only as a form of managerial accountability to shareholders but also as a communication instrument that presents information regarding a company's financial position, operating performance, and cash flows over a specific reporting period (Nofrivul et al., 2023). To ensure comparability and transparency, the preparation of financial statements follows established accounting standards that regulate the recognition, measurement, and disclosure of financial information (Prayanthi et al., 2022). Nevertheless, accounting standards also provide managerial discretion in selecting accounting policies and estimating certain financial elements according to the characteristics of business operations. Although such flexibility is intended to improve the relevance of financial information, it may also create opportunities for managers to exercise opportunistic behavior by manipulating accounting numbers to achieve particular objectives (Christilla & Susanti, 2023).

One of the most widely discussed forms of opportunistic financial reporting is earnings management. Earnings management refers to managerial actions aimed at influencing reported earnings through the selection of accounting policies or the timing of revenue and expense recognition without necessarily violating applicable accounting standards (Rialdy et al., 2026). Such practices have attracted considerable academic and professional attention because they may reduce earnings quality and diminish the reliability of financial statements as representations of a firm's actual economic performance (Hartati, 2022). As a result, investors and other external users may make economic decisions based on distorted accounting information, thereby increasing information asymmetry between management and stakeholders.

The issue of earnings management remains highly relevant in Indonesia because numerous companies have exhibited inconsistencies between reported earnings and operating cash flows (Fatihah et al., 2025). From a financial reporting perspective, high-quality earnings should generally be supported by operating cash flows that demonstrate a relatively consistent relationship with accounting income (Hanlon, 2005). Conversely, substantial discrepancies between earnings performance and cash flow generation may indicate the possibility of managerial intervention in financial reporting through accrual adjustments or accounting policy choices (Phillips et al., 2003). A notable example can be observed in PT Garudafood Putra Putri Jaya Tbk, where net income declined by 37.76% in 2020 while operating cash flow increased by 73.62%, creating concerns regarding the potential existence of earnings management practices (Fatihah et al., 2025).

These conditions suggest that accounting earnings do not always represent the actual economic performance of a company, highlighting the importance of identifying determinants that may encourage earnings management behavior (Rialdy et al., 2026). Among the various determinants discussed in accounting literature, corporate tax policy has received considerable attention because taxation directly affects after-tax earnings reported in financial statements. Companies generally seek to optimize their tax obligations to improve profitability while maintaining compliance with prevailing tax regulations (Putra, 2023). Such optimization is commonly implemented through tax planning strategies that legally minimize tax expenses by utilizing available provisions within tax legislation.

Tax planning is widely recognized as a legitimate managerial strategy aimed at reducing tax liabilities without violating statutory tax regulations (Hidayat, 2021). Effective tax planning enables companies to arrange the timing of revenue recognition, expense allocation, and other tax-related transactions in order to achieve greater tax efficiency while remaining compliant with applicable laws. However, the discretion involved in tax planning may simultaneously provide managers with opportunities to influence reported earnings through accounting choices that affect taxable income and financial performance. Consequently, tax planning has become one of the most frequently examined variables in studies investigating earnings management because both practices involve managerial discretion in financial reporting (Gulo & Mappadang, 2022).

In addition to tax planning, deferred tax expense has also been identified as an important determinant of earnings management because it arises from temporary differences between accounting income and taxable income (Prayanthi et al., 2022). These temporary differences emerge due to discrepancies in the recognition of revenues and expenses under financial accounting standards and tax regulations, resulting in deferred tax assets or deferred tax liabilities in corporate financial statements (Hartati, 2022). Larger temporary differences generally indicate greater divergence between accounting profit and taxable profit, thereby providing broader opportunities for management to exercise accounting discretion in financial reporting (Aprillia et al., 2020). Accordingly, deferred tax expense has frequently been employed as an indicator for detecting earnings management practices because it reflects the magnitude of differences between commercial and fiscal reporting (Phillips et al., 2003).

The relationship between tax planning, deferred tax expense, and earnings management becomes particularly important within the banking industry because banks operate under unique business characteristics, intensive regulatory supervision, and complex financial transactions that distinguish them from other industrial sectors (Firmansyah et al., 2023). Banking institutions are expected to maintain financial stability while simultaneously complying with prudential regulations and reporting requirements imposed by supervisory authorities (Gultom & Marpaung, 2025). Under these conditions, taxation policies and accounting decisions play a strategic role in determining the quality of reported earnings, making the banking sector an appropriate setting for examining the interaction between tax-related variables and earnings management practices.

The association between tax planning and earnings management has attracted considerable attention from accounting researchers because tax-related decisions often involve managerial discretion that may influence reported financial performance. Although tax planning is legally intended to improve tax efficiency, the flexibility available in determining taxable income may simultaneously create opportunities for managers to adjust accounting earnings in accordance with specific organizational objectives. This condition has encouraged extensive empirical investigations seeking to determine whether tax planning functions solely as a legitimate tax management strategy or also serves as an instrument for earnings management.

Previous empirical studies have reported inconsistent findings regarding the influence of tax planning on earnings management. Several studies concluded that tax planning has a positive and significant effect on earnings management because greater tax efficiency tends to increase managerial incentives to manipulate reported earnings through accounting discretion (Pramudya, 2026). Similar evidence was reported in the banking sector, where tax planning significantly affected earnings management, indicating that managers may simultaneously pursue tax optimization and financial reporting objectives (Firmansyah et al., 2023). Consistent findings were also obtained in studies involving manufacturing and agricultural companies, suggesting that tax planning contributes to earnings management practices regardless of industrial characteristics (Pratiwi, 2025). In contrast, other empirical evidence demonstrated that tax planning does not significantly influence earnings management, implying that tax optimization activities do not necessarily encourage managerial intervention in reported earnings.

Empirical findings concerning deferred tax expense are equally inconsistent. Several researchers found that deferred tax expense significantly influences earnings management because temporary differences between accounting income and taxable income provide greater flexibility for managerial judgment in financial reporting. Research conducted within the Indonesian banking industry similarly demonstrated that deferred tax expense positively affects earnings management, emphasizing the importance of temporary tax differences in explaining earnings quality (Gultom & Marpaung, 2025). Other studies also confirmed that deferred tax expense is associated with earnings management due to its ability to capture discrepancies between commercial accounting and tax reporting (Rohman et al., 2022). Nevertheless, contradictory findings indicated that deferred tax expense has no significant effect on earnings management, suggesting that temporary tax differences may simply reflect normal accounting adjustments rather than opportunistic managerial behavior.

The inconsistency of previous empirical findings demonstrates that the relationship between tax planning, deferred tax expense, and earnings management remains inconclusive across different research settings (Fira Safitri, 2025). Differences in industrial characteristics, observation periods, research samples, and measurement approaches may explain why prior studies have produced varying conclusions regarding the influence of tax-related variables on earnings management (Damayanti & Solihati, 2024). Consequently, additional empirical evidence is required to clarify whether these relationships remain consistent within industries operating under different regulatory environments and financial reporting characteristics (Gulo & Mappadang, 2022).

Based on the synthesis of previous studies, this research identifies a clear research gap. First, prior investigations have produced conflicting empirical evidence regarding the effect of tax planning on earnings management, indicating that no consensus has yet been established within the accounting literature (Pratiwi, 2025). Second, previous findings concerning deferred tax expense remain inconsistent because some studies reported significant effects while others concluded that the variable has no influence on earnings management. Third, relatively limited studies have simultaneously examined both tax planning and deferred tax expense within the Indonesian banking subsector using recent post-pandemic financial reporting periods, particularly during 2023–2025, when banking institutions experienced substantial adjustments in financial performance and regulatory compliance (Gultom & Marpaung, 2025).

The novelty of this research lies in several important aspects. Unlike previous studies that predominantly focused on manufacturing, consumer goods, agricultural, infrastructure, or mining companies, this study specifically investigates banking companies listed on the Indonesia Stock Exchange during the 2023–2025 period. The banking industry represents a unique research setting because financial institutions operate under stricter regulatory supervision, higher reporting standards, and greater public accountability than most non-financial sectors. Furthermore, this study simultaneously examines tax planning and deferred tax expense to provide a more comprehensive explanation of how tax-related policies influence earnings management within highly regulated financial institutions. Therefore, the findings are expected to enrich the existing accounting literature by providing updated empirical evidence from Indonesia's banking sector.

The theoretical foundation of this research is primarily supported by Agency Theory, which explains conflicts of interest arising from the separation of ownership and managerial control within corporations. Agency Theory argues that managers generally possess more comprehensive information regarding corporate operations than shareholders, thereby creating information asymmetry that may encourage opportunistic managerial behavior (Sulistyanto, 2018). Under such conditions, managers may utilize accounting discretion to influence reported earnings in pursuit of personal incentives, contractual benefits, or organizational objectives while maintaining compliance with accounting standards (Rialdy et al., 2026). Tax planning and deferred tax expense are therefore considered mechanisms through which managerial discretion may affect financial reporting outcomes because both variables involve accounting judgments and tax-related decision-making processes (Hartati, 2022).

From a practical perspective, understanding the relationship between tax planning, deferred tax expense, and earnings management is important for investors, regulators, auditors, and other stakeholders because financial statements remain the principal basis for evaluating corporate performance and financial sustainability. Reliable empirical evidence may assist regulators in strengthening financial reporting policies while enabling investors to better assess earnings quality and potential reporting risks within banking institutions (Hanlon, 2005). Moreover, the findings are expected to contribute to the development of taxation and financial reporting practices that enhance transparency, accountability, and the credibility of corporate financial information.

Accordingly, this study aims to examine the effect of tax planning on earnings management, to analyze the influence of deferred tax expense on earnings management, and to investigate the simultaneous effect of both variables on earnings management among banking subsector companies listed on the Indonesia Stock Exchange during the 2023–2025 period. By addressing the identified research gap and offering updated empirical evidence from the Indonesian banking industry, this research is expected to provide meaningful theoretical contributions to the accounting literature while generating practical implications for corporate management, investors, regulators, and future researchers.

METHODS

This study employed a quantitative approach with an associative research design to examine the influence of tax planning and deferred tax expense on earnings management in banking companies listed on the Indonesia Stock Exchange (IDX) during the 2023–2025 period (Hildawati et al., 2022). A quantitative approach was selected because the research analyzed numerical financial data to test the proposed hypotheses objectively using statistical methods (Sugiyono, 2022). The associative design was considered appropriate because the study sought to investigate the causal relationships between the independent variables and the dependent variable.

The study examined three research variables: tax planning as the first independent variable, deferred tax expense as the second independent variable, and earnings management as the dependent variable. Tax planning refers to a company's legal efforts to minimize tax liabilities by utilizing available tax regulations while remaining compliant with applicable laws (Damayanti & Solihati, 2024). In this research, tax planning was measured using the Tax Retention Rate (TRR), which reflects the firm's ability to retain earnings after fulfilling its tax obligations. Deferred tax expense represents the future tax consequences arising from temporary differences between accounting income and taxable income caused by differences between accounting standards and tax regulations. This variable was measured proportionally to total assets in the previous fiscal year to accommodate differences in company size (Hidayat, 2021). Meanwhile, earnings management refers to managerial actions intended to influence reported earnings through the selection of accounting policies while remaining within the limits of financial accounting standards (Indarsari & Winedar, 2020). The variable was measured using the earnings distribution approach, which identifies changes in reported earnings across accounting periods.

The study relied exclusively on secondary data obtained from audited annual financial statements of banking companies listed on the Indonesia Stock Exchange. Data were collected during the 2026 research period using financial reports covering fiscal years 2023–2025. The research population consisted of 48 banking companies listed on the IDX during the observation period. The sample was selected using purposive sampling based on predetermined criteria, including companies that remained listed throughout the study period, published complete audited annual reports, reported positive earnings, and provided complete financial information required to measure all research variables. Based on these criteria, 27 banking companies were selected, producing 81 firm-year observations.

Data collection was conducted using the documentation method because all research data originated from publicly available corporate financial statements rather than direct interaction with respondents. Annual reports were obtained from the official IDX website and verified through the Indonesia Stock Exchange Investment Gallery at the Faculty of Economics and Business, Universitas PGRI Palembang to ensure data completeness and consistency. Since the study employed audited financial statements and standardized financial indicators, questionnaire-based validity and reliability testing was not required.

The data were analyzed using IBM SPSS Statistics version 26. The analysis began with descriptive statistics to summarize the characteristics of each variable through measures such as minimum, maximum, mean, and standard deviation (Ghozali, 2018). Before hypothesis testing, classical assumption tests consisting of normality, multicollinearity, autocorrelation, and heteroscedasticity tests were performed to ensure that the regression model satisfied the assumptions required for multiple linear regression analysis (Hildawati et al., 2022). After these assumptions were fulfilled, multiple linear regression analysis was conducted to examine the effects of tax planning and deferred tax expense on earnings management (Abdullah et al., 2022). The hypotheses were subsequently evaluated using the coefficient of determination (R^2), partial t-test, and simultaneous F-test at a significance level of 5% to assess both the individual and combined effects of the independent variables on earnings management (Machali, 2021). This methodological framework provides a systematic and reliable basis for explaining the relationship between corporate tax policies and earnings management practices in Indonesian banking companies.

RESULTS

Data Analysis Technique

a. Descriptive Statistics

Table 1. Descriptive Statistics Results

N		Minimum	Maximum	Mean	Std. Deviation
Tax Planning (X_1)	81	.41	1.03	.7717	.08035
Deferred Tax Expense (X_2)	81	.10	.95	.4106	.22190

N		Minimum	Maximum	Mean	Std. Deviation
Earnings Management (Y)	81	.10	2.25	.4278	.31716
Valid N (listwise)	81				

source: Compiled by the researcher (2026)

Table 1. Descriptive Statistics Results shows that the study analyzed 81 firm-year observations. The tax planning variable (X_1) had a minimum value of 0.41, a maximum value of 1.03, a mean of 0.7717, and a standard deviation of 0.08035, indicating relatively low variation among the observed companies. Deferred tax expense (X_2) recorded a minimum value of 0.10, a maximum value of 0.95, a mean of 0.4106, and a standard deviation of 0.22190, suggesting moderate variability across the sample. Meanwhile, earnings management (Y) had a minimum value of 0.10, a maximum value of 2.25, a mean of 0.4278, and a standard deviation of 0.31716, indicating that the level of earnings management varied among the banking companies included in the study.

Classical Assumption Test

a. Normality Test

Table 2. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

Unstandardized Residual

N		81
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.28666481
Most Extreme Differences	Absolute	.090
	Positive	.087
	Negative	-.090
Test Statistic		.090
Asymp. Sig. (2-tailed)		.159[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

source: Compiled by the researcher (2026)

Table 2. Normality Test Results shows that the results of the One-Sample Kolmogorov–Smirnov normality test. The Asymp. Sig. (2-tailed) value was 0.159, which is greater than the significance level of 0.05. Therefore, the residuals are normally distributed, indicating that the normality assumption required for multiple linear regression analysis has been satisfied.

b. Multicollinearity Test

Table 3. Multicollinearity Test Results

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	X1	.993	1.007
	X2	.993	1.007

a. Dependent Variable: Y

source: Compiled by the researcher (2026)

Table 3. Multicollinearity Test Results shows that the multicollinearity test results. The tolerance values for both independent variables were 0.993, exceeding the minimum threshold of 0.10, while the VIF values were 1.007, which are well below the maximum acceptable value of 10. These findings indicate that multicollinearity is not present in the regression model.

c. Autocorrelation Test

Table 4. Autocorrelation Test Results
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.288[a]	.083	.060	.29032	2.016

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

source: Compiled by the researcher (2026)

Table 4. Autocorrelation Test Results shows that the autocorrelation test results. The Durbin–Watson statistic was 2.016, indicating that the residuals are independent and that the regression model does not suffer from autocorrelation. Therefore, the autocorrelation assumption was fulfilled.

d. Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results
Coefficients[a]

Unstandardized Coefficients				Standardized Coefficients	T	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.303	.053		5.705	.000
	X1	.396	.323	.138	1.224	.225
	X2	.038	.067	.063	.562	.576

a. Dependent Variable: Y

source: Compiled by the researcher (2026)

Table 5. Heteroscedasticity Test Results shows the results of the Glejser heteroscedasticity test. The significance values for tax planning (0.225) and deferred tax expense (0.576) were both greater than 0.05. These findings indicate that heteroscedasticity was not detected, suggesting that the regression model satisfies the homoscedasticity assumption.

Multiple Linear Regression Analysis

a. Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Analysis Results
Coefficients[a]

Unstandardized Coefficients				Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	-.716	.099		-7.210	.000
	X1	-1.393	.606	-.250	-2.301	.024
	X2	-.190	.126	-.164	-1.511	.135

a. Dependent Variable: Y

source: Compiled by the researcher (2026)

Table 6. Multiple Linear Regression Analysis Test shows that the results of the multiple linear regression analysis. The estimated regression model indicates that tax planning has a negative regression coefficient of –1.393, suggesting an inverse relationship with earnings management. Similarly, deferred tax expense has a negative coefficient of –0.190. These coefficients indicate that increases in tax planning and deferred tax expense tend to

reduce earnings management, although only tax planning demonstrates statistical significance.

b. Coefficient of Determination (R^2)

Table 7. Coefficient of Determination (R^2) Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.288[a]	.083	.060	.29032

a. Predictors: (Constant), X2, X1

source: Compiled by the researcher (2026)

Table 7. Coefficient of Determination (R^2) Results shows the coefficient of determination results. The Adjusted R Square value was 0.060, indicating that tax planning and deferred tax expense explain approximately 6.0% of the variation in earnings management. The remaining 94.0% of the variation is explained by other variables not included in the regression model.

c. Partial Test (t-Test)

Table 8. Partial Test Results
Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.716	.099		-7.210	.000
	X1	-1.393	.606	-.250	-2.301	.024
	X2	-.190	.126	-.164	-1.511	.135

a. Dependent Variable: Y

source: Compiled by the researcher (2026)

Table 8. Partial Test Results shows that the results of the partial (t) test. Tax planning produced a significance value of 0.024, which is below the 0.05 threshold, indicating that tax planning has a significant negative effect on earnings management. In contrast, deferred tax expense produced a significance value of 0.135, indicating that it does not have a statistically significant effect on earnings management.

d. Simultaneous Test (F-Test)

Table 9. Simultaneous Test Results
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.595	2	.298	3.531	.034[b]
	Residual	6.574	78	.084		
	Total	7.169	80			

a. Dependent Variable: Y

b. Predictors: (Constant), X2, X1

source: Compiled by the researcher (2026)

Table 9. Simultaneous Test Results shows that the results of the simultaneous (F) test. The regression model generated an F-value of 3.531 with a significance value of 0.034, which is lower than the 0.05 significance level. These findings indicate that tax planning and deferred tax expense jointly have a statistically significant effect on earnings management among banking companies listed on the Indonesia Stock Exchange during the 2023–2025 observation period.

DISCUSSION

The findings demonstrate that tax planning has a significant effect on earnings management among banking companies listed on the Indonesia Stock Exchange during the 2023–2025 observation period. The negative regression coefficient indicates an inverse relationship between the two variables, suggesting that more effective tax planning is associated with a lower tendency to engage in earnings management practices. This finding implies that banking companies primarily utilize tax planning as a legitimate strategy to optimize tax efficiency and comply with applicable tax regulations rather than as a mechanism for manipulating reported earnings. Consequently, tax planning appears to function as a financial management strategy that promotes compliance while simultaneously reducing managerial incentives to distort accounting information for personal or organizational interests (Baraja et al., 2019).

This result is consistent with the primary objective of the study, which was to examine the influence of tax planning on earnings management using the Tax Retention Rate (TRR) as the measurement indicator. The TRR reflects the proportion of corporate earnings retained after fulfilling tax obligations and therefore represents the effectiveness of a firm's tax planning strategy. A higher level of tax planning efficiency indicates that companies are capable of minimizing tax burdens within the legal framework, thereby reducing the necessity for management to manipulate accounting earnings to achieve desired financial performance targets. These findings suggest that effective tax planning serves as an alternative mechanism for improving financial performance without compromising the credibility of financial reporting.

From a theoretical perspective, the results can be interpreted through the lens of Agency Theory, which argues that conflicts of interest between managers and shareholders may encourage managers to engage in opportunistic behavior, including earnings management (Jensen & Meckling, 1976). Nevertheless, the banking industry operates under a highly regulated environment characterized by strict financial reporting requirements, intensive supervision from regulatory authorities, and comprehensive corporate governance mechanisms. These institutional characteristics limit managerial discretion in manipulating reported earnings and instead encourage firms to adopt legally acceptable tax planning strategies to improve financial efficiency. Consequently, tax planning functions not as a tool for earnings manipulation but as a governance mechanism that reduces agency conflicts and enhances financial reporting quality.

The findings of this study are consistent with those reported by Pratiwi (2025), who concluded that tax planning significantly influences earnings management. Their study suggests that firms implementing effective tax planning strategies are able to manage tax obligations efficiently, thereby reducing managerial incentives to manipulate accounting earnings to achieve specific performance objectives. Similar evidence was reported by Firmansyah et al. (2023), who found that tax planning is closely associated with earnings management because both activities involve managerial decisions related to corporate profit optimization. The consistency between the present findings and previous studies strengthens the argument that legally implemented tax planning can substitute for aggressive earnings manipulation by enabling companies to achieve financial efficiency through regulatory compliance rather than accounting discretion.

In contrast, the results indicate that deferred tax expense does not significantly affect earnings management. This finding suggests that deferred tax expense is not a primary determinant of earnings management practices within the Indonesian banking sector during the period under investigation. Variations in deferred tax expense were not accompanied by corresponding changes in managerial behavior regarding the manipulation of reported earnings, indicating that this accounting component does not substantially influence earnings management decisions.

Conceptually, deferred tax expense arises from temporary differences between accounting income and taxable income that will reverse in subsequent reporting periods in accordance with applicable financial accounting standards. Therefore, deferred tax expense primarily reflects technical accounting adjustments rather than discretionary managerial policies. Because its recognition and measurement are governed by accounting standards and taxation regulations, managerial flexibility in utilizing deferred tax expense for earnings manipulation is relatively limited. Within the banking industry, where regulatory oversight and financial reporting standards are particularly stringent, the opportunity to exploit deferred tax accounts for opportunistic purposes becomes even more restricted. Consequently, deferred tax expense does not provide sufficient explanatory power for variations in earnings management among the sampled companies (PSAK No. 46).

Agency Theory also provides an explanation for this finding by suggesting that although managers possess discretion in preparing financial statements, not all accounting accounts offer the same degree of flexibility for managerial intervention (Jensen & Meckling, 1976). Deferred tax expense is largely determined by mandatory accounting treatments rather than managerial judgment, thereby limiting its usefulness as an instrument for earnings manipulation. As a result, differences in deferred tax expense among the sampled banking companies do not translate into significant differences in earnings management practices.

The simultaneous hypothesis testing further revealed that tax planning and deferred tax expense jointly exert a significant influence on earnings management, although their explanatory power remains relatively limited. The F-test indicates that the two tax-related variables collectively contribute to explaining variations in earnings management among banking companies. However, the coefficient of determination shows that these variables account for only 6% of the variation in earnings management, while the remaining 94% is explained by other factors that were not incorporated into the research model. This finding suggests that although taxation-related policies are relevant determinants of earnings management, they do not constitute the primary drivers of managerial reporting behavior within the banking industry.

The relatively low explanatory power of the regression model indicates that earnings management is a multidimensional phenomenon influenced by numerous organizational, financial, and governance factors. In practice, managerial decisions regarding earnings reporting are likely to be affected by variables such as profitability, leverage, firm size, corporate governance mechanisms, ownership structure, managerial incentives, and external monitoring. Consequently, tax planning and deferred tax expense should be interpreted as complementary factors rather than dominant determinants of earnings management. This interpretation is consistent with the complexity of financial reporting decisions, particularly within highly regulated industries such as banking, where managerial discretion is constrained by supervisory authorities and stringent accounting standards (Scott, 2015).

The findings also reinforce the theoretical perspective that taxation policies constitute one component of corporate financial management rather than an isolated mechanism influencing earnings quality. While managers may consider tax consequences when preparing financial statements, the banking sector's regulatory environment limits the extent to which taxation-related accounts can be exploited for opportunistic reporting purposes. Therefore, taxation variables contribute to explaining earnings management only when considered alongside broader organizational and governance characteristics that shape managerial decision-making.

The present findings generally support previous empirical studies examining the relationship between taxation variables and earnings management. The significant influence of tax planning is consistent with the findings reported by Pratiwi (2025), who concluded that effective tax planning reduces managerial incentives to manipulate accounting earnings because companies are able to achieve tax efficiency through legitimate planning strategies. Likewise, Firmansyah et al. (2023) argued that tax planning and earnings management are interconnected because both involve managerial decisions concerning corporate financial performance. The consistency of these findings strengthens the empirical evidence that legally compliant tax planning may reduce reliance on discretionary accounting practices.

Conversely, the insignificant influence of deferred tax expense is consistent with the findings reported by (Setyawan et al., 2021), who concluded that deferred tax expense does not significantly explain earnings management practices. These similarities indicate that deferred tax expense has limited usefulness as an indicator of earnings management, particularly in industries characterized by strict accounting regulations and intensive financial supervision.

Although the overall findings are generally consistent with previous studies, differences reported in other empirical research may be attributed to variations in industrial characteristics, research periods, sample selection, measurement proxies, and analytical approaches. Companies operating in manufacturing or non-financial sectors generally possess greater accounting flexibility than banking institutions, thereby creating more opportunities for earnings management through discretionary accounting policies. In contrast, banking companies operate under comprehensive regulatory oversight, which limits managerial discretion and consequently weakens the relationship between deferred tax expense and earnings management.

From a theoretical perspective, this study contributes to the development of Agency Theory by providing empirical evidence that not all taxation-related variables influence earnings management to the same extent. The findings demonstrate that tax planning may function as a governance mechanism capable of mitigating opportunistic managerial behavior, whereas deferred tax expense does not necessarily represent managerial discretion because its recognition is largely determined by accounting standards. Accordingly, the study extends the application of Agency Theory by highlighting the importance of distinguishing between discretionary managerial policies and technically regulated accounting components when explaining earnings management behavior.

The study also provides practical implications for corporate management, investors, regulators, and other stakeholders. For corporate management, the findings emphasize the importance of implementing effective tax planning strategies that prioritize regulatory compliance rather than aggressive earnings manipulation. For investors, tax planning indicators may provide useful information when evaluating corporate financial reporting quality, whereas deferred tax expense should be interpreted cautiously because it does not necessarily indicate earnings management practices. For regulators, particularly within the banking industry, the findings suggest that existing financial reporting standards and supervisory mechanisms have been reasonably effective in limiting managerial discretion associated with deferred tax accounting.

Despite these contributions, several limitations should be acknowledged. First, the study examined only two independent variables, namely tax planning and deferred tax expense, resulting in relatively limited explanatory power. Second, the research focused exclusively on banking companies listed on the Indonesia Stock Exchange during the 2023–2025 period, thereby restricting the generalizability of the findings to other industrial sectors. Third, the analysis relied exclusively on secondary data obtained from audited annual financial statements, which limited the ability to explore managerial motivations underlying earnings management decisions. Future studies are therefore encouraged to incorporate additional financial and governance variables, extend the observation period, include companies from different industries, and employ alternative research approaches to obtain a more comprehensive understanding of the determinants of earnings management.

Overall, this study contributes to the literature by demonstrating that tax planning serves as a significant determinant of earnings management, whereas deferred tax expense does not independently influence managerial reporting behavior within the Indonesian banking industry. Although taxation-related variables collectively affect earnings management, their overall contribution remains relatively modest, indicating that earnings management is influenced by a broader set of organizational and governance factors. These findings provide empirical evidence that strengthens the understanding of taxation and financial reporting practices while offering useful insights for future academic research and corporate decision-making.

CONCLUSION

This study aimed to examine the influence of tax planning and deferred tax expense on earnings management in banking sub-sector companies listed on the Indonesia Stock Exchange during the 2023–2025 period. Based on the results of multiple linear regression analysis, the findings indicate that tax planning has a statistically significant effect on earnings management, whereas deferred tax expense does not exert a significant partial effect. However, when considered simultaneously, tax planning and deferred tax expense significantly influence earnings management. These findings suggest that although not all tax-related variables individually determine earnings management practices, corporate tax policies as a whole remain relevant in explaining variations in reported earnings within the banking sector.

The findings successfully address the research objectives by demonstrating that tax planning constitutes an important determinant of earnings management practices.

Companies with more effective tax planning strategies tend to exhibit different earnings management behavior, indicating that tax-related decision-making is closely associated with financial reporting practices. In contrast, deferred tax expense was not found to be a significant predictor of earnings management, suggesting that temporary differences arising from accounting and tax regulations are largely technical in nature and do not necessarily provide management with sufficient flexibility to manipulate reported earnings. Nevertheless, the simultaneous significance of both independent variables indicates that taxation policies collectively contribute to managerial financial reporting decisions, even though their overall explanatory power remains relatively limited.

This study contributes to the literature by providing empirical evidence on the relationship between taxation policies and earnings management within Indonesia's banking industry, a sector characterized by strict regulatory oversight and high financial reporting standards. Unlike studies conducted in less regulated industries, the present research highlights that the influence of tax-related variables may vary depending on the institutional environment in which firms operate. The findings reinforce the perspective that tax planning should not only be viewed as a strategy for achieving tax efficiency but also as an important component of corporate financial reporting quality and governance. From a practical standpoint, the results provide valuable insights for corporate management in designing tax planning strategies that comply with prevailing tax regulations while maintaining transparency and credibility in financial reporting. In addition, investors, regulators, and other stakeholders may use these findings as complementary information when assessing the quality of financial statements and evaluating corporate taxation practices.

Despite these contributions, the study has several limitations. It focuses exclusively on banking companies listed on the Indonesia Stock Exchange and includes only two independent variables observed over a three-year period. Consequently, the explanatory power of the proposed model remains relatively modest, indicating that earnings management is influenced by numerous other factors beyond taxation. Future research is therefore encouraged to extend the observation period, incorporate companies from different industrial sectors, and include additional explanatory variables such as profitability, leverage, firm size, corporate governance, ownership structure, and internal control mechanisms. Expanding both the scope of the sample and the analytical framework is expected to provide a more comprehensive understanding of the determinants of earnings management and to strengthen the development of empirical evidence in accounting and taxation research.

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