DEFERRED TAX EXPENSES AS EARNING MANAGEMENT INDICATOR

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ABSTRACT

The aim of this study is to examine the benefit of using deferred tax expenses to detect the practice of earning management. Data source are secondary data from www.idx.co.id. The data is gathered for automotive companies for the year 2012 until and including 2017. In order to optimally perform the statistical analysis, the data first needs to meet certain requirements. These requirements are: the data is normal distributed, possible outliers in the data are removed, the data is assessed for multicolinearity, and finally, the data needs to be assessed for heteroscedasticity. We find that the deferred tax expenses influence earning management to avoid loss and to avoid earning decline.

Keywords: earning management; deferred tax expenses

INTRODUCTION

The existence of company is to create the wealth increase to its shareholder. To achieve this purpose, company often uses the financial report as a tool to take proper financial decision. In the point of view of investor, financial report must show how the company manage its earning. This earning indicates how well the operation was done by the top-management. This is also the reason why earning management plays critical role in strategic decision making by company. Investors make their decisions based on the financial statements of companies and therefore it is important that firms present a fair and true view of their financial performance. That is the reason why the academic world investigated a lot of research with respect to earnings management.

To measure the financial performance of company, financial report is prepared based on PSAK (Pernyataan Standar Akuntansi Keuangan) or GAAP (Generally Accepted Accounting Principle). As Indonesia realized its position as part of the global economy, PSAK has adopted International Financial Reporting Standard (IFRS) and International Accounting Standards (IAS). Based on PSAK No. 1 (Revised 2014) issued by IAI (Ikatan Akuntan Indonesia) to be effective 1 January 2015, it is stated that a financial statement consists of Statement of Financial Position, Statement of Profit and Loss and Other Comprehensive Income, Statement of Cash Flow, Statement of Change in Equity and Notes to Financial Statements.

While based on Undang-undang Nomor 28 Tahun 2007 Tentang Ketentuan Umum dan Tata Cara Perpajakan, company fulfills its tax obligation as a taxpayer based on the prevailing tax rule. Company is
obliged to do regular recording to collect financial data and information covering assets, liabilities, capital, revenues and expenses, also the acquisition cost and price of delivered goods or service, which cycle is closed through preparation of financial statements.

Based on explanation above, then we recognize two type of income. First, is financial accounting income or commercial income, which is calculated based on GAAP. Second, taxable income, which is prepared based on taxation rule. Phillips, Pincus, and Rego (2003) hypothesize that a greater level of discretion in calculating financial accounting income (according to GAAP) when compared to the calculation of taxable income (according to the taxation rule) will allow managers to utilize that discretion to manage income in a positive manner but in ways that do not also increase taxable income. This type of discretionary earnings management will create timing differences that result in an increase in deferred tax expense.

The first reason why Phillips et al. (2003) believe that deferred taxes are incrementally useful in detecting earnings management is that according to the GAAP, the management is given more discretion compared to the tax rules and regulations (Hanlon and Shevlin, 2005). The second reason why Phillips et al. (2003) believe that deferred taxes are incrementally useful in detecting earnings management is that managers may have the incentive to increase the profit of the financial statement without increasing the profit of the tax statement. Increasing the profit of the financial statement could lead to satisfied stakeholders. The probable reason why managers do not want to increase the taxable profit is because this will lead to higher tax expenses. The increasing gap between these two statements, leads to higher deferred tax amounts on the financial balance sheet. This writing expects that managers manage their earnings in two settings, namely earnings management to avoid an earnings decline and earnings management to avoid a loss. These two settings are similar to the settings of Burgstahler and Dichev (1997) where the researchers find that firms are likely to use earnings management to avoid an earnings decline and firms are likely to use earnings management to avoid a loss. This writing will consider the theory of Burgstahler and Dichev (1997) to investigate whether the firms in this sample are engaged within earnings management.

**LITERATURE REVIEW**

**Earning Management**

Burgstahler and Dichev (1997) investigate whether firms manage earnings to avoid an earnings decline and to avoid losses. In their research they use earnings distribution as a proxy measure for earnings management. Burgstahler and Dichev (1997) collect all available observations of the annual industrial and research Compustat databases for the year 1976-1994 which meet minimal data requirements. Banks and financial institutions are deleted. In this study there are two types of evidence to determine whether earnings management to avoid earnings decreases and losses are present. The first way is by plotting
graphical evidence in the form of histograms of the pooled cross-sectional empirical distributions of scaled earnings changes and levels of earnings. The second way is by presenting statistical tests of two hypotheses, these hypotheses are. “H1: Earnings are managed to avoid earnings decreases. H2: Earnings are managed to avoid losses” (Burgstahler and Dichev, 1997, p. 102). The assumption they have is that under the null hypothesis of no earnings management, the distributions of earnings changes and earnings levels are relatively smooth. In the figure below there is a histogram which shows a single peaked, bell shaped distribution. Also the figure shows that there is an irregularity near zero which indicates that firms might be engaging in earnings management to avoid earnings decreases. The irregularity near zero is also confirmed by the statistical test.

Figure II.1, shows that there is a single-peaked, bell-shaped distribution which is not smooth in the area of zero earnings. Earnings that are just less than zero occur much less than expected and earnings just more than zero occur much more than expected. The irregularity near zero is also significant for the statistical test.

Figure II.1, Burgstahler and Dichev, earnings management to avoid a loss.

Burgstahler and Dichev (1997) motivated two theories for using earnings management to avoid earnings decreases and losses. The first theory involves the transaction cost and the second theory involves the prospect theory. The transactions cost theory implies that when firms report an earnings decrease or loss, the costs in transactions with stakeholders are higher compared to firms which reported an earnings increase or profit.

Figure II.2, shows a distribution that departs from a normal distribution. It can be seen that especially near zero there are too few firms which report a small earnings decline and too many which reports a small earnings increase or steady earnings, compared to a normal distribution.

Figure II.2, Burgstahler and Dichev, earnings management to avoid an earnings decline
However, other articles argue that the irregularity near zero is not due to earnings management. Durtschi and Easton (2005) provide evidence that the irregularity near zero of the earnings distribution is affected by deflation and by sample selection. Beaver et al. (2007) showed that income taxes and special items for profit and loss lead to a discontinuity at zero in the earnings distribution. The reason for this fact is that due to income taxes the reported profit moves near to zero. Which might indicate that income taxes contribute to the discontinuity of the earnings distribution.

**Deferred Tax Expenses**

Accounting rules and regulation allow firms to include accruals in their net income, whereas tax authorities focus more on cash flow since they want to calculate the taxable profit. This profit forms the basis to levy taxes for by governments and therefore tax rules and regulations allow less discretion to managers. This leads to differences in the profit between the accounting statement and the tax statement. This difference is expressed as a deferred tax item in the financial statement.

Simsek (2015) said that an important element of firm performance is reported profit. In general the book profit is reported more extensively. However another way of measuring profit exists. This is the tax profit. With book profit, profit is measured following accounting methods which includes the method of accrual accounting. Accrual accounting allows management, when certain requirements are met, to recognize revenues for which a cash flow is not yet received. These revenues become accruals in the financial statement. A large part of the accruals however are not part of the tax profit since these revenues are not received by the firm yet and therefore do not provide a tax base (Picker et al. 2013). With tax profit, the entire amount of the profit forms the tax base. Therefore International Accounting Standard (IAS) 12 paragraph 5 defines tax profit as the profit or loss which is obtained over a certain period, whereby the net income forms the tax base. As is discussed due to the accounting policy, differences may arise between the tax profit and the book profit. These differences however are of temporary kind. In the long run a cash flow related to a specific accrual is received and the tax profit is corrected, which leads to the difference to disappear (Picker et al. 2013).

For differences between book and taxable profit a deferred tax asset or liability arises in the financial statements. This deferred tax item is formed exclusively for temporary differences since these differences will reverse in the long run. A deferred tax item informs financial statement users about a tax payment or receipt in the future which is related to a current difference between accounting and taxable profit.

**Deferred Tax Expenses to Influence Earning Management**

Phillips et al. (2003) investigate the usefulness of deferred tax expense in detecting earnings management. This article examines the usefulness of deferred tax expense for the use of earnings management in order to
meet three earnings objectives. The first objective is that managers want to avoid reporting an earnings decline, the second objective is to avoid reporting a loss and the third objective is to meet the analyst forecasts.

Phillips et al. (2003) argue that the measurement error in accrual methods can be reduced by focusing on deferred tax expense instead of attempting to decompose accruals into normal and abnormal components. “The deferred tax expense is a component of a firm’s total income tax expense and reflects the tax effects of temporary differences between book income and taxable income that arise primarily from accruals for revenue and expense items that affect both book and taxable income, but in different periods” (Phillips et al., 2003, p. 492). Deferred tax expense is a better measure for the managers’ discretionary choices under GAAP, since the tax law allows less discretion when compared to GAAP. Furthermore managers want to use earnings management to achieve specific targets, they prefer to manage book profit upward without increasing the tax profit.

Researchers often conducted research on accruals to detect earnings management compared to cash flow since management discretion over accruals generally is less observable. Phillips et al. (2003) argue that book-tax differences will aid in preventing earnings management by distinguishing between managers’ discretionary choices from non-discretionary choices. This article focus the proxy which is used for the book-tax difference is the deferred tax expense. Temporary differences create deferred tax assets or deferred tax liabilities whereby an increase in the deferred tax liability is consistent with an increase in the deferred tax expense. In other words, deferred tax expense is referred to the part in which the deferred tax liability is increased.

This paper focuses on deferred tax expense, because it reflects temporary book-tax differences associated with the income statement. This paper involved the study of Burgstahler and Dichev (1997) which hypothesizes that managers manage earnings because they do not want to report an earnings decline or report a loss. Burgstahler and Dichev (1997) find a higher frequency of zero or small increases in earnings than expected in cross-sectional distributions of annual scaled earnings changes. Phillips et al. (2003) showed a replication of this study in their own sample. The results are consistent with the findings of Burgstahler and Dichev (1997).

Dhaliwal, Gleason, and Mills (2004) post that earnings management strongly affected by tax expense, as it is one of the last accounts closed prior to earnings announcements. They hypothesize that “All else equal, changes in tax expense related to whether and by how much a firm’s earnings absent tax expense management miss the firm’s target earnings” (pg. 438). They found that when actual earnings fall short of the consensus forecast, firms decrease their effective tax rates in order to manage income upward. In addition, they found that firms that have larger accruals are more likely to manage income through manipulation of tax expense.
Yulianti (2005) said that the increase of deferred tax expense to income tax expense of a company show the more liberal application of accounting standard. The liberal state is according to more assumption and judgment that lead to higher accounting income, while assumption and judgment itself is an effort to implement earning management by company. Thus, the deferred tax expense can be placed as an indicator of earning management.

1. Hypothesis Development
H1: Deferred tax expenses influence earning management to avoid loss
H2: Deferred tax expenses influence earning management to avoid earning decline

RESEARCH METHODOLOGY

Data Collection
The data source is secondary data collected from www.idx.co.id. The observed industry is automotive industry, which consists of 12 companies. Observation years are 2012-2017. However, since the observation for earning management in order to avoid earning decline requires data from two previous years, then financial statements is gathered from fiscal year 2009 until 2017.

Variable Measurement
The independent variable in this study is Deferred Tax Expenses (DTE), which is formulated as below:

\[ DTE_{i,t} = \frac{DTE_t}{TA_{t-1}} \]

Where:
DTE\(_{t}\) = deferred tax expenses in year \(t\)
TA\(_{t-1}\) = total assets in year \(t-1\)

The dependent variable in this study is Earning Management (EM). This thesis focuses on earnings management within two settings; (1) earnings management to avoid a decrease and (2) earnings management to avoid a loss.

First, earning management to avoid loss (EM1)
\[ EM1 = \frac{NI_{i,t}}{MVE_{i,t-1}} \]

Where:
NI\(_{i,t}\) = net income of firm i in year t
MVE\(_{i,t-1}\) = Market value of equity of firm i in year t-1.

The possible results of this formula are:
• EM1 = 1, if the value of net income in the year (t) divided by the market value of equity in the year (t-1) is greater equal to zero (0).
• EM1 = 0, if the value of net income in the year (t) divided by the market value of equity in the year (t-1) is smaller than zero (0).

Second, earning management to avoid earning decline (EM2)
\[ EM2 = \frac{NI_{i,t} - NI_{i,t-1}}{MVE_{i,t-2}} \]

Where:
NI\(_{i,t-1}\) = net income of firm i in year t-1
MVE\textsubscript{i,t-2} = Market value of equity of firm i in year t-2.

The possible results of this formula are:

- EM\textsubscript{2} = 1, if the difference between net income (NI) in the year (t-1) and net income in the year (t) divided by the market value of equity (MVE) in the year (t-2) is greater equal to zero (0)
- EM\textsubscript{2} = 0, if the difference between the net income in the year (t-1) and net income in year (t) divided by the market value of equity in the year (t-2) is smaller than zero (0).

**Research Design**

The samples will be analyzed twice. First analysis will observe the use of earning management to avoid loss, and the second is to observe its use to avoid earning decline.

**Research Method**

This writing does the descriptive statistic test covering:

a. normal distribution  
b. outliers  
c. heteroscedasticity  
d. autocorrelation

Multicollinearity is not performed due to the independent variable consists only one variable.

Data is processed using SPSS version 22.

**RESULT**

**Selected Samples**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive companies listed in BEI</td>
<td>12</td>
</tr>
<tr>
<td>Company has its IPO (Initial Public Offering) during the 2010-2017</td>
<td>(1)</td>
</tr>
<tr>
<td>Completeness of financial statements for the observation years (2010-2017)</td>
<td>(1)</td>
</tr>
<tr>
<td>Total companies to be observed</td>
<td>10</td>
</tr>
<tr>
<td>Total available samples</td>
<td>60</td>
</tr>
</tbody>
</table>

**Descriptive Statistic**

**a. Normal Distribution and Outliers**

An assessment of the normality of data is a prerequisite test because normal data is an underlying assumption in parametric testing. Using the 60 available samples, the normality test results has following histogram and Kolmogorov-Smirnov test for the first model.

*Figure 4.1. Histogram Test for Earning Management to Avoid Loss (Including Outliers)*
Tarigan, Deferred Tax Expenses ...

Table 4.1. One-sample Kolmogorov-Smirnov Test for Earning Management to Avoid Loss (Including Outliers)

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>60</td>
</tr>
<tr>
<td>Normal</td>
<td></td>
</tr>
<tr>
<td>Parameters\textsuperscript{a,b}</td>
<td>Mean \textsuperscript{ } \texttt{0.000000}</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation \textsuperscript{} \texttt{0.12618542}</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td></td>
</tr>
<tr>
<td>Absolute</td>
<td>\texttt{0.178}</td>
</tr>
<tr>
<td>Positive</td>
<td>\texttt{0.178}</td>
</tr>
<tr>
<td>Negative</td>
<td>\texttt{-0.095}</td>
</tr>
<tr>
<td>Test Statistic</td>
<td>\texttt{0.178}</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>\texttt{0.000}\textsuperscript{c}</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Test distribution is Normal.
\textsuperscript{b} Calculated from data.
\textsuperscript{c} Lilliefors Significance Correction.

Using the 60 available samples, the normality test results has following histogram and Kolmogorov-Smirnov test for the second model, which is earning management to avoid earning decline.

Figure 4.2. Histogram Test for Earning Management to Avoid Earning Decline

Table 4.2. One-sample Kolmogorov-Smirnov Test for Earning Management to Avoid Earning Decline (Including Outliers)

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>60</td>
</tr>
<tr>
<td>Normal</td>
<td></td>
</tr>
<tr>
<td>Parameters\textsuperscript{a,b}</td>
<td>Mean \textsuperscript{} \texttt{0.000000}</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation \textsuperscript{} \texttt{0.10806029}</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td></td>
</tr>
<tr>
<td>Absolute</td>
<td>\texttt{0.163}</td>
</tr>
<tr>
<td>Positive</td>
<td>\texttt{0.163}</td>
</tr>
<tr>
<td>Negative</td>
<td>\texttt{-0.150}</td>
</tr>
</tbody>
</table>
For both earning management model, the normality test are not passed, since the Asymp. Sig. (2-tailed) are 0.000, which is below 0.05. This is strengthened by the fact that through the histogram, there are outliers exist in the samples.

Considering the normality test result for the first and second model, the outliers are identified and identified separately. There are 10 samples identified as outliers, making the revised samples become 50.

Thus, the first model, which is earning management to avoid loss, has its histogram and Kolmogorov-Smirnov test as below:

As we can see from the Kolmogorov-Smirnov test after excluding outliers, the samples for first model are normal due to the Asymp. Sig. (2-tailed) is more than 0.05, which is 0.175.

Then, for the second model, which is earning management to avoid loss, it has histogram and Kolmogorov-Smirnov test as below:
As we can see from the Kolmogorov-Smirnov test after excluding outliers, the samples for second model are normal due to the Asymp. Sig. (2-tailed) is more than 0.05, which is 0.054.

b. Heteroscedasticity

Samples for research is expected to have no heteroscedasticity problem, in other words said to be homoscedastic. Homoscedasticity refers to whether these residuals are equally distributed, or whether they tend to bunch together at some values, and at other values, spread far apart.

    Based on Figure 4.5. below, the significance level is 0.056, which is higher than 0.05. Thus the samples for first earning management model is called homoscedastic.

As we can see from the Heteroscedasticity Test for Earning Management to Avoid Loss (Excluding Outliers) the significance level is 0.144, which is

<table>
<thead>
<tr>
<th>Coefficients*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model Unstand. Coefficients Stand. Coeff. t Sig.</td>
</tr>
<tr>
<td>1 (Const.) .057 .007 8.352 .000</td>
</tr>
<tr>
<td>Def. Tax Exp. 1.661 .847 .272 1.961 .056</td>
</tr>
<tr>
<td>a. Dependent Variable: Abs_RESP</td>
</tr>
</tbody>
</table>
higher than 0.05. Thus the samples for second earning management model is called homoscedastic.

*Figure 4.6. Heteroscedasticity Test for Earning Management to Avoid Earning Decline (Excluding Outliers)*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstand. Coefficients</th>
<th>Stand. Coeff.</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Const.)</td>
<td>.046</td>
<td>.006</td>
<td>7.442</td>
<td>.000</td>
</tr>
<tr>
<td>Def. Tax Exp.</td>
<td>1.139</td>
<td>.767</td>
<td>.210</td>
<td>1.485</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Abs. RES*

c. **Autocorrelation**

Autocorrelation is a characteristic of data in which the correlation between the values of the same variables is based on related objects. It violates the assumption of instance independence, which underlies most of the conventional models. It generally exists in those types of datasets in which the data, instead of being randomly selected, is from the same source.

Based on Figure 4.7. below, the Durbin-Watson score is 1.127. From Durbin-Watson score distribution table with significance level 5%, we have dL and dU for 1 independent variable and 50 samples as below:

\[ dL = 1.503 \]
\[ dU = 1.585 \]

Due to 1.127 is lower than dL, thus the samples has positive autocorrelation.

*Figure 4.7. Autocorrelation Test for Earning Management to Avoid Loss (Excluding Outliers)*

<table>
<thead>
<tr>
<th>Model Summary^b</th>
<th>Adj. R</th>
<th>R Sq.</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.059^a</td>
<td>.004</td>
<td>.017</td>
<td>.0687334</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Deferred Tax Expense*

For second model with same independent variable and sample quantity, the Durbin-Watson score is 2.348 (see Figure 4.8 below). Inserting into Durbin-Watson formula, we have:

\[ (4 - d) > dU \]

--> (4 - 2.348) > 1.585

-->(4 - d) > dU, which is in figures:

*Figure 4.8. Autocorrelation Test for Earning Management to Avoid Earning Decline (Excluding Outliers)*

From the figures above, we can conclude that there is no negative autocorrelation in the samples.
Earning management to avoid loss

Figure 4.3 shows that there is smooth shape in the area of zero earnings, even though there is single-peaked, bell-shaped distribution below zero earning. Earnings that are just less than zero occur nearly the same with earnings just more than zero. This shape is possibly due to that deferred tax expense is used as a tool to avoid loss. From 50 samples, there are only 7 samples showing net loss, while the remaining samples enjoying net income. This net loss company results in left extreme area from zero in histogram.

\[ Y = -0.558X + 0.062 \]

The relation above shows that there is a tendency that when a sample has higher deferred tax expense, the lower earning management to avoid loss is. However, the decrease in earning management is mostly very low, resulting the statistical result mostly fall in small area below zero, which is interpreted as avoiding loss effort.

This result agrees with research result by Burgstahler and Dichev (1997), which said that earnings that are just less than zero occur much less than expected and earnings just more than zero occur much more than expected, as depicted by Figure II.1.

According to this, hypotheses H1: Deferred tax expenses influence earning management to avoid loss is fulfilled.

Earning management to avoid earning decline

Figure 4.4 shows that there is less smooth shape in the area of zero earning, indicated by more samples fall in area just below zero. It can be interpreted that from the samples, there are more to report earning decline.
From Figure 4.10., the relation of deferred tax expense (as independent variable) and earning management to avoid earning decline (as dependent variable) can be described as below formula:

\[ Y = 0.646X - 0.009 \]

There is a tendency that when a sample has higher deferred tax expense, the higher earning management to avoid earning decline is. However, assuming the deferred tax expense as independent variable is same, the range of increase in earning management to avoid earning decline in second model results less than the range of decrease in earning management to avoid loss in first model.

This shape is possibly due to the plan to reduce corporate tax payment by having lower earning, while the existence of deferred tax expense itself will add up the corporate income tax payment.

Deferred tax expense reflect the amount of income tax that is payable in future periods, while deferred tax income in general arises when taxable profit is higher than book profit, additionally such a deferred tax asset can also be the consequence of unused tax losses or tax credits which are carried forward to future periods. According to this, it is reasonable that company try to utilize the benefit of deferred tax income by having more earning or in other words, avoiding earning decline.

This result agrees with research result by Burgstahler and Dichev (1997), stating a distribution that departs from a normal distribution. It can be seen that especially near zero there are too few firms which report a small earnings decline and too many which reports a small earnings increase or steady earnings, compared to a normal distribution, as depicted by Figure II.2.

According to this, hypotheses H2: Deferred tax expenses influence earning management to avoid earning decline is fulfilled.

**CONCLUSION**

This study aimed to test the predictive ability of deferred tax expense in detecting earnings management, both for the purpose of avoid loss and earnings decline, which is carried out by companies in the automotive industry listed in Bursa Efek Indonesia (BEI) for the period 2012-17. The conclusion that can be obtained are as follows:

1. There is negative relationship between deferred tax expense and earning management to avoid loss
2. There is positive relationship between deferred tax expense and earning management to avoid earning decline

This research makes implication that the use of deferred tax expense as a variable to detect earnings

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstand. Coeff.</th>
<th>Stand. Coeff.</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Const.)</td>
<td>-0.009</td>
<td>-0.009</td>
<td>0.009</td>
<td>-0.911</td>
<td>3.67</td>
<td>0.367</td>
</tr>
<tr>
<td>Def. Tax Ex.</td>
<td>0.646</td>
<td>1.152</td>
<td>0.081</td>
<td>0.561</td>
<td>5.77</td>
<td>0.577</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earning Management to Avoid Earning Decline
management. Analysis of deferred tax expense can be an alternative for external users of financial statements to measure whether a company doing an earnings management or not.

Through this study, it is recommended that:

1. The research of deferred taxes in detecting earnings management by the company should use longer time span, so it can obtain more data and has a better predictive ability to detect earnings management, also can improve the validity research result.

2. Using detail components of deferred tax expense, for future studies to improve the ability of component of deferred tax expense in predicting earnings management by companies in Indonesia.
REFERENCES


