

The Moderating Role Institutional Ownership and Tax Planning in Earning Management

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Abstract: This study aims to examine and analyze the role of institutional ownership and tax planning in earnings management. The source of research data is secondary data in the form of financial statements. The study population is manufacturing companies listed on the Indonesia Stock Exchange for the period 2017 to 2021. The sampling technique is purposive sampling. The financial statements analyzed amounted to 190 financial statements from 38 companies according to and qualified research samples. This study used quantitative descriptive analysis method using SEM-PLS analysis and processed using Warppls 8.0. The results showed that tax planning had a significant effect on earnings management and institutional ownership was able to moderate the relationship between tax planning and earnings management.

Keywords: Earnings Management, Institutional Ownership, Tax Planning

A. Introduction

Company owners or company shareholders invest their capital and are managed by company management to make a profit. Thus, management will be responsible to the owner of the company to report on the activities of managing these resources through a financial statement. The financial statements are a reflection of the results of management's performance in managing the company. Users of financial statements such as stakeholders and company managers need financial statements for decision making because in the financial statements there is information about the company, especially in terms of company finance. Shareholders can evaluate management in resource management based on financial statements. Therefore, management does things that can improve its performance, one of which is earnings management.

Romantis et al., (2020) stated that earnings management is a managerial activity to influence and intervene in financial statements using accounting methods accepted in the Generally Accepted Accounting Principles. Earnings management that is often used is to delay or accelerate income and expenses.

Earnings management is influenced by several factors, one of which is related to the imposition of income tax on profits earned by the company. The government receives substantial revenues from the tax sector. Therefore, the government is trying to maximize revenue from the tax sector through tax laws. On the other hand, managers who manage companies want to pay as little tax as possible. The difference in interests between the government and management is what ultimately makes managers will do various ways to be able to pay taxes as little as possible. So, it is not surprising that often managers do earnings management, one of which is done by means of tax planning.

Tax planning is an effort by management to reduce the tax burden to a minimum but does not violate tax regulations (Gulo & Mappadang, 2022). Management seeks to take advantage of loopholes that can allow companies to remain compliant with applicable tax routes, but the tax burden imposed on companies is engineered to be smaller or paid in the minimum nominal possible. Minimizing the tax burden can affect the increasing profit generated by the company (Gulo & Mappadang, 2022).

Investors realize that there is potential for management to attempt to engineer profits to look good. Therefore, there is a control mechanism, one of which is institutional ownership. Institutional ownership is also considered to be usable by companies as an effective monitoring tool.

Institutional ownership is share ownership by institutions such as banks, pension funds, insurance, investment companies, and other institutional ownership (Putri & Fidiana, 2022). Institutional ownership is very important in management monitoring because it allows to better understand which is more optimal. Phenomena related to the practice of earnings management have occurred in several large companies in Indonesia.

Table 1. Earning Management Phenomenon

Company	Earnings management Cases
PT Tiga Pilar Sejahtera Food Tbk (2019)	Inflated funds of IDR 4 trillion, revenue of IDR 662 billion, and others of IDR 329 billion contained in the EBITDA post Bentoel experienced a net loss of Rp.312.32 billion, although down 42% from the previous semester but the company's sales recorded an increase of 0.29%. Recording as if the company lost for 7 consecutive years (2012-2019) to avoid taxes.
PT. Bentoel International Investama Tbk (2019)	Manipulating financial reports by presenting fictitious financial reports amounting to IDR 59 billion to cover up PT's financial performance. Timah Persero is increasingly worrying about the company's business continuity.
PT. Timah Persero Tbk (2016)	

Source: (Setyawan et al., 2021)

Based on the phenomena that occur, it can be seen that company management is in charge of managing company finances for the purpose of obtaining profits. The purpose of establishing a company is to arouse investor interest in the company by creating good company performance with the main principle of sustainable future business of the company. Therefore, it is very important for companies to evaluate and maintain their financial performance in order to survive in the ever-changing and evolving business world.

Research on tax planning, earnings management and institutional ownership has been conducted by several researchers but the results vary. (Christian & Addy Sumantri, 2022), (Febriyanti, 2020), (Firmansyah et al., 2023) found that tax planning affects earnings management. Meanwhile (Achyani & Lestari, 2019) and (Gulo & Mappadang, 2022) found that tax planning has no effect on earnings management. Based on the differences in research results, there is still a research gap that needs further study.

Based on the phenomenon of earnings management cases and the still existing research gap on earnings management, further research needs to be carried out on tax planning on earnings management. This study adds institutional ownership variables as moderating variables to prove the role of institutional ownership in controlling tax planning on earnings management carried out by management. Therefore, research will be conducted on the role of institutional ownership moderation and tax planning on earnings management. The sample of this study is a manufacturing company listed on the Indonesia Stock Exchange because this sector is the largest economic contributor in Indonesia.

The formulation of the problem in this study is does tax planning affect earnings management? And can institutional ownership moderate the relationship between tax planning and earnings management? The purpose of this study is to analyze and find empirical evidence on the effect of tax planning on earnings management and institutional ownership moderation on earnings management

Analysis Framework

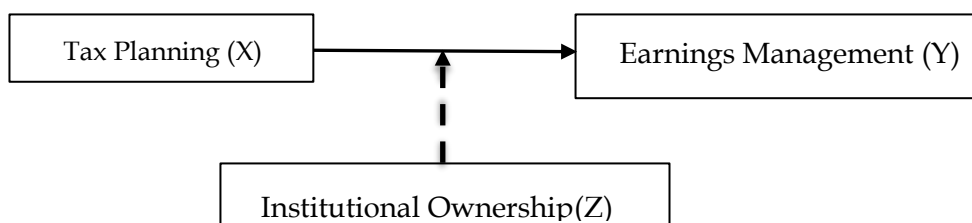


Figure 1. Analytical framework the Influence of tax planning on earnings management

The emergence of earnings management practices can be explained by agency theory. Agency theory discusses the existence of an agency relationship between principals and agents. Earnings management problems are agency problems that are often triggered by the separation of roles or differences in interests between owners (shareholders) and company managers (management). The concept of *agency theory* proposed by (C. Jensen & Meckling, 1976) in (Febriyanti, 2020) is a relationship or contract between principals and agents. The principal employs the agent performing tasks for the benefit of the principal, including delegation of decision-making authorization from the principal to the agent. Agency conflict is a separation that occurs between ownership and management of a company.

Earnings management can be defined as an action carried out through the selection of accounting policies to obtain certain objectives for example to increase company value or for the personal benefit of company management (Scott, 2015).

Tax planning is the first stage in tax management. At this stage, collection and research on tax provisions are carried out with the aim of selecting the types of actions to be taken in order to minimize taxes (Suandy, 2017).

Tax planning on earnings management can be explained by agency theory. Tax planning is carried out because of differences in interests between companies and governments. Where companies try to pay as little tax as possible, while the government expects the maximum possible tax revenue from companies. The higher the tax planning, the greater the opportunity to do earnings management. Tax planning arises because of management's desire to prioritize tax payments (Gulo & Mappadang, 2022). In order to achieve profit performance at a certain value, managers are motivated to choose certain recording methods in order to reduce the tax burden. The manager's personal interest in getting compensation for the company's performance that does not reach the target has an impact on the manager's motivation to reduce the tax burden owed to a minimum so that the value recognized as the profit generated by the company looks good and generates profit. This indicates that as the party responsible for managing the company, namely the manager, misusing the rights and responsibilities given by the owner/shareholder to carry out earnings management (Gulo & Mappadang, 2022).

Christian & Addy Sumantri, (2022), (Febriyanti, 2020), (Firmansyah et al., 2023) found that tax planning affects earnings management. From the explanation above, the hypotheses proposed in this study are: H₁: Tax planning influence earnings management.

Institutional ownership is the percentage of shares owned by institutional investors. The institutional investors in question are non-financial and financial institutions (Veronica & Suhardjo, 2022). Institutional ownership is a mechanism that can be used

to reduce agency conflict. Institutional ownership has the ability to effectively control management behavior.

Companies use tax planning to minimize corporate taxes. To get tax benefits, companies try to do tax planning. Good tax planning often reduces a company's fiscal net profit, thereby increasing commercial profit (Christian & Addy Sumantri, 2022).

Institutional ownership has an important meaning in monitoring management because institutional ownership will encourage more optimal supervision improvement. Such monitoring will certainly ensure prosperity for shareholders, the influence of institutional ownership as a supervisory agent is suppressed through their considerable investment in the capital market. Institutional shareholders, with large shareholdings, have an incentive to monitor corporate decision-making. The greater the ownership by financial institutions, the greater the voting power and drive to optimize company value. Institutional ownership has advantages, namely (1) Having professionalism in analyzing information so that it can test the reliability of information. (2) Have a strong motivation to carry out tighter supervision of activities that occur within the company. Institutional ownership is share ownership by large investors or institutions such as banks, pension funds, insurance, investment companies, and other institutional ownership (Putri & Fidiana, 2022). Institutional ownership is considered capable of helping control or suppress profit manipulation problems. Companies that have high institutional ownership can limit the attitude of managers in earnings management. In agency theory, institutional investors can monitor managers and reduce their involvement in profit manipulation and can be used as a good corporate governance mechanism. Institutional ownership can be said to be a monitoring effort. From the explanation above, the hypotheses proposed in this study are:

H₂: Institutional ownership moderates the relationship between tax planning and earnings management.

B. Methods

The object of this research is tax planning, earnings management and moderation of institutional ownership in manufacturing sector companies listed on the Indonesia Stock Exchange from 2017 to 2021. The type of research data is secondary data in the form of financial reports of manufacturing companies obtained from the official website of the Indonesia Stock Exchange (BEI).

The population of this study was taken from company data listed on the Indonesia Stock Exchange (BEI). The population used in this research is the population of Manufacturing Companies in the Manufacturing Sector for the 2017-2021 period. The sample for research is based on purposive sampling with sample determination

criteria: (a) Manufacturing Companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period 193; (b) Companies that IPO during 2017-2021 (-50); (c) Companies that publish incomplete annual financial statements for the period 2017-2021 (-49); (d) Companies that use other than rupiah in their annual financial statements for the 2017-2021 period (-21); (e) Companies that suffered losses during the period 2017-2021 (-35). Total Manufacturing companies sampled are 38 x research period are 2017-2021 (5 years). Total research samples are 190.

The data collection methods and tools obtained were obtained by tracing the company's annual financial reports from 2017-2021. Data collection was designed to add to the literature to help answer the research questions and complement the quantitative data obtained.

Earnings Management (Y)

Earnings management is the behavior of managers who aim to benefit certain parties by choosing alternative accounting policies (Scott, 2015) Earnings management formula measured by profit sharing method (Phillips et al., 2003) in (Jesika, 2022; Zai, 2023). In this study, researchers used capitalization level as a proxy for market value of equity. The capitalization value is measured by multiplying the number of outstanding shares of company *i* at the end of year *t-1* by the price of company *i* at the end of year *t-1*.

Tax Planning (X)

According to (Pohan, 2018) tax planning is the process of organizing the business of individual taxpayers or business entities that can be taken by companies within the corridors of applicable tax provisions (loopholes) so that companies can pay their tax debts, both income tax and other taxes in the minimum possible amount. Tax planning is measured using the Tax Retention Rate which is a tool to analyze a measure of the level of effectiveness of tax management carried out on the company's financial statements for the current year. Tax Retention Rate (TRR) is a measure of the effectiveness of tax management in the company's financial statements. A high TRR signifies high tax planning. This indicates that if the TRR is high, tax planning in a company is more effective. Conversely, if the TRR is low, the tax planning carried out by the company is less effective. Tax planning is measured by using the tax retention rate formula, which analyzes a measure and effectiveness of tax management in financial statements in the current year (Wildet al, 2004) in (Pratama, 2022; Suyoto & Dwimulyani, 2019). Tax planning is measured through the withholding tax rate formula, which analyzes the efficient use of tax management in the company's financial statements for the current year.

Institutional Ownership (Z)

In this research, Institutional Ownership is the moderating variable (Z). Moderating variables are variables that strengthen or weaken the direct relationship between the independent variable and the dependent variable. Institutional ownership as an adjustment variable is institutional ownership or company shares owned by institutions (Putri & Fidiana, 2022).

Methods of Analysis and Hypothesis Testing

The data analysis method relevant to this research is the use of quantitative descriptive analysis uses *SEM PLS* using Warppls 8.0 software. The tests carried out are outer model testing, inner model, and hypothesis testing (Ghozali, 2022; Sholihin & Ratmono, 2020).

Outer Model and Inner Model Testing

The outer model is measured with an indicator weight value with a p value of < 0.01 and multicollinearity testing with a VIF value of < 5 . Inner model testing is done by looking at APC, ARS, AARS, Adjusted R Squares, Gof Value, Q Squared Value.

Hypothesis Testing

Hypothesis test shows how much the independent variable and moderating variable explains the dependent variable. Testing was carried out using a significance level of 0.05 ($\alpha = 5\%$). Several test criteria based on the level of significance are as follows: (1) The hypothesis will be accepted if the significance probability is < 0.05 and (2) If the probability of significance is > 0.05 , the hypothesis will be rejected.

C. Results and Discussion

The research method in this study is purposive sampling, which is used to extract samples that meet the sample criteria, there are 38 companies that meet the sample criteria with a total of 190 samples. The samples are ADES, BUDI, CEKA, DLTA, ICBP, INDF, MYOR, ROTI, SKBM, SKLT, STTP, GGRM, HMSP, WIIM, DVLA, KAEF, KLBF, MERK, PYFA, SIDO, TSPC, KINO, UNVR, INTP, SMBR, WTON, DPNS, EKAD, SRSN, AKPI, IGAR, IMPC, TRST, JPFA, ALDO, SMSM, STAR, and SCCO.

Descriptive Analysis Results

Table 2. Descriptive Analysis Results

Variable	Maximum	Minimum	Average	Standard Deviation
Tax Planning (X)	23,169	0,027	0,888	1,646
Earnings management (Y)	0,529	-0,849	0,002	0,082
Institutional Ownership (Z)	0,925	0,051	0,669	0,201

Source: Data processed, 2023

Based on the table above, a picture of the minimum, maximum, average and standard deviation values for each research variable is obtained, namely as follows:

Based on the table above, it can be said that from 190 samples of manufacturing sector companies for the 2017-2021 period, earnings management that received the smallest data was -0.849 from MERK companies in 2019, and the largest earnings management occurred in MERK companies in 2018 which was 0.529. The standard deviation value is 0.082 and the average number for earnings management is 0.002.

Based on the table above, it can be said that from 190 samples of manufacturing sector companies for the 2017-2021 period, the tax planning that got the smallest data, namely STAR from companies in 2018, obtained 0.027, while the largest tax planning occurred in MERK companies in 2018, which obtained 23.169. The standard deviation is 1.646 and the average number for tax planning is 0.888.

Based on the table above, it can be said that from 190 samples of manufacturing sector companies for the 2017-2021 period, institutional ownership that received the smallest data was from WIIM companies in 2017-2021, which obtained 0.051, while the largest institutional ownership occurred in HMSP companies in 2017-2021, which obtained 0.925. The standard deviation value is 0.201 and the average number for institutional ownership is 0.669.

Outer Model Test

The result of outer model test:

Table 3. Outer Model Test

	X	Z	Y	Z*X	Type	P value	VIF
X	1.000	0.000	0.000	0.000	Formative	<0.001	0.000
Z	0.000	1.000	0.000	0.000	Formative	<0.001	0.000
Y	0.000	0.000	1.000	0.000	Formative	<0.001	0.000
Z*X	0.000	0.000	0.000	1.000	Reflective	<0.001	0.000

Source: Warppls 8.0 (2023)

Based on the results of the output above, it can be seen that the reliability indicators of all construct items forming Tax Planning, Institutional Ownership, Earnings management are valid using P value indicator weight <0.001 and <0.05 , the value of Variance Inflation Factor (VIF) per indicator obtained <5 which can be concluded that there is no problem collinearity between indicators which means that it has met the recommended conditions, hence the fit model.

Inner Model Test

Table 4. Inner Model Test Result

Parameter/ rule of thumb	Coefficient	P value	Result
Average path coefficient (APC)	0,458	P=0.001<0.05	Meet the Criteria
Average R-squared (ARS)	0,0,811	P=0.001<0.05	Meet the Criteria
Average adjusted R-squared (AARS)	0,809	P=0.001<0.05	Meet the Criteria
Average block VIF (AVIF)			No multicollinearity occurs
	acceptable if ≤ 5 ,	3,788 < 5	
Average full collinearity VIF (AFVIF)			No multicollinearity occurs
	acceptable if ≤ 5 ,	2,448 < 5	
Tenenhaus GoF (GoF)	small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36	0,90	Large
Adjusted R Squared	small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36		
		0,809	Large
Q-squared coefficients			Model Has
	Q>0	0,795	Predictive Value

Source: Warppls 8.0 (2023)

The above results show the output of the fit model and Quality Indicates it can be seen that the model is said to be fit because the Average path coefficient (APC), Average R-squared (ARS), and Average adjusted R-squared (AARS) have a significance value of <0.05 . The research model also does not have a multicollinearity problem because the Average block VIF (AVIF) and Average full collinearity VIF (AFVIF) values have a value of <5 . Tenenhaus GoF (GoF) has a value of 0.90 which means the model is large.

Based on the output of Warppls 8.0, the Adjusted R Squared value is 0.809, this means that the effect of the research variable is 80.9% and the remaining 19.1% is influenced by other variables outside this research model. Then the value of Q Squared is 0.795 >0 this indicates that the model is fit (Ghozali, 2022).

Multiple Regression Analysis Test Results

Regression analysis is used to describe the relationship between one variable and two or more independent variables. Based on the problem formulation and hypotheses that have been determined, the results of data processing with the Warppls 8.0 program are obtained as follows:

Table 5. Results of Regression Analysis

	Path Coefficient	P-Value
X -> Y	0,790	0,001
Z*X -> Y	-0,126	0,018

Source: Warppls 8.0 (2023)

Remarks: X: Tax Planning; Y: Earnings management; Z= Institutional Ownership.

Based on the results of data processing through multiple regression analysis in the table above, the magnitude of the influence of each variable used in this study is as follows:

$$Y = a + b_1X + Z \cdot X + e \dots$$

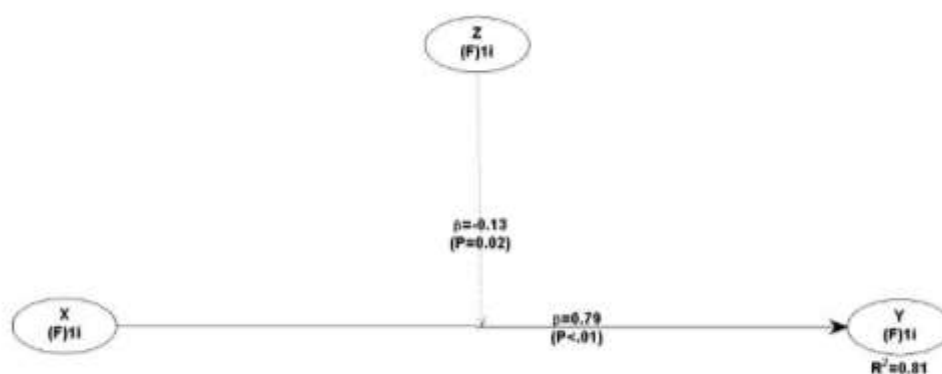
$$Y = a + 0,790 \cdot X - 0,126 \cdot Z \cdot X + e$$

From the multiple regression equation above, it can be seen that if all dependent variables are equal to zero, then earnings management will experience a change of 0. X represents a tax plan of 0.790, so every addition of tax planning 1, will add to the earnings management of 0.790. X*Z represents an institutional ownership moderation coefficient of -0.126 so every addition of 1, will reduce the value of earnings management by -0.126.

Hypothesis Test Results

The hypothesis test is to measure the influence between variables and obtain the direction of the independent variable on the dependent variable. The results of hypothesis analysis using the 5% significance level are shown in the following table:

Figure 2. Hypothesis Test Results



Source: Output Warppls 8.0 (2023)

Table 6. Significance and Coefficient Results

	Path Coefficient	P- Value	Relationship between Variables	Result
X -> Y	0,790	0,001	Significant Positive	Accepted
Z*X -> Y	-,0126	0,018	Significant Negative	Accepted

Source: Warppls 8.0 (2023)

Remarks: X: Tax Planning; Y: Earnings management; Z= Institutional Ownership.

The Influence of Tax Planning on Earnings Management

Based on the results of testing the first hypothesis using Warppls software, the significance value of the tax planning variable is 0.001 where the significance value is less than 0.05 and the coefficient is 0.790. So it can be concluded that tax planning affects earnings management. Therefore hypothesis 1 is accepted.

The results of this study are in line with research conducted by (Christian & Addy Sumantri, 2022) (Febriyanti, 2020) (Firmansyah et al., 2023) which found that tax planning has a positive and significant effect on earnings management. Tax planning arises because of management's desire to prioritize tax payments (Gulo & Mappadang, 2022) Managers are motivated to choose certain recording methods in order to minimize the tax burden and to achieve profit performance at a certain value. The manager's personal interest in getting compensation for the company's performance that does not reach the target has an impact on the manager's motivation to reduce the tax burden owed to a minimum so that the value recognized as the profit generated by the company looks good and generates profit. This indicates that as the party responsible for managing the company, namely the manager, misusing the rights and responsibilities given by the owner / shareholder to carry out earnings management. (Gulo & Mappadang, 2022). Based on (Michael. C. Jensen & Meckling, 1976) agency theory, tax planning is done because of differences in interests between companies and governments. Where companies try to pay as little tax as possible, while the government expects the maximum possible tax revenue from companies. The higher the tax planning, the greater the level of earnings management. Then management conducts tax planning so that profit performance increases so that management's performance as an agent is considered good by the principal, namely investors.

The effect of tax planning moderated by institutional ownership on earnings management

Based on the results of testing the first hypothesis using Warppls 8.0 software, the significance value of the institutional ownership moderation variable is 0.018 less than 0.05 and has a coefficient of -0.126. It can be concluded that the moderation variable of institutional ownership can moderate, weakening the relationship between tax

planning and earnings management. Therefore hypothesis 2 is accepted.

Based on the tests, the second accepted hypothesis is that institutional ownership can moderate, weakening the relationship between tax planning and earnings management. This means that the higher institutional ownership, the tax planning that affects earnings management can be reduced. Companies use tax planning to minimize corporate taxes. To get tax benefits, companies try to do tax planning. Good tax planning often reduces a company's fiscal net profit, thereby increasing commercial profit (Christian & Addy Sumantri, 2022). Institutional ownership has an important meaning in monitoring management because institutional ownership will encourage more optimal supervision improvement. Such monitoring will certainly ensure prosperity for shareholders, the influence of institutional ownership as a supervisory agent is suppressed through their considerable investment in the capital market. Institutional shareholders, with large shareholdings, have an incentive to monitor corporate decision-making. Institutional ownership is share ownership by large investors or institutions such as banks, pension funds, insurance, investment companies, and other institutional ownership (Putri & Fidiana, 2022). Institutional ownership is considered capable of helping control or suppress profit manipulation problems. Companies that have high institutional ownership can limit the attitude of managers in earnings management. Based on (C. Jensen & Meckling, 1976) agency theory, institutional investors can monitor managers as agents and reduce the involvement of agents in manipulating profits and can be used as a good corporate governance mechanism as accountability to principals. Institutional ownership can be said to be an effort to monitor agents for accountability to principals, namely investors.

D. Conclusion

Based on the results of hypothesis testing, tax planning has significant influence on earnings management. Companies use tax planning to minimize corporate taxes. To get tax benefits, companies try to do tax planning. Good tax planning often reduces a company's fiscal net income and thus increases commercial profits. According to agency theory, management conducts tax planning so that earnings performance increases so that management's performance as an agent is considered good by the principal, namely investors. Institutional ownership can moderate the relationship between tax planning and earnings management. Under agency theory, institutional investors can monitor managers as agents and reduce agents' involvement in profit manipulation and can be used as a good corporate governance mechanism to hold principals accountable. Institutional ownership can be said to be an effort to monitor agents for accountability to principals, namely investors. This research also provides suggestions (1) It is hoped that future researchers can add other variables such as deferred tax burden, company size, management compensation and so on. (2) Future researchers are expected to use other sector companies listed on the Indonesian Stock Exchange. (3) Future researchers are expected to use the latest financial report data.

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