KEPUTUSAN DEKAN FAKULTAS EKONOMI DAN BISNIS
UNIVERSITAS BUDI LUHUR
NOMOR : K/UBL/FEB/000/047/09/24

TENTANG :

PENUGASAN KEGIATAN TRI DHARMA & PENUNJANG BAGI DOSEN
FAKULTAS EKONOMI DAN BISNIS UNIVERSITAS BUDI LUHUR
SEMESTER GASAL TAHUN AKADEMIK 2024/2025

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6) Keputusan Pengurus Yayasan pendidikan Budi Luhur Cakti Nomor K/YBLC/KET/000/020/001/24 tentang pengangkatan Saudara Prof. Dr. Drs. Selamet Riyadi, M.Si sebagai Dekan Fakultas Ekonomi dan Bisinis Universitas Budi Luhur.

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Menetapkan :

PERTAMA : Menugaskan dosen-dosen Fakultas Ekonomi dan Bisnis Universitas Budi Luhur untuk melaksanakan kegiatan **Tri Dharma Perguruan Tinggi dan penunjangnya** pada Semester Gasal Tahun Akademik 2024/2025 yang meliputi:
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Ditetapkan di : Jakarta
Pada Tanggal : 2 September 2024
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Dekan Fakultas Ekonomi dan Bisnis

Prof. Dr. Drs. Selamet Riyadi, M.Si

Lampiran 1 Surat Keputusan Dekan
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19	970021	0302047102	Dwi Kristanto	Manajemen (S1)
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52	120092	0324126804	Yuphi Handoko	Manajemen (S1)
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TAX ASPECT, GOVERNANCE MECHANISM, AND NEW BANK DISCRETION: RESTRUCTURING & COVID-19 EFFECT

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Abstract

This study investigates the influence of deferred tax expenses and tax retention on earnings management with banking governance mechanisms as moderating variables. The sample for this study comprises 124 data points from banks listed on the IDX between 2019 and 2022. The effects of credit restructuring and the global SARS-CoV-2 pandemic were examined using a moderated regression analysis with a fixed effect model (FEM). The results reveal that deferred tax expenses have a positive impact on discretionary provision, while tax planning has no effect. Additionally, an independent commissioner mitigates the positive effect of deferred tax expenses on earnings management. The study also finds a significant difference in earnings management practices between the pre-Covid-19 period and pandemic periods. These findings suggest that regulators and banking risk control teams should be cautious about tax aspects that may encourage discretionary behavior such as deferred tax liabilities and tax planning during specific periods.

Keywords: Deferred Tax Expense, Tax Retention Rate, Governance Mechanism, Earnings Management, Covid-19.

Abstrak

Penelitian ini menginvestigasi pengaruh beban pajak tangguhan dan retensi pajak terhadap manajemen laba dengan mekanisme tata kelola perbankan sebagai variabel pemoderasi. Sampel penelitian ini terdiri dari 124 titik data dari bank-bank yang terdaftar di BEI antara tahun 2019 dan 2022. Analisis regresi moderasi dengan Fixed Effect Model (FEM) menguji dampak dari restrukturisasi kredit dan pandemi global SARS-CoV-2. Hasilnya menunjukkan bahwa beban pajak tangguhan memiliki dampak positif terhadap penyisihan diskresioner, sedangkan perencanaan pajak tidak berpengaruh. Selain itu, komisaris independen memitigasi pengaruh positif beban pajak tangguhan terhadap manajemen laba. Studi ini juga menemukan perbedaan yang signifikan dalam praktik manajemen laba antara periode sebelum dan sesudah pandemi. Temuan ini menunjukkan bahwa regulator dan tim pengendalian risiko perbankan harus berhati-hati terhadap aspek perpajakan yang dapat mendorong perilaku diskresioner seperti kewajiban pajak tangguhan dan perencanaan pajak selama periode tertentu.

Kata Kunci: *Beban Pajak Tangguhan, Tax Retention Rate, Mekanisme Tata Kelola, Manajemen Laba, Covid-19.*

INTRODUCTION

Earnings management is a widely utilized tactic employed by organizations to achieve specific objectives, particularly in the realm of tax planning (Ratu et al., 2023); (Scott, 2015)). Although tax avoidance practices are legal and necessary for effective corporate management, they present a challenge for state tax revenue (Ratu et al., 2023). The lack of trust among readers of financial statements regarding information provided by companies has been attributed to the widespread use of earnings management practices in the banking industry. Instances of earnings management involving taxation have been reported worldwide, including a case in the United States, where a bank was involved in a scheme to conceal more than US$2.6 billion from the Internal Revenue Service (IRS). The IRS is a federal agency responsible for collecting US federal and other national taxes (Benner, 2021) Moreover, there have been cases of earnings management linked to tax avoidance in Indonesia, such as the case of PT Bank Pan Indonesia (Panin) in 2016. The Corruption Eradication Commission (KPK) uncovered evidence of PT Bank Pan Indonesia’s (Panin) tax payment of IDR 926 billion in December 2017, but the company only offered to pay IDR 300 billion (Suparman, 2021) Based on the numerous examples presented, it can be inferred that financial reporting is often manipulated by management through the adjustment of tax values to present a more favorable image to external parties. This practice involves engineering companies with small profits that appear an those with large profits appearing smaller. Consequently, the tax deffered that company is required to pay is minimized, which is referred to as tax avoidance. This positively correlates with earnings management (Mulatsih et al., 2019a); (Karjalainen et al., 2023); Floropoulos et al. 2023).

Tax motivation is a concept employed by companies to minimize their tax liabilities, as taxes are mandatory contributions to the state that can impede a company's economic capacity (Beuselinck & Deloof, 2014; Amran et al., 2023). The government aims to collect as much tax as possible to finance the state's needs, while businesses strive to reduce their tax burdens. Consequently, organizations engage in tax planning to minimize their tax liabilities, which can represent a substantial expense ((Kałdoński & Jewartowski, 2020)). Companies should provide detailed financial performance information to enhance the visibility of their circulating profits. Management may engage in tax planning to reduce profits that can be distributed to investors or invested in by the company, which can also involve engaging in earnings management to inflate profits (Beuselinck & Deloof, 2014; Amran et al., 2023) However, prior research found that companies engage in costly earnings management to inflate profits, which can offset the benefits of tax planning. The implementation of tax-planning activities can reduce companies’ additional tax burden (Kałdoński & Jewartowski, 2020)

This study also examines whether deferred tax expenses can detect companies’ earnings management to avoid losses and reduce profits. Prior research suggests that deferred tax expenses are positively correlated with earnings management and can be detected in the context of changes in corporate income tax rates (Zanon & Dantas, 2020; Aguguom & Salawu, 2019; (Almeida & Monte, 2024). However, other studies report conflicting results, indicating that the deferred tax burden has no effect on earnings management (Barus & Setiawati, 2015; Lannai, 2022). This inconsistency in findings has prompted researchers to conduct further studies on the effect of the deferred tax burden on earnings management. In addition, earnings management is often characterized as the act of adjusting financial records by manipulating accounting techniques. It has been established that effective corporate governance is linked to heightened tax compliance and reduced earnings management (Valdiansyah & Murwaningsari, 2022; Robin et al., 2021; Mayasari et al., 2019). The studies indicate that robust corporate governance has a positive influence on a company's profits. It is crucial for shareholders to monitor management activities and ensure they have timely and accurate information. Companies must also adopt transparent practices to report their performance. But, on the other hand, Other study reported that an independent commissioner did not affect the relationship between earnings management and tax avoidance (Zaman et al., 2024). Similarly, previous research concluded that good corporate governance, proxied by the Independent Commissioner, was unable to moderate the relationship between tax planning and earnings management. These findings imply that the presence of governance structures alone may not be sufficient to mitigate such practices (Budiantoro et al., 2022).

This study focuses on banking earnings management and incorporates restructuring indicators, a novel approach that has not been commonly explored in previous research (Kanagaretnam et al., 2010) Previous studies on banking earnings management (Beaver & Engel, 1996; Bushman & Williams, 2012; (Kanagaretnam et al., 2004), Kanagaretnam et al., 2010) had limitations, prompting this study to develop a new measurement model. This model carefully selects indicators for credit loss provisions and addresses overlooked factors related to credit restructuring. Furthermore, the study offers a novel perspective on the relationship between taxation and banking earnings management during crisis periods such as the Covid-19 pandemic.

This study is valuable in that it addresses the disparate conclusions regarding the roles of governance mechanisms in relation to tax aspects and earnings management that have been reached by past studies. This has prompted further research in this area. Additionally, this study provides a distinct analysis by comparing two earnings management measurements using different indicators (Kanagaretnam et al., 2010; Valdiansyah et al., 2023) to offer a more comprehensive perspective. The proposed measurement addresses the limitations of existing methods constrained by prudence in credit loss provisions and an incomplete view of credit risk. The original measurement (Kanagaretnam et al., 2010) suggested that increased discretion in accounting for credit losses poses significant risks, as gains from reduced procyclicality may be offset by losses in transparency, diminishing market discipline and increasing imprudent risk-taking by banks. The findings of this study are expected to contribute to taxation theory, potentially helping mitigate credit risk when taking earnings management actions. Furthermore, researchers hope that the results of this study will serve as a useful reference for academics, practitioners, company top management, and internal auditors to identify earnings management actions in the banking sector. The findings of this study may also advance the field of accounting science, particularly in earnings management and banking.

LITERATURE REVIEW

Agency Theory

Agency theory, initially proposed by Jensen and Meckling in 1976, delineates the relationship between management (agents) and owners or shareholders (principals). This theory posits a contractual arrangement between shareholders who own economic resources and managers who are entrusted with the responsibility of managing and directing a company's affairs. Agency theory elucidates the complexities and challenges inherent in the principal-agent relationship. In this arrangement, the principal legally appoints the agent to make decisions and take action on their behalf (Liu & Sickles, 2021). However, principals are unable to manage their own companies directly due to various constraints. In such relationships, the management or the agent endeavors to secure contributions from the principal, which may include bankers, shareholders, employees, and others. As emphasized by previous study, the agent is entrusted with overseeing the company's operations, submitting financial reports, and fulfilling the obligations outlined in the original contract (Hussain & Akbar, 2022).

The divergent interests between the government, acting as a tax collector, and the company, also acting as a tax collector, create agency conflicts. The government aims to secure the highest possible tax revenue from each company, whereas the company endeavors to minimize its tax liability to achieve maximum profit through the utilization of deferred tax expenses and tax planning. Because of these conflicting interests, the company employs various strategies to fulfill its tax obligations to the government (Amran et al., 2023)

The concept of banking earnings management

In the banking industry, earnings of high quality are characterized as earnings reported in financial statements that have not been significantly manipulated. A substantial body of research in the banking field demonstrates that the concept of provisions for impairment losses (LLP) is frequently used by banking managers as a means of manipulating reported earnings. This is supported by studies conducted by (Balla & Rose, 2015), (Beatty & Liao, 2014) , (Bushman & Williams, 2012) , (Danisman et al., 2021) and (Peterson & Arun, 2018) The existing literature suggests that bank managers exercise their discretion in the context of loan loss provisions in order to manage reported earnings. This is often achieved through the implementation of earnings smoothing or earnings management strategies, which can lead to an increase in profits. The exercise of managerial discretion in loan loss provisions gives rise to an increased inclination for risk-taking among banking institutions. Previous study has demonstrated that discretionary loan loss provisions are utilized by banking institutions for the purpose of earnings smoothing. (Bushman & Williams, 2012). Other research indicates that banks facing elevated levels of risk tend to maintain higher loan loss provisions and engage in earnings management practices to achieve a more stable earnings trajectory over time (Aristei & Gallo, 2019).

Tax Planning and Earnings Management

The retention rates of taxes, serving as a proxy for tax planning, has a noteworthy influence on earnings management. Managers can take advantage of tax planning loopholes to minimize their tax liability. So long as it adheres to relevant tax regulations, this practice is considered legal. Tax planning is a vital managerial activity with significant consequences for a company's growth, internationalization, value, and capital structure (Cooper & Nguyen, 2020; Wang et al., 2020). The relationship between tax retention rate and bank earnings management is not directly addressed in the provided contexts. However, previous study explores the dynamic between Tax Retention Rate and Good Corporate Governance in relation to Earning Quality in the industrial sector, finding that the tax retention rate distinctly influences earning quality (Susilawati et al., 2024). While this study does not focus on banks, it suggests a positive impact of tax retention rates on earning quality, which could be extrapolated to imply a potential influence on earnings management practices.

The relationship between tax planning and earnings management in banks is complex and multifaceted. Some studies suggest that tax planning can have a positive influence on earnings management, the specific mechanisms and conditions under which this occurs can vary. Tax planning strategies may enable banks to optimize their tax liabilities and, in doing so, improve their reported earnings. This optimization can be achieved through legal avenues that align with corporate financial strategies, potentially leading to a positive impact on reported earnings (Ratu et al., 2023). The impact of tax planning on earnings management may depend on various factors, including the regulatory context, the financial health of the institution, and the specific tax strategies employed. Several studies indicate that tax planning has a significant positive effect on earnings management (Shittu et al., 2024; Maigoshi & Tanko, 2023; Hidayat et al., 2021).

H1: Tax Planning has a positive impact on earnings management.

Tax Deffered Expense and Earnings Management

Deferred tax expense arises from the differences between accounting practices and tax regulations, which can lead to temporary differences in reported earnings and taxable income. These differences can be utilized by management to smooth income, meet benchmarks, or manage stakeholders' perceptions, which is often referred to as earnings management. Firms may use deferred tax expense to manage earnings as part of their financial reporting strategy, often to avoid reporting losses or to smooth earnings over time (Machdar & Nurdiniah, 2021; Machdar, 2022)). Dhaliwal et al., (2004) conducted a study on deferred tax and profit increases, concluding that permanent differences based on tax accruals have a detrimental impact on corporate incentives to increase reported profits. Previous study investigated the effect of tax avoidance on deferred taxes caused by large positive book tax differences and profit persistence (Blaylock et al., 2015). In other words, deferred tax expenses are accelerated to save taxes and defer income (Mulatsih et al., 2019) High deferred tax expenses might be associated with greater earnings management, which in turn could influence the level of discretion exercised by banks, particularly in their assessment of a bank's financial health or in their lending decisions.

Some studies suggest that a higher deferred tax expense can have a positive impact on a bank's loan loss provisions. Deferred tax expense arises when a bank recognizes income or expenses for tax purposes differently than for financial

reporting purposes (Bhattarai, 2020; Ozili, 2019). This timing difference can create a temporary tax liability or asset, which the bank must account for (Ciukaj & Kil, 2020). Several studies indicate that deferred tax expense has a significant positive effect on earnings management (Amran et al., 2023; Handayani et al., 2020; Herdiansyah et al., 2022; Zanon & Dantas, 2020; Aguguom & Salawu, 2019; Almeida & Monte, 2024), suggesting that as deferred tax expenses increase, so does the likelihood of earnings management. This is consistent with the notion that managers may use deferred tax expenses as a tool to influence reported earnings.
H2: Deferred tax expense has a positive impact on earnings management.

Tax Planning, Governance Mechanism, and Earnings Management

Corporate governance mechanisms are generally designed to mitigate earnings management practices, which can distort financial reporting and potentially affect tax liabilities. Actually, the main goals of corporate governance, as derived from the current provisions, center on ensuring accountability, transparency, and ethical conduct within organizations to maximize shareholder value and maintain stakeholder trust (Efunniyi et al., 2024). These goals are achieved through a combination of regulatory compliance, risk management, and the establishment of effective governance structures (Efunniyi et al., 2024; Jejeniwa et al., 2024). The studies reviewed offer insights into the complex interplay between corporate governance and earnings management. Governance mechanisms weaken the positive effect of tax planning on discretionary loan loss provisions (LLPs) because they often involve oversight and constraints that limit managers' ability to engage in opportunistic practices. For instance, the presence of a larger board size, gender diversity, and an independent audit committee can constrain earnings management practices, including the use of discretionary LLPs for tax planning purposes (Mokrani et al., 2021). Additionally, the effectiveness of governance mechanism has been shown to mitigate discretionary practices effectively (Zgarni et al., 2018).

On the other hand, governance mechanism weakens the positive effect of tax planning on discretionary LLPs by imposing oversight and providing checks and balances that limit the ability of bank managers to manipulate earnings in terms of tax-advantaged opportunities. (Rizani et al., 2022) suggests that good governance mechanism can reduce earnings management, thereby potentially improving financial performance. The notion that stronger corporate governance mechanisms have a negative impact on earnings management (Sehrawat et al., 2019; Uddin, 2024). Specifically addresses Islamic banks, finding that the effectiveness of governance mechanism negatively affects earnings management (Fitri & Siswantoro, 2022). Some previous studies also indicate that certain aspects of governance mechanism can reduce tax aggressiveness, which is a form of tax planning (Firmansyah & Nugroho, 2018; Indriani & Ramli, 2024)

In summary, the literature suggests that effective corporate governance can mitigate earnings management, which may, in turn, influence tax retention strategies. While the studies do not directly address the weakening of the positive impact of tax planning, they collectively imply that strong governance could lead to less aggressive tax planning by reducing the manipulation of financial results. This could potentially affect the retention of earnings within banks, as more transparent earn.

H3: The efficacy of tax retention rate as a tool for earnings management is diminished by governance mechanisms.

Tax Deferred Expense, Governance Mechanism, and Earnings Management

According to (Scott, 2015) earnings management pertains to the decision-making process of employing specific accounting policies, such as the straight-line or other methods, to reduce the company's profits and subsequently lower the tax deferred expenses. Corporate Governance ensures that management considers the company's best interests. The purpose of appointing independent commissioners was to establish a more impartial and unbiased environment for public companies, as noted by (Zaman et al., 2024). The presence of independent commissioners promotes fairness by guaranteeing the equitable treatment of both controlling and minority shareholders (Zaman et al., 2024; Nugrahaeni & Muharam, 2023). Privious study find that the presence of independent commissioners can curb tax avoidance (Ningrum & Nurasik, 2021). Furthermore, (Asyati & Farida, 2020) and (Silmy et al., 2020) report a negative correlation between the presence of independent commissioners and earnings management activities. (Putri & Prasetyo, 2020) conclude that the appointment of independent commissioners can effectively reduce the occurrence of earnings management practices and tax avoidance. Thus, the role of independent commissioners is to scrutinize financial reporting, particularly with respect to earnings management operations, for potential tax avoidance.

H4: The efficacy of deferred tax expenses as a tool for earnings management is diminished by governance mechanisms.

RESEARCH METHODOLOGY

This study analyzes the financial statements of 31 banking companies listed on the Indonesia Stock Exchange, covering the period 2019-2022, resulting in a total sample size of 124 data points.

Table 1. Purposive Sampling Process

Details	Banks	Data
Number of Banks listed on IDX in 2023	47	188
Number of Banks listed on the IDX after 2019	-3	-12
Number of Banks listed on the non-conventional IDX	-3	-12
Number of Banks listed on the IDX not on the Main Board	-10	-40
Total Data	31	124

Source: researcher's data processing from IDX (2024)

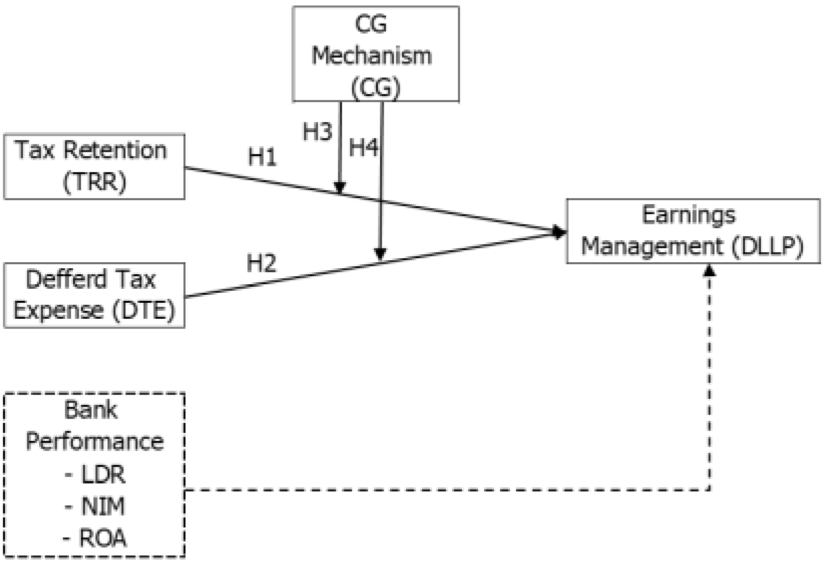
The research design employed is that of quantitative causality research, which entails testing the effect of variables pertaining to deferred tax expenses and tax retention rates, with discretionary loan loss provisions (DLLP) serving as the dependent variable. The governance mechanism is utilized as a moderator, whereas bank performance, represented by LDR, NIM, and ROA, serves as the control variable. This study's comprehensiveness is further enhanced through a sensitivity analysis comparing the current results with previous earnings management measurements (Kanagaretnam et al., 2010) and additional tests to analyze the effects of the pandemic during the crisis period, both prior to and during the pandemic.

The present study utilizes Moderated Regression Analysis (MRA) as a statistical technique and employs EViews version 13.0 as the software application. The research model can be expressed as follows:

$$DLLP_{it} = \alpha + \beta_1 TRR_{it} + \beta_2 DTE_{it} + \beta_3 TRR_{it}*CG_{it} + \beta_4 DTE_{it}*CG_{it} + \beta_5 LDR_{it} + \beta_6 NIM_{it} + \beta_7 ROA_{it} + e \quad (1)$$

Notes:
DLLPit = Earnings Management; α = Constant; β1,,,,,,,β7 = Coefficients; TRRit= tax Planning; DTEit = Deffered Tax Expenses; LDRit = Loan to Deposits; NIMit = Net Interest Margin; ROAit = Return on Assets; e = errrors
Source: researcher's data processing (2024)

Figure 1. Research Framework



Source: researcher's data processing (2024)

Variable Measurement

New Earnings Management Model (DLLP)

This study utilizes a modified dicretionary loan loss provisions (Kanagaretnam et al., 2010) model to investigate earnings management practices, incorporating restructuring indicators to proxy earnings management based on discretionary accruals. This method identifies instances where discretionary accruals surpass the expected range, indicating earnings management within financial statements (Paiva et al., 2016) The proposed measurement addresses the limitations of existing methods constrained by prudence in credit loss provisions and an incomplete view of credit risk. The original measurement suggested that increased discretion in accounting for credit losses poses significant risks, as gains from reduced procyclicality may be offset by losses in transparency, diminishing market discipline and increasing imprudent risk-taking by banks (Kanagaretnam et al., 2004).

According to Basel III paragraph 195 (2017), credit restructuring is an indicator of credit loss events, which banks must consider when determining credit loss provisions (Basel Committee on Banking Supervision, 2017). IFRS 9 Par. 5.5.11 also indicates that significant increases in credit risk before a financial instrument matures, or debtor-specific factors such as modification or restructuring, should be observed. Consequently, if forward-looking information is available without undue cost or effort, it must be used to assess changes in credit risk rather than relying solely on matured information (International Accounting Standard Board Committee Foundation, 2016). IAS 39 Par. 59 further states that evidence of impairment of a financial asset or group of assets includes information about adverse events such as breaches of contract, defaults, delinquencies in payments, or restructuring due to the debtor's financial difficulties (International Accounting Standard Board Committee Foundation, 2016).

In managing banking systems, the principle of prudence is essential to mitigate various risks and protect third-party funds. According to the IFRS framework, the IASB describes "cautious prudence" as exercising caution when making judgments under uncertainty (paragraph 2.18), aligning it with neutrality. Prudence ensures neither overstatement nor understatement of assets, liabilities, income, or expenses. Indonesian banking regulations, such as POJK No. 48/POJK.03/2020, support this by using restructuring indicators to manage non-performing loans and improve risk management, especially in response to the COVID-19 pandemic (Indonesian Financial Service Authority, 2020).

$$LLP_{it} = \alpha_0 + \alpha_1 LLA_{t-1}/TA_{it-1} + \alpha_2 NPL_{t-1}/TA_{it-1} + \alpha_3 \Delta NPL_{it}/TA_{it-1} + \alpha_4 CO_{it}/TA_{it-1} + \alpha_5 LOAN_{it}/TA_{it-1} + \alpha_6 \Delta LOAN_{it}/TA_{it-1} + \alpha_7 RESTR_{it}/TA_{it-1} + \varepsilon_{it} \quad (2)$$

$$NDLLP_{it} = \alpha_0 + \alpha_1 LLA_{t-1}/TA_{it-1} + \alpha_2 NPL_{t-1}/TA_{it-1} + \alpha_3 \Delta NPL_{it}/TA_{it-1} + \alpha_4 CO_{it}/TA_{it-1} + \alpha_5 LOAN_{it}/TA_{it-1} + \alpha_6 \Delta LOAN_{it}/TA_{it-1} + \alpha_7 RESTR_{it}/TA_{it-1} \quad (3)$$

$$DLLP_{it} = LLP_{it} - NDLLP_{it} \quad (4)$$

Tax Planning (TP)

Tax Retention Rate is employed as a measure of tax planning because it reflects the proportion of net income after accounting for taxes, which is indicative of a company's efficiency in managing its tax liabilities (Rochaendi & Ginting, 2021; Shinta, 2023) TRR is a critical metric as it directly influences the financial performance of a company by affecting the amount of earnings that can be reinvested in the business or distributed to shareholders (Shinta, 2023).

Deffered Tax Expenses (DTE)

Furthermore, the measurement of deferred tax expenses is a complex process that involves understanding the temporary differences between the tax base of assets and liabilities and their carrying amounts in financial statements. An analytical model showing that the value of deferred tax assets and liabilities should reflect the after-tax cash flows and that their market value may differ from their recorded amounts depending on the timing of tax deductions and the valuation of underlying assets and liabilities (Guenther & Sansing, 2000). The importance of accurately defining and calculating current and deferred taxes to reflect the correct amount of income taxes payable or reimbursable. The deferred tax expenses can influence accrual earnings management, suggesting that the measurement of these expenses is not only a technical accounting issue but also has implications for corporate behavior and regulatory oversight (Saputra & Kuntadi, 2023; Machdar & Nurdiniah, 2021).

Table 2. Variable Measurement

Variables	Formulas			References
Tax Planning	TP	=	$\frac{\text{Net Income}_{it}}{\text{Pretax Income}_{it}}$	(Rochaendi & Ginting, 2021a)
Deferred Tax Expenses	DTE	=	$\frac{\text{Deferred Tax Expenses}_{it}}{\text{Total Assets}_{it-1}}$	(Saputra & Kuntadi, 2023b)
Earnings Management	DLLP	=	$LLP_{it} = a_0 + a_1LLA_{t-1}/TA_{it-1} + a_2NPL_{t-1}/TA_{it-1} + a_3 DNPL_{it}/TA_{it-1} + a_4 CO_{it}/TA_{it-1} + a_5 LOAN_{it}/TA_{it-1} + a_6DLOAN_{it}/TA_{it-1} + a_7RESTR_{it}/TA_{it-1} + e_{it}$	(Valdiansyah et al., 2023)
			$NDLLP_{it} = a_0 + a_1LLA_{t-1}/TA_{it-1} + a_2NPL_{t-1}/TA_{it-1} + a_3DNPL_{it}/TA_{it-1} + a_4CO_{it}/TA_{it-1} + a_5LOAN_{it}/TA_{it-1} + a_6DLOAN_{it}/TA_{it-1} + a_7RESTR_{it}/TA_{it-1}$	
			$DLLP_{it} = LLP_{it} - NDLLP_{it}$	
Governance Mechanism	CG	=	$\frac{\text{Number of Independence Commissioner}}{\text{Total number of Commissioner}}$	(Valdiansyah & Murwaningsari, 2022b)
Bank Performance	LDR	=	$\frac{\text{Total Loan Disbursement}}{\text{Total Deposit from Customers}}$	(Sukmadewi, 2020)
	NIM	=	$\frac{\text{Net Interest Income}}{\text{Average Earnings Assets}}$	(Sukmadewi, 2020)
	ROA	=	$\frac{\text{Net Interest Income}}{\text{Total Assets}}$	(Sukmadewi, 2020)

Source: (Rochaendi & Ginting, 2021; Saputra & Kuntadi, 2023; Valdiansyah et al., 2023; Valdiansyah & Murwaningsari, 2022); Sukmadewi, 2020)

Governance Mechanism (CG)

Independent commissioners serve as a critical component of corporate governance mechanisms to oversee management actions and protect stakeholder interests. This suggests that independent commissioners is a key aspect of corporate governance to detect or prevent managerial discretion that could lead to adverse outcomes. The role of independent commissioners should be considered within the broader context of corporate governance reforms and supervisory practices to ensure the stability and performance of banks (Valdiansyah & Murwaningsari, 2022; Braendle, 2018).

Bank Performance (LDR, NIM, ROA)

The Loan to Deposit Ratio (LDR), Net Interest Margin (NIM), and Return on Assets (ROA) are recognized as significant indicators of bank performance. LDR reflects a bank's liquidity by indicating the proportion of a bank's loans to its deposits, NIM represents the difference between the interest income generated and the amount of interest paid out to lenders, relative to the amount of their interest-earning assets, and ROA measures a bank's profitability by showing how effectively it can convert assets into net income. These metrics are valuable for assessing bank performance, and in detecting earnings management. Earnings management involves the manipulation of financial reports to either mislead stakeholders about the economic performance of a company or to influence contractual outcomes that depend on reported accounting numbers. (Sukmadewi, 2020).

RESULT AND DISCUSSIONS

Table 3 presents an overview of the descriptive statistics. It is worth mentioning that the total sample that used in this study is 124 sample. Average value of the DLLP showed a negative trend of -0.056. This indicates that banks generally decrease their profits in the current year when they engage in earnings management.

Table 3. Statistics Descriptive

Variables	Mean	Maximum	Minimum	Std. Dev.	Observations
DLLP	-0.0056	0.0409	-0.0469	0.0122	124
TP	0.8211	9.4180	-0.8260	0.8079	124
DTE	0.0009	0.0353	-0.0048	0.0042	124
CG	0.5742	1.0000	0.0000	0.1237	124
LDR	2.0862	80.8400	0.2967	9.5249	124
NIM	0.1517	6.6200	0.0047	0.8266	124
ROA	0.0745	4.3100	-0.1589	0.5240	124

Source: EViews data processing results (2024)

Table 4. Correlations Matrix

	TRR	DTE	CG	LDR	NIM	ROA
TP	1.0000					
DTE	0.8053	1.0000				
CG	-0.0427	-0.0660	1.0000			
LDR	-0.0108	-0.0495	-0.1068	1.0000		
NIM	-0.0129	-0.0552	-0.1036	0.9980	1.0000	
ROA	-0.0183	-0.0620	-0.1097	0.9933	0.9978	1.0000

Source: EViews data processing results (2024)

Table 4 (Correlation Coefficients) indicates that the correlation between the independent variables was not particularly strong. This finding suggests that further research is required. Notably, the control variables (LDR, NIM, ROA) exhibit an almost perfect correlation, as they are directly related to banking performance. The use of panel data in this study enables researchers to test for causality or perform regression analysis. However, this necessitates the implementation of a model-selection test. Furthermore, the Chow and Hausmann tests yielded a P-value of less than 0.05, indicating that the fixed effects model (FEM) is the optimal model in this study.

The first hypothesis results indicate that tax planning has no impact on earnings management (table 5 model 1). Agency theory posits that there is a conflict of interest between the managers (agents) and the shareholders (principals), which can lead to managers engaging in earnings management to serve their own interests rather than those of the shareholders. However, this study doesn't prove or explain the occurrence of tax planning and earnings management across different contexts. The relationship between tax planning and earnings management in banks is not straightforward. While tax planning is a legitimate business practice aimed at minimizing tax liabilities, it does not necessarily lead to earnings management. Earnings management involves the manipulation of financial statements to present a desired image of a company's financial health, which can be influenced by various factors, including managerial incentives and regulatory environments. Interestingly, the previous studies also reviewed do not provide a consensus on the impact of tax planning on earnings management.

Table 5. Effect Model Test

Test Summary		Prob. (Value)	Best Model
Chow Test	Cross-section F	0.0000	Fixed Model
	Cross-section Chi-square	0.0000	
Hausmann Test	Cross-section random	0.0058	Fixed Model

Source: EViews data processing result (2024)

For instance, tax planning does not affect earnings management in the banking sector, suggesting that other factors such as financial distress have a more significant influence (Asiah et al., 2023). This could be due to effective corporate governance, external monitoring by institutional investors, or the complex regulatory environment in which banks operate (Asiah et al., 2023). This results occurred because due to the presence of other dominant factors that influence managerial decisions regarding these provisions. For instance, discretionary loan loss provisions for Japanese banks are related to external financing demands, securities gains, and prior year taxes, but not explicitly to tax planning. This results have a similar results with previous research (Asiah et al., 2023; Ulfa et al., 2022) and contradict with previous research (Shittu et al., 2024; Maigoshi & Tanko, 2023; (Hidayat et al., 2021).

On the other hand, The findings of the second hypothesis test suggest that deferred tax expenses have a favorable impact on earnings management (table 6 model 1). The larger the deferred tax expense that a company incurs, the more significant the future deferred tax burden that the company will fact. One such activity is earnings management, which can be used to manipulate financial statements to present a more favorable view of the company's performance. Deferred tax expenses, which arise from temporary differences between accounting and tax treatments, can be used as a tool for earnings management (Saputra & Kuntadi, 2023)

The empirical evidence from this studies reviewed suggests that deferred tax expenses are indeed associated with earnings management. For instance, deferred tax liabilities have a significant impact on earnings management and can detect earnings management upwards (Tartono et al., 2021). Furthermore, deferred tax expenses also influence accrual earnings management (Machdar & Nurdiniah, 2021). These findings align with agency theory, as they suggest that management may use deferred tax accounts to manage earnings in a way that could potentially mislead shareholders and other stakeholders about the company's true financial position. The relationship between deferred tax expenses and earnings management is consistent with the predictions of agency theory. Management may use the flexibility in accounting for deferred taxes to manipulate earnings, thereby engaging in earnings management. These results underscore the importance of scrutinizing deferred tax accounts to detect potential earnings management, which is a concern for shareholders and regulators alike. This is supported by the findings of multiple studies (Hidayat et al., 2021; Machdar & Nurdiniah, 2021; Amran et al., 2023; Handayani et al., 2020; Herdiansyah et al., 2022; Zanon & Dantas, 2020b; Aguguom & Salawu, 2019; Almeida & Monte, 2024) which show a positive relationship between deferred tax expenses and various forms of earnings management but contrary with previous studies (Barus & Setiawati, 2015; Lannai, 2022).

Table 6. Moderated Regression Analysis (MRA) – Sensitivity Analysis

Variables	Model 1			Model 2		
	C	t-Stat.	Prob.	C	t-Stat	Prob.
C	-0.0183	-0.9313	0.3543	-0.0085	-0.4136	0.6802
TP	0.0186	0.7242	0.4709	0.0101	0.3768	0.7073
DTE	3.9336	1.8224	0.0719*	3.7994	1.6876	0.0952*
CG	0.0221	0.5781	0.5647	0.0089	0.2244	0.8230
TP*CG	-0.0341	-0.6777	0.4998	-0.0181	-0.3452	0.7308
DTE*CG	-7.8444	-2.0273	0.0458**	-7.3457	-1.8201	0.0723*
LDR	-0.0051	-2.8760	0.0051***	-0.0048	-2.6083	0.0107**
NIM	0.1399	3.6049	0.0005***	0.1315	3.2484	0.0017***
ROA	-0.1286	-3.8850	0.0002***	-0.1203	-3.4838	0.0008***
Restructuring Indicator	Yes			No		
N	124			124		
R^2	0.74913			0.69689		
Adj. R^2	0.63698			0.56138		
F-statistic	6.67951			5.14278		
Prob. (F-stat.)	0.00000			0.00000		

Notes: Prob.value: *prob. 0.1; **prob 0.05; ***prob 0.01 C: Constant, TP: Tax Planning; DTE: Deferred Tax Expenses; CG: Governance Mechanism; LDR: Loan to Deposit Ratio; NIM: Net Interest Margin; ROA: Return on Assets; N: Total Sample
Source: EViews data processing result

The lack of a direct link between independent commissioners and the moderation of tax planning's influence on discretionary loan loss provisions in hypothesis 3 (Table 6 model 1) suggests that the relationship may be complex and influenced by multiple factors, including regulatory changes, governance mechanisms, and the specific financial and operational context of banks (Mokrani et al., 2021; Zgarni et al., 2018). It is possible that independent commissioners may not have a direct impact on tax planning strategies or that their influence is overshadowed by other more dominant factors. For instance, this could be due to the complexity of tax regulations, the strategic importance of tax planning for firms, or the potential for governance mechanisms to be circumvented or ineffective in certain situations (Kolsi & Grassa, 2017; Mokrani et al., 2021; Toshmatov et al., 2022). However, Hypothesis 4 in this study is approved. Governance mechanisms are designed to oversee management actions and align their decisions with shareholder interests, potentially moderating the influence of deferred tax expenses on discretionary loan loss provisions. The presence of a robust governance framework can constrain managerial opportunism, as evidenced by the findings that board size, gender diversity, audit committee's independence, and state ownership can limit earnings management practices (Mokrani et al., 2021) The role of independent commissioners in moderating the influence of deferred tax expenses on discretionary loan loss provisions (DLLPs) can be understood through the lens of corporate governance. Independent commissioners, who are expected to act in the best interest of shareholders, may exert oversight on management's financial reporting decisions, including the use of DLLPs. Deferred tax expenses, which arise from temporary differences between accounting and tax treatments, can affect a bank's reported earnings. DLLPs, as a component of earnings management, can be used to smooth income, manage capital, or for tax planning purposes (Toshmatov et al., 2022)

Sensitivity Analysis

One of the original contributions of the researchers in this study is the introduction of a new discretionary loan loss provisions measurement method, which incorporates restructuring indicators as a factor in the loan loss provisions calculation (Valdiansyah et al., 2023). While the results of the hypothesis tests presented in Table 6, Models 1 and 2, appear similar, an examination of the R-squared values reveals that the DLLPs model with the additional restructuring indicators provides a more comprehensive representation of the data than the previous measurement method. Loan restructuring typically involves modifying the terms of loans due to the borrower's inability to pay under the original loan agreement. It can be an indicator of discretionary loan loss provisions as it may reflect management's assessment of the borrower's financial condition and the need to set aside additional provisions for potential losses. Discretionary loan loss provisions are those that are made at the discretion of bank management, often reflecting a more subjective evaluation of potential loan losses than non-discretionary provisions, which are typically determined by regulatory requirements or objective criteria (Valdiansyah et al., 2023).

Another argument argues that banks with material internal control weaknesses (ICW) tend to have higher loan loss reserves and provisions, particularly in years when these weaknesses are present. This suggests that banks may also adjust their reserves when restructuring loans, especially if such actions are part of remedial measures to address ICW (Cho & Chung, 2016). Additionally, the impact of accounting constraints on loan loss reserve policies, indicating that external regulatory decisions can influence how banks manage their reserves. This could imply that in the context of loan restructuring, banks might also be influenced by accounting and regulatory frameworks when determining their reserves (Balla & Rose, 2015).

Additional Analysis

To enhance the rigor of this study, researchers conducted supplementary analyses examining the impact of the SARS-CoV-2 pandemic on the issues under investigation. This study utilized data from the pre-pandemic period up to 2022, providing a unique opportunity to examine the pandemic's influence on the phenomena under study. Table 7 presents a particularly intriguing depiction, as it reveals notable discrepancies within the data set.

Table 7. Moderated Regression Analysis (MRA) – Additional Analysis

Variables	Before COVID-19 (2019)			During COVID-19 (2020-2022)		
	C	t-Stat.	Prob.	C	t-Stat.	Prob.
C	0.0653	2.0638	0.0510	-0.0880	-3.3435	0.0015***
TP	-0.1281	-3.1034	0.0052***	0.1182	3.3121	0.0017***
DTE	-17.9646	-2.8097	0.0102**	5.1518	2.5348	0.0142**
CG	-0.1480	-2.7030	0.013**	0.1656	3.1768	0.0025***
TP*CG	0.2343	3.1158	0.0050***	-0.2327	-3.3132	0.0017***
DTE*CG	29.0197	2.7194	0.0125**	-10.3138	-2.8174	0.0067***
LDR	-0.0044	-0.6921	0.4961	-0.0079	-4.2964	0.0001***
NIM	0.2544	2.4876	0.0209**	0.2144	5.0045	0.0000***
ROA	-0.1032	-1.8402	0.0793*	-0.1948	-5.3023	0.0000***
N	31			93		
R^2	0.60809			0.87543		
Adj. R^2	0.46558			0.78777		
F-statistic	4.26696			9.98645		
Prob(F-stat.)	0.00323			0.00000		

Notes: Prob.value: *prob. 0.1; **prob 0.05; ***prob 0.01 C: Constant, TP: Tax Planning; DTE: Deferred Tax Expenses; CG: Governance Mechanism; LDR: Loan to Deposit Ratio; NIM: Net Interest Margin; ROA: Return on Assets; N: Total Sample

Source: EViews data processing result

In the preceding discussion (Table 6), the results indicated that several hypotheses were not substantiated. However, when the sample was divided into two groups (before and during the period of the pandemic), the results were found to be contradictory. In the period preceding the pandemic, tax planning and deferred tax expense had a negative effect on earnings management. However, during the pandemic, these results reversed, exhibiting a positive effect on earnings management. This outcome provides a rationale for the assertion that, prior to the pandemic, tax planning and deferred tax expense had a beneficial impact, effectively suppressing earnings management. It is evident that, prior to the pandemic, the economy was in a favourable state, and banking was normal. Tax planning typically aims to reduce tax payments. It can also lead to a decrease in discretionary LLPs, which contradicts the notion that managers might increase provisions to manage earnings downward when seeking to minimize taxes. On the other hand, tax planning imposing constraints on managers' ability to manipulate earnings (Ratu et al., 2023) This is because aggressive tax planning may attract regulatory scrutiny, thereby limiting the scope for earnings management (Ratu et al., 2023) Similarly with tax planning, deferred tax expense has a significant negative effect on earnings management, implying that as deferred tax expense increases, earnings management decreases. This could be due to the heightened scrutiny and potential signaling of aggressive accounting practices when deferred tax expenses are substantial, which may deter managers from engaging in earnings management (Handayani et al., 2020)

Nevertheless, unexpected outcomes can arise when the governance mechanism undermines the favorable impact of both tax planning and deferred tax expenses on earnings management. The findings in Table 8 illustrate why the governance mechanism diminishes the favorable impact of tax planning and deferred tax expenses on earnings management before the COVID-19 pandemic. On average, the value of the independent commissioner ratio during this period was lower than the average. This emphasizes the significance of the independent commissioner ratio in mitigating the risk of tax-related issues and discretionary loan loss provisions in Indonesian banks. The presence of independent commissioners on an audit committee is generally associated with enhanced oversight and governance, which can lead to more effective monitoring of management's financial reporting practices, including the management of tax risk and discretionary loan loss provisions (DLLPs). Independent commissioners, being free from conflicts of interest with the management, are more likely to scrutinize and challenge aggressive tax strategies and earnings management practices, such as the manipulation of DLLPs, to ensure that financial statements accurately reflect the bank's financial position (Zgarni et al., 2018) Evidence occurs when Inefective of governance mechanism may allow for greater manipulation of LLPs for tax planning purposes, as evidenced by the use of LLPs as a tool for income smoothing and tax savings in the conventional banking sector of Pakistan (Siddique et al., 2022)

Examination of the period of the global pandemic brought on by the novel coronavirus (Covid-19) did not reveal any substantial variations from the primary analysis. It is evident that tax planning is the sole factor that has a favorable impact on discretionary loan loss provisions and governance moderating effects. The findings imply that during the period of the pandemic caused by the SARS-CoV-2 virus, managers may attempt to take advantage of tax planning loopholes to decrease their tax liability. Provided that such practices comply with relevant tax regulations, they are considered legal. Tax planning is a crucial managerial activity that has significant implications for a company's growth, internationalization, value, and capital structure (Cooper & Nguyen, 2020; Wang et al., 2020). On the other hand, governance mechanism weaken the positive effect of tax planning on discretionary LLPs by imposing oversight and providing checks and balances that limit the ability of bank managers to manipulate earnings for tax benefits. Good governance mechanism can reduce earnings management, thereby potentially improving financial performance (Rizani et al., 2022). The notion that stronger corporate governance mechanisms have a negative impact on earnings management (Sehrawat et al., 2019; Uddin, 2024).

Table 8. Comparation Score of CG Mechanism

Conditions	Period	Average Ratio of CG Mechanism
Before Pandemic	2019	0.5727
During Pandemic	2020-2022	0.5747
All Period	2019-2022	0.5742

Source: researcher's data processing (2024)

In summary, the COVID-19 pandemic has created an environment of financial instability and regulatory changes that have complicated tax perspective and earnings management. The pandemic's adverse effects on the economy have led to increased scrutiny of financial reports and tax compliance influencing the quality of financial reporting and, consequently, tax planning and earnings management practices (Asiah et al., 2023a) Moreover, Loan loss provisions (LLPs) have been scrutinized for their role in earnings management, particularly during periods of economic stress such as the COVID-19 pandemic. The studies under review provide insights into the behavior of LLPs during such times. (Hansen et al., 2023) suggests that the implementation of IFRS 9 had a countercyclical effect on loan loss provisions during the initial phase of the COVID-19 crisis, which could imply a dampening effect on earnings management during this period.

CONCLUSION

The study revealed a strong correlation between deferred tax expenses and earnings management. Management uses deferred tax charges as a means to influence earnings by postponing the acknowledgment of tax obligations. The tax retention rate is a metric that gauges a company's tax planning ability and indicates how effectively it manages its tax obligations. Nevertheless, the study indicated that tax preparation, as assessed by TRR, does not have a substantial impact on earnings management. Having independent commissioners, which are employed as a substitute for governance measures, reduces the beneficial impact of deferred tax expenses on the manipulation of results. This implies that implementing effective governance practices can restrain opportunistic conduct by the management. The study emphasizes a notable disparity in the manipulation of earnings between the time before the epidemic and the period during the pandemic. Amidst the pandemic, banks became more involved in manipulating their earnings, possibly as a result of the financial strains and uncertainty caused by the crisis. A supplementary investigation was carried out to evaluate the repercussions of the COVID-19 pandemic. Prior to the pandemic, the practice of tax planning and the deferral of tax expenses had an adverse effect on the manipulation of earnings. Amidst the epidemic, there was a reversal in these correlations, resulting in a beneficial effect on earnings management.

Limitations, Implications, and Further Research

To quantify tax planning and earnings management, the study relied on specific proxies such as the tax retention rate (TRR) and deferred tax costs. These proxies may not fully capture the complexities of these systems, and other measurements may produce different conclusions. The study looks primarily at the presence of independent commissioners as a moderating factor for governance procedures. Additional governance characteristics, including board composition, audit committee effectiveness, and ownership concentration, were not considered in this analysis but may have an impact on profit management. These limitations mean that, while the study provides fascinating views, more research is needed to analyze these links in different situations, with different circumstances, and over longer time periods.

Regulators should be extremely watchful in monitoring tax-related elements that could be exploited to manipulate financial outcomes, especially during times of economic uncertainty like the COVID-19 pandemic. Enhanced regulatory frameworks have the capacity to mitigate the risks associated with opportunistic financial reporting. Companies, particularly banks, should improve their corporate governance procedures. Studies have shown that the presence of independent commissioners can decrease the manipulation of financial statements, suggesting that a more robust corporate governance system could deter such practices. During periods of economic instability, such as the COVID-19 epidemic, it is essential to enhance the scrutiny of financial reporting procedures. The analysis uncovered an increase in measures taken to limit pay during the outbreak, emphasizing the need for more stringent oversight during such times.

Further research could explore the impact of various governance factors, such as the effectiveness of audit committees, the diversity of boards, or the ownership structure, on the practice of earnings management. This would provide a more comprehensive understanding of how governance affects financial reporting procedures. The purpose of these recommendations is to improve the precision and dependability of financial reporting and enhance the effectiveness of corporate governance and regulatory oversight.

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