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THE IMPACT OF PROFITABILITY, TAX PLANNING AND GOOD CORPORATE GOVERNANCE TOWARD EARNINGS MANAGEMENT (STUDY AT INDONESIA STOCK EXCHANGE LQ 45 INDEX COMPANIES IN 2014- 2016)

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ABSTRACT

This study aimed to examine the effect of profitability, tax planning and Good Corporate Governance against earnings management study at LQ 45 Index Indonesia Stock Exchange (BEI) 2014-2016. The sample used in this study is LQ 45 Index Indonesia Stock Exchange (BEI) based on the selection criteria predefined sample. Sampling method used is purposive sampling and testing this hypothesis using data panel regression analysis. Proxy calculation of earnings management in the study using proxy discretionary accruals using Modified Jones Model and the results of this study indicate that the independent variable Profitability proxy Return On Assets (ROA) and Good Corporate Governance affect the partial earnings management, but variable independent tax planning does not affect the partial earnings management, and the coefficient of determination (Adjusted R²) showed the value of 0.3005. This suggests that the overall effect of the independent variable profitability, tax planning and Good Corporate Governance against earnings management amounted to only 30.05% while the remaining 69.95% influenced by other variables.

KEYWORDS : *Earnings Management, Profitability, Tax Planning and Good Corporate Governance (GCG)*

PRELIMINARY

The Indonesian economy is part of the world economy, considering that a country cannot stand alone without relying on other countries in the world. As a center for the sale of shares of the Tbk company. in Indonesia, the IDX has several indices, one of which is an index called LQ 45 which consists of 45 issuers who have high liquidity. By looking at the company's year-to-year journey in the ranks of the IDX Index, especially the ups and downs of profits, the company certainly tries to maintain its going concern. Various ways are done, one of which is to implement earnings management. Case of Financial Report manipulation at PT. Kimia Farma in 2001, the net profit was too large and contained elements of engineering

according to BAPEPAM. The formulation of the problem taken is whether Profitability, tax planning and Good corporate governance (GCG) affect earnings management. The research objectives to be achieved through this study, so that the answers to research problems are obtained to examine and obtain empirical evidence of the effect of profitability, tax planning and GCG on earnings management in companies included in the Indonesia Stock Exchange 45 LQ Index in 2014-2016. This is expected to provide usability to expand / increase knowledge and contribute scientifically to the science of accounting and taxation, especially regarding earnings management that is influenced by profitability, tax planning and Good Corporate Governance, problem solving that provides solutions to problems / phenomena- phenomena that occur in various organizations in

Indonesia and can provide recommendations for policy makers to evaluate and improve the legal, regulatory and institutional framework for corporate governance. In this study Earnings Management uses Discretionary Accruals as a proxy, Earnings Management is calculated using the Modified Jones Model, while Profitability, proxied using Return On Assets (ROA). The Tax Planning variable uses the Tax Retention Rate formula, while Good Corporate Governance (X3), the mechanism used in this study is the Number of Independent Commissioners.

METHOD

The Y variable in this study is Earnings Management, discretionary accruals as a proxy for Earnings Management calculated using the Modified Jones Model, this model is considered better among other models to measure Earnings Management. According to Sri Sulistyanto (2014: 225), Discretionary Total Accrual (DTA) the formula used:

$$DTA = TAC - NDTA$$

Say :

DTA = Discretionary Total Accruals

TAC = Total Accruals

NDTA = Nondiscretionary Total Accruals

The dependent variable (X₁) in this study is Profitability, proxied using Return on Assets (ROA) is a comparison between net income and total assets at the end of the period, which is used as an indicator of a company's ability to generate profits, using the following formula :

$$ROA = \frac{\text{Net profit}}{\text{Total Assets}}$$

Say :

ROA = Return On Asset

The independent variable (X₂) is Tax Planning using a measure of the effectiveness of tax planning. The Tax Retention Rate (TRR) formula is (Ferry and Anna, 2014) :

$$TRR = \frac{\text{Net Income}}{\text{Pretax Income (EBIT)}}$$

Say :

TRR = Tax Retention Rate

Net Income = Net income of company

Pretax Income = Profit before company tax

Good Corporate Governance (X₃), the mechanism used in this study is the Number of Independent Commissioners.

$$\Sigma \text{ Independent Commissioner}$$

$$KoIn = \frac{\Sigma \text{ Members of the board of commissioners}}$$

Say :

KoIn = Independent Commissioner Ratio

The population in this study is a company that is included in the list of LQ 45 indexes on the Indonesia Stock Exchange (IDX) with 45 years of observation periods starting from 2014-2016. The sample taken was a number of 40 companies included in the LQ 45 Index list on the Indonesia Stock Exchange which were selected using the purposive sampling method. Data collection

techniques used are archival data collection techniques which are secondary data, namely in the form of data on the IDX website (www.idx.co.id).

Processing data using the EViews version 10. The method of analysis in this study includes :

1) Descriptive statistical analysis

2) Stationarity Test

3) Regression Models with Data Panels

The regression equation model will be tested as follows:

$$EM = \alpha + \beta_1 \text{PROFI} + \beta_2 \text{TP} + \beta_3 \text{GCG} + \epsilon$$

RESULTS AND DISCUSSION

A. Test of Assumptions and Quality of Research Instruments

1. Descriptive Statistics Analysis

Tabel 4.2 Statistik Deskriptif

	Y	X ₁	X ₂	X ₃
Mean	0.354450	0.098541	0.777865	0.430446
Median	0.357300	0.070150	0.765299	0.400000
Maximum	0.825600	0.457900	1.276119	0.833333
Minimum	0.092414	0.000900	0.369022	0.285714
Std. Dev.	0.168945	0.097476	0.115158	0.127541
Skewness	0.412511	2.024671	0.513243	1.571620
Kurtosis	2.781261	6.682219	6.993525	5.063529
Jarque-Bera	3.642539	149.7795	85.00959	70.69057
Probability	0.161820	0.000000	0.000000	0.000000
Sum	42.53405	11.82490	93.34384	51.65357
Sum Sq.				
Dev.	3.396565	1.130679	1.578106	1.935747
Observations	120	120	120	120

(Sumber : hasil olah data Eviews 10)

Minimum value of Y = 0.092414

Maximum value Y = 0.825600

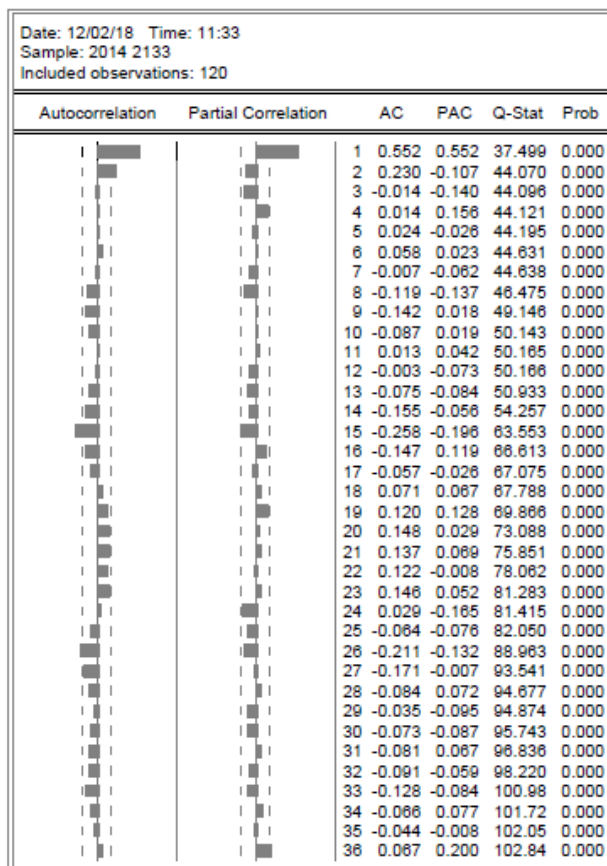
Standard deviation = 0.168945

2. Stationarity Test

The following is the stationarity test carried out using the Eviews 10 program :

Autocorrelation Function or Correlogram Test

Correlogram of CORRELOGRAM_Y



The output diagram shows Y data is stationary, it can be seen from the diagram block each lag is around the zero line (Ghozali, 2017: 356).

Common Effect Test

Based on the results of regression analysis using Common Effect, the Adjusted R-square value is 0.300505, so in this study the variables X₁, X₂ and X₃ simultaneously influence the Y variable with a significance level of 30.05% and the remainder is influenced by other variables not examined.

Testing the hypothesis that has been done, it can be stated several discussions below:

- Profitability affects Earnings management

The results of this study are supported by research conducted by Najmi Yatul Husna (2015), namely profitability proxied by Return On Assets (ROA) has a significant effect on earnings management.

- Tax Planning does not affect Earnings Management.

The results of this study are supported by research conducted by Ferry Aditama and Anna Purwaningsih (2014), namely Tax Planning does not have a positive effect on Earnings Management in non-manufacturing companies listed on the IDX.

- Good Corporate Governance has an effect on Earnings Management.

The results of this study are supported by the research conducted by Egbunike Amaechi, Patrick Ezelibe Chizoba and Aroh Nkechi Nympha (2015), namely that the positive

influence of Earnings Management practices or Good Corporate Governance has a positive effect on Earnings Management.

CONCLUSION

Based on the test results it was found that Profitability (X₁), Tax Planning (X₂), Good Corporate Governance (X₃) had the same effect on Earnings Management (Y), while partially only Tax Planning (X₂) had no effect on Earnings Management (Y)

SUGGESTION

Suggestions that can be given for further research, namely to use other types of profitability such as ROE, Profit Margin, Basic Earning Power, Earning Per Share. Tax planning can be used a different method besides the Tax Retention Rate (TRR) and is the actual measure to measure it, such as the Cash Effective Tax Rates (CETR). It is better to use broader Good Corporate Governance variables such as corporate social responsibility, audit committee.

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