Prosperia: Journal of Economic Development, Accounting, and Global Markets

Vol 1 No 3 August 2026, Hal 122-134

ISSN: 3125-117x (Print) ISSN: 3125-1181 (Electronic)

Open Access: https://sovereignresearch.org/prosperia

The Effects of Tax Management, Deferred Tax Liabilities, and Profitability on Earnings Management Among IDX-Listed Companies in the Consumer Goods Sector for the 2020–2024 Period

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Article Info :

Received:
24-07-2026

Revised:
02-08-2026

Accepted:
07-08-2026

Abstract

This study examines the effects of tax management, deferred tax liabilities, and profitability on earnings management among consumer goods companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. A quantitative explanatory approach was employed using secondary data obtained from annual reports published on the IDX and corporate websites. From a population of 37 firms, purposive sampling generated 22 companies, resulting in 110 firm-year observations. Earnings management was measured using discretionary accruals based on the Modified Jones Model, while tax management, deferred tax liabilities, and profitability were proxied by the Effective Tax Rate (ETR), the natural logarithm of deferred tax expense to total assets, and Net Profit Margin (NPM), respectively. Panel data regression analysis identified the Fixed Effect Model with White diagonal standard errors as the most appropriate estimator. The findings indicate that tax management has no significant effect on earnings management, deferred tax liabilities have a significant positive effect, and profitability has a significant negative effect. Simultaneously, the three independent variables significantly influence earnings management. The model explains 13.60% of the variation in earnings management, suggesting that additional firm-specific and governance-related factors also contribute to managerial reporting behavior. The findings highlight deferred tax liabilities as the most informative indicator for detecting earnings management practices among Indonesian consumer goods companies.

Keywords: *Consumer Goods Sector, Deferred Tax Liabilities, Earnings Management, Profitability, Tax Management.*

INTRODUCTION

Taxation represents one of the most fundamental sources of government revenue for financing public expenditure, infrastructure development, and sustainable economic growth (Faruq et al., 2024). From the perspective of listed companies, however, taxes are generally perceived as mandatory expenses that directly reduce net income and encourage firms to manage their fiscal obligations efficiently. Tax management has consequently evolved into a strategic financial function that seeks to optimize tax liabilities while maintaining compliance with prevailing regulations (Falbo & Firmansyah, 2021). The increasing complexity of accounting standards and tax regulations has simultaneously expanded managerial discretion in determining the recognition of revenues, expenses, and temporary differences within financial statements. Such flexibility provides managers with greater opportunities to align accounting decisions with corporate financial objectives while remaining within acceptable reporting frameworks. Previous studies have shown that accounting discretion associated with taxation may influence reported earnings without necessarily changing the firm's underlying economic performance (Wibisono et al., 2022). Consequently, understanding the interaction between tax-related decisions and earnings management has become increasingly important for improving financial reporting quality and strengthening investor confidence in capital markets.

The relevance of this issue is particularly evident among consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, which encompasses the COVID-19 pandemic and the subsequent economic recovery. During this period, firms were required to maintain financial performance despite declining purchasing power, supply chain disruptions, rising production costs, and increasingly demanding investor expectations. An illustrative example is PT Indofarma Tbk

(INAF), which experienced a sharp decline in net profit in 2020 before recording continuous losses in the following years, although the company was excluded from this study because it did not meet the sampling criteria. A more representative case is observed in PT Unilever Indonesia Tbk (UNVR), where net sales declined by 8.99% in 2024 while net profit fell by a substantially larger margin of 29.85%, raising concerns regarding the role of accounting discretion in determining reported earnings. Such discrepancies indicate that changes in accounting earnings may not always proportionally reflect changes in firms' underlying operating performance. Previous studies suggest that deferred tax-related accounting treatments and tax planning practices may influence the quality of reported earnings and create opportunities for managerial discretion (Hamdi & Utami, 2024). Therefore, the consumer goods sector provides an appropriate empirical setting for investigating how taxation-related decisions affect earnings management during periods of significant economic uncertainty.

Earnings management refers to the deliberate use of managerial discretion in financial reporting through accrual adjustments, accounting policy choices, or transaction timing to influence reported earnings while remaining within the boundaries of accounting standards (Setyawan et al., 2021). This practice has attracted considerable attention because it may reduce the reliability of financial statements and distort investors' assessments of a firm's actual financial condition. Agency Theory explains that information asymmetry between managers and shareholders creates incentives for managers to pursue personal objectives through reporting decisions that may not always align with the interests of owners. Positive Accounting Theory further argues that managers tend to select accounting methods that maximize their economic interests under contractual, political, and compensation-related pressures (Zhafir & Subroto, 2024). Stakeholder Theory complements these perspectives by emphasizing that financial reporting decisions are also shaped by the expectations of investors, creditors, regulators, tax authorities, and other stakeholders (Haydar & Machmuddah, 2024). The coexistence of these theoretical perspectives indicates that earnings management is influenced by both internal managerial incentives and external institutional pressures. Consequently, these theories provide a comprehensive conceptual foundation for examining the relationships among tax management, deferred tax liabilities, profitability, and earnings management in Indonesian consumer goods companies.

Tax management, deferred tax liabilities, and profitability are frequently identified as important determinants of earnings management because they reflect managerial decisions in taxation, financial reporting, and operational performance. Tax management refers to corporate efforts to minimize tax obligations efficiently while remaining compliant with applicable tax regulations, and it is commonly measured using the Effective Tax Rate (ETR) (Andreano & Permatasari, 2026). Deferred tax liabilities arise from temporary differences between accounting income and taxable income, providing managers with discretion in recognizing tax-related expenses across reporting periods. Such temporary differences may increase accounting flexibility because managers can determine the timing of recognizing certain revenues and expenses within the framework of financial reporting standards. Profitability represents a firm's ability to generate earnings from its business operations and is generally viewed as an important indicator of financial performance and managerial effectiveness (Amirullah & Sihombing, 2026). Firms with consistently high profitability often face stronger pressure to maintain stable earnings in order to satisfy investor expectations and preserve market confidence. Accordingly, the interaction among tax management, deferred tax liabilities, and profitability creates conditions that may encourage managers to exercise discretion over reported earnings.

Despite the growing body of literature, empirical evidence regarding the relationships between tax management, deferred tax liabilities, profitability, and earnings management remains inconclusive. Several studies report that tax planning, deferred tax liabilities, and profitability significantly influence earnings management, while other studies document insignificant or even contradictory relationships across different industrial sectors and observation periods (Nafiah, 2025). These inconsistencies indicate that the determinants of earnings management remain highly context-dependent and may vary according to industry characteristics, economic conditions, and regulatory environments. Existing studies have also tended to examine these variables separately, making it difficult to understand their combined influence within a single analytical framework. Furthermore, empirical evidence focusing specifically on consumer goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period remains relatively limited (Imawan & Mas'adah, 2026). This period provides a unique research context because it captures both the economic disruption caused by the COVID-19 pandemic and the subsequent recovery phase, allowing a more comprehensive evaluation of managerial reporting behavior. Therefore, this study seeks to address these empirical gaps by simultaneously examining the effects of tax management, deferred tax liabilities, and profitability on earnings management within the Indonesian consumer goods sector.

This study aims to examine the effects of tax management, deferred tax liabilities, and profitability on earnings management among consumer goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The analysis is expected to provide empirical evidence regarding the extent to which taxation-related decisions and financial performance jointly influence managerial reporting behavior. The findings are intended to enrich the literature on earnings management by offering evidence from an emerging market that experienced significant economic disruption and recovery within a relatively short period. From a practical perspective, the study is expected to provide useful insights for investors, regulators, auditors, and corporate managers in evaluating the quality of financial reporting. The study also contributes by integrating taxation and profitability variables into a unified analytical framework for explaining earnings management behavior in the consumer goods industry. Such an approach is expected to provide a more comprehensive understanding of the interaction between corporate taxation policies and financial reporting decisions. Ultimately, this research is expected to strengthen both theoretical understanding and practical decision-making regarding financial reporting quality in Indonesia's capital market.

RESEARCH METHODS

This study employed an empirical quantitative research design with an explanatory approach to examine the effects of tax management, deferred tax liabilities, and profitability on earnings management among consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Secondary data were collected from the official IDX website (www.idx.co.id) and the annual reports published on the official websites of each sampled company. The population consisted of 37 consumer goods companies listed on the IDX, while the final sample comprised 22 companies selected through purposive sampling based on the following criteria: companies consistently listed during the observation period, publishing complete annual financial statements, providing complete data for all research variables, presenting financial statements in Indonesian Rupiah, not being delisted, and reporting positive net income throughout the study period. The sampling procedure produced 110 firm-year observations over the five-year period. Earnings management was measured using discretionary accruals estimated through the Modified Jones Model, one of the most widely accepted proxies for accrual-based earnings management (Setyawan et al., 2021). Tax management was proxied by the Effective Tax Rate (ETR), deferred tax liabilities were measured using the natural logarithm of deferred tax expense divided by total assets, and profitability was represented by the Net Profit Margin (NPM) (Imawan & Mas'adah, 2026). All variables were measured on a ratio scale to ensure consistency and comparability throughout the empirical analysis.

Table 1. Operational Definition of Variables

Variable	Proxy	Measurement	Scale
Earnings Management (Y)	Discretionary Accruals (DA)	Modified Jones Model	Ratio
Tax Management (X1)	Effective Tax Rate (ETR)	Tax Expense / Profit Before Tax	Ratio
Deferred Tax Liabilities (X2)	Deferred Tax Expense (DTE)	Ln (Deferred Tax Expense / Total Assets)	Ratio
Profitability (X3)	Net Profit Margin (NPM)	Net Income / Net Sales × 100%	Ratio

The Modified Jones Model estimates discretionary accruals by first calculating total accruals and non-discretionary accruals, after which discretionary accruals are obtained using the following equation:

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

where represents discretionary accruals of firm i in year t, TA_{it} denotes total accruals, A_{it-1} refers to total assets at the end of the previous year, and NDA_{it} represents non-discretionary accruals estimated using the Modified Jones Model.

Descriptive statistics were employed to summarize the characteristics of the research variables before conducting panel data regression analysis using EViews 12. Prior to hypothesis testing, classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests were performed to ensure that the estimated model satisfied the assumptions required for reliable statistical inference. The most appropriate panel data estimation model was subsequently selected using the Chow test, Hausman test, and Lagrange Multiplier test. Hypothesis testing was conducted using the t-test to examine the partial effects of each independent variable, the F-test to evaluate their simultaneous effects, and the adjusted coefficient of determination (Adjusted R^2) to assess the explanatory power of the regression model. Panel data regression was adopted because it captures both cross-sectional differences among firms and time-series variations over the observation period, thereby improving the efficiency and robustness of the estimation results (Alamsyah, 2026). This analytical approach has been widely applied in recent accounting and taxation studies involving longitudinal corporate financial data because it provides more reliable estimates than conventional cross-sectional regression (Andreano & Permatasari, 2026).

Hypothesis

H1: Tax management has a significant effect on earnings management.

Tax management enables companies to optimize tax obligations while remaining compliant with applicable tax regulations, thereby increasing managerial flexibility in financial reporting (Andreano & Permatasari, 2026). Agency Theory suggests that managers may utilize this flexibility to pursue personal objectives through discretionary reporting under conditions of information asymmetry. Empirical evidence indicates that more intensive tax management is associated with a greater likelihood of earnings management practices because tax planning and financial reporting decisions are often implemented simultaneously (Imawan & Mas'adah, 2026).

H2: Deferred tax liabilities have a significant effect on earnings management.

Deferred tax liabilities arise from temporary differences between accounting income and taxable income, providing managers with discretion over the timing of income and expense recognition (Hamdi & Utami, 2024). Such accounting flexibility may create opportunities for managers to influence reported earnings while remaining within the framework of accounting standards. Previous studies demonstrate that deferred tax liabilities are positively associated with earnings management because they reflect managerial discretion in financial reporting (Sovita & Simamora, 2025).

H3: Profitability has a significant effect on earnings management.

Profitability reflects a firm's ability to generate earnings and is frequently used by investors to evaluate corporate performance (Amirullah & Sihombing, 2026). Companies with higher profitability often experience stronger pressure to maintain stable financial performance, thereby increasing incentives to manage reported earnings. Empirical findings indicate that profitability significantly influences earnings management because managers seek to meet market expectations and preserve investor confidence (Safitri & Sipayung, 2024).

H4: Tax management, deferred tax liabilities, and profitability simultaneously have a significant effect on earnings management.

Tax management, deferred tax liabilities, and profitability collectively represent taxation and financial performance factors that may influence managerial reporting behavior. The interaction among these variables provides both the incentive and the opportunity for managers to exercise accounting discretion in preparing financial statements. Previous studies suggest that integrating taxation-related variables with profitability offers a more comprehensive explanation of earnings management practices than examining each factor independently (Imawan & Mas'adah, 2026).

RESULTS AND DISCUSSION

Descriptive Statistics and Model Diagnostics

The descriptive statistics provide an initial overview of the distribution and variability of the variables employed in the empirical model. Understanding the characteristics of the data is important because panel regression estimates are influenced by the magnitude and dispersion of each variable across firms and observation periods. The dataset consists of 110 firm-year observations derived from 22 consumer goods companies over the 2020–2024 period, representing firms with relatively consistent financial reporting characteristics. Descriptive measures also facilitate the identification of potential outliers that may influence the regression estimates before the estimation stage is performed. The statistical summary presented in Table 2 indicates that each variable exhibits a distinct level of variation, reflecting differences in taxation practices, profitability, deferred tax recognition, and earnings management across the sampled firms (Alamsyah, 2026). These preliminary findings provide the empirical basis for evaluating whether the observed variations are sufficient to explain differences in earnings management behavior in subsequent analyses.

Table 2. Descriptive Statistics

Statistics	Y (DA)	X1 (ETR)	X2LN (DTE)	X3 (NPM)
Mean	0.0695	0.2271	2.5632	1.0078
Median	0.0699	0.2258	2.5667	0.1022
Maximum	0.6777	0.3381	2.9047	9.5834
Minimum	−0.4519	0.0209	1.7129	−0.1439
Std. Dev.	0.1262	0.0433	0.2352	9.1252
Observations	110	110	110	110

Table 2 shows that discretionary accruals (DA) have a mean value of 0.0695, with observations ranging from −0.4519 to 0.6777. The presence of both positive and negative discretionary accruals indicates that firms adopted both income-increasing and income-decreasing earnings management strategies during the observation period. The relatively moderate standard deviation suggests that earnings management practices varied across firms but remained within a reasonable range for listed manufacturing companies. Such variation reflects differences in managerial reporting incentives, financial conditions, and firm-specific accounting policies. Earnings management behavior is generally associated with managerial discretion in financial reporting when accounting standards permit alternative recognition and measurement approaches (Haydar & Machmuddah, 2024). The observed dispersion of discretionary accruals therefore supports the suitability of the sample for examining determinants of earnings management using panel data analysis.

The Effective Tax Rate (ETR) records an average value of 0.2271, which is very close to Indonesia's statutory corporate income tax rate during the observation period. Its relatively small standard deviation of 0.0433 indicates that tax management practices among the sampled companies were comparatively homogeneous despite differences in firm size and business activities. This pattern suggests that most companies maintained tax compliance while implementing tax planning strategies within acceptable regulatory boundaries. The limited variation in ETR also implies that differences in tax management may be less pronounced than differences observed in profitability or deferred tax liabilities. Previous studies have reported that companies operating in highly regulated industries generally exhibit relatively stable effective tax rates because aggressive tax strategies may increase regulatory and reputational risks (Soemarsono et al., 2024). This empirical characteristic may later contribute to explaining whether tax management possesses sufficient explanatory power in the regression model.

Deferred tax liabilities and profitability display noticeably different distributional characteristics compared with tax management. The deferred tax liability variable has a mean value of 2.5632 and a standard deviation of 0.2352, indicating relatively stable recognition of temporary tax differences among the sampled firms. By contrast, profitability measured by Net Profit Margin (NPM) exhibits a considerably larger standard deviation of 9.1252 relative to its mean of 1.0078, suggesting substantial heterogeneity in firms' operating performance. Such dispersion reflects the unequal pace of financial recovery experienced by consumer goods companies following the COVID-19 pandemic, particularly across food, pharmaceutical, and tobacco industries. Variations in deferred tax recognition are commonly associated with differences in accounting estimates and temporary timing differences between commercial and taxable income (Lubis & Ali, 2024). The wide distribution of profitability also indicates that some firms generated exceptionally high returns while others experienced relatively weak operating performance despite remaining profitable throughout the study period.

Prior to estimating the regression model, several diagnostic tests were conducted to evaluate whether the dataset satisfied the assumptions required for panel data analysis. The normality test indicated that the variables were not normally distributed, although this condition was not considered problematic because the sample consisted of 110 observations, allowing the Central Limit Theorem to support asymptotic statistical inference. Correlation analysis further demonstrated that all correlation coefficients among the independent variables ranged from −0.0255 to 0.0348, well below the commonly accepted threshold of 0.85, indicating the absence of multicollinearity. Additional evaluation focused on the heteroskedasticity structure of the panel data because unequal error variances frequently occur in firm-level financial datasets. The heteroskedasticity test results are presented in Table 3 and provide the basis for selecting an appropriate estimation correction procedure (Andreano & Permatasari, 2026). The diagnostic process ensures that the estimated coefficients are interpreted using robust statistical procedures consistent with panel data methodology.

Table 3. Heteroskedasticity Test Results

Test	Likelihood Ratio	d.f.	Prob.
Panel Cross-section Heteroskedasticity LR Test	75.82172	22	0.0000
Panel Period Heteroskedasticity LR Test	6.390108	22	0.9995

The results reported in Table 3 indicate significant cross-sectional heteroskedasticity, as reflected by a probability value of 0.0000, whereas no evidence of period heteroskedasticity is detected because the corresponding probability reaches 0.9995. These findings imply that the variance of the residuals differs across companies rather than across observation years, a common characteristic of panel datasets containing firms with heterogeneous operational and financial structures. To address this issue, the regression model was estimated using White diagonal standard errors, which produce heteroskedasticity-consistent coefficient estimates without altering the underlying regression specification. The Durbin–Watson statistic of 2.518705 also suggests that no serious autocorrelation problem exists because the value remains relatively close to the benchmark of two. Robust covariance estimation has become a standard procedure in recent panel data studies because it improves the reliability of statistical inference when classical assumptions are partially violated (Tanril & Trisnawati, 2025). The satisfactory diagnostic results confirm that the dataset is appropriate for the subsequent model selection and hypothesis testing procedures.

Panel Regression Model Selection

Panel data model selection was conducted to determine the estimation specification that most appropriately captures heterogeneity across the 22 consumer goods companies during the 2020–2024 observation period. This stage is important because pooled estimation may produce biased interpretations when unobserved firm-specific characteristics are systematically associated with the explanatory variables. Consumer goods companies differ considerably in business scale, product characteristics, ownership structures, taxation profiles, and financial policies, creating potential individual effects that cannot be adequately represented by a single common intercept. Panel data analysis offers an advantage in this setting because it simultaneously accommodates cross-sectional heterogeneity and temporal variation in corporate financial information. Recent empirical research involving Indonesian listed companies has similarly relied on panel estimation to capture variations in financial characteristics that persist across firms and observation periods (Aqila et al., 2026). The Chow, Hausman, and Lagrange Multiplier tests were consequently employed to identify whether the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM) provided the most appropriate specification for the dataset.

The Chow test was initially performed to compare the Common Effect Model with the Fixed Effect Model and produced a probability value of 0.0266, which is below the 5% significance threshold. This result indicates that the assumption of an identical intercept across sampled firms is not empirically supported, making FEM preferable to CEM. Firm-specific effects are economically plausible because pharmaceutical, tobacco, and food and beverage companies operate under different cost structures, market conditions, regulatory exposure, and accounting environments. Such structural differences may affect managerial incentives to recognize accruals and consequently influence the magnitude of earnings management observed across firms. Accounting choices can respond to firm-specific economic incentives and contractual circumstances, making homogeneous treatment of heterogeneous companies potentially restrictive (Zhafir & Subroto, 2024). The Chow test result consequently provides initial statistical evidence that controlling for unobserved individual characteristics is necessary when estimating the relationship between taxation variables, profitability, and earnings management.

The Hausman test was subsequently applied to determine whether the individual effects should be treated as fixed or random components of the regression specification. The test results favored FEM over REM, with the relevant probability results indicating statistical significance for two of the three explanatory variables at the conventional threshold. This outcome suggests that unobserved firm-specific characteristics are correlated with at least part of the explanatory structure and cannot appropriately be treated as purely random disturbances. Such correlation is particularly relevant in corporate accounting research because persistent managerial policies, governance arrangements, tax strategies, and reporting practices may simultaneously influence both explanatory variables and discretionary accruals. Prior evidence indicates that firm-specific characteristics and governance arrangements can materially affect corporate tax decisions, reinforcing the importance of controlling for persistent individual heterogeneity in listed manufacturing firms (Khoiroh et al., 2026). Treating these effects as fixed consequently offers a more defensible specification for isolating within-sample relationships between ETR, deferred tax liabilities, NPM, and earnings management.

The Lagrange Multiplier test complements the preceding tests by examining whether REM provides a statistically superior specification to CEM. A probability value of 0.4553 exceeds the 5% significance threshold, indicating that the random-effect specification does not provide a statistically meaningful improvement over pooled estimation. Although this result alone would not support REM, its interpretation becomes more informative when considered alongside the Chow and Hausman tests. The combined evidence favors a specification that explicitly controls for firm-specific heterogeneity rather than assuming that such heterogeneity is random and uncorrelated with the regressors. Studies of Indonesian listed firms demonstrate that persistent corporate characteristics can shape taxation behavior and financial outcomes, making the treatment of unobserved heterogeneity particularly important in firm-level empirical models (Kau, 2026). The consistency of the model-selection evidence consequently strengthens the methodological basis for employing FEM as the final estimator.

The comparative results of the three specification tests are summarized in Table 4, which establishes FEM as the final model for subsequent coefficient estimation and hypothesis testing. The selected model is consistent with the purposive composition of the sample, where companies represent distinct consumer goods industries and retain individual characteristics across the five-year observation horizon. These persistent characteristics may include business models, accounting practices, market positioning, ownership arrangements, and managerial approaches toward taxation and profitability. Such factors are difficult to observe comprehensively but can be accommodated through firm-specific intercepts under the fixed-effect framework. The importance of recognizing heterogeneous corporate characteristics is also consistent with evidence that tax behavior among Indonesian firms is shaped by internal organizational attributes rather than taxation considerations alone (Hidayatulloh et al., 2024). Table 4 confirms that the statistical selection process supports FEM rather than selecting the estimator solely on theoretical expectations.

Table 4. Panel Data Model Selection Results

No	Test	Result	Decision
1	Chow Test	Prob. = 0.0266 < 0.05	FEM is better than CEM
2	Hausman Test	Prob. < 0.05 (2 of 3 variables)	FEM is better than REM
3	Lagrange Multiplier Test	Prob. = 0.4553 > 0.05	REM is not better than CEM

The selected FEM produced the regression equation,

$$Y = -3.080551 - 0.680754X1 + 0.129069X2LN - 0.003535X3NPM + \varepsilon$$

revealing different directional relationships between the explanatory variables and discretionary accruals. The negative coefficient of ETR indicates that higher effective tax rates are associated with lower discretionary accruals when other variables and firm-specific effects are held constant, although statistical significance must be assessed through the subsequent t-test. Deferred tax liabilities exhibit a positive coefficient of 0.129069, indicating that increases in this variable are associated with higher discretionary accruals and potentially greater accounting discretion. The NPM coefficient is negative at −0.003535, suggesting that more profitable companies tend to report lower discretionary accruals after controlling for taxation variables and individual firm effects. The differing coefficient directions reinforce the proposition that tax-related accounting items and operating profitability do not generate identical managerial reporting incentives, particularly when firms face different economic and institutional pressures. Empirical research has similarly emphasized that taxation decisions and earnings management may interact in complex ways rather than exhibiting a uniform directional relationship across corporate settings (Falbo & Firmansyah, 2021). Statistical significance and the theoretical implications of these coefficients are examined more closely through the partial hypothesis tests in the following analysis.

Partial Effects of Tax Management, Deferred Tax Liabilities, and Profitability on Earnings Management

The partial hypothesis tests were conducted to evaluate the individual contribution of each explanatory variable to earnings management after controlling for firm-specific heterogeneity through the Fixed Effect Model. The estimated coefficients, robust standard errors, t-statistics, and probability values are presented in Table 5. The results indicate that the three explanatory variables exhibit different levels of statistical significance and coefficient directions, suggesting that taxation-related variables and profitability influence discretionary accruals through different economic mechanisms. Deferred tax liabilities emerge as the only variable that supports the proposed hypothesis in both direction and statistical significance. Tax management fails to achieve statistical significance, whereas profitability demonstrates a statistically significant relationship but with a coefficient opposite to the hypothesized direction. These findings indicate that managerial discretion in financial reporting is more strongly associated with temporary accounting differences than with variations in effective tax rates or operating profitability alone (Imawan & Mas'adah, 2026).

Table 5. Fixed Effect Model Estimation with White Diagonal Standard Errors

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.080551	0.190832	-2.586890	0.0114
X1 (ETR)	-0.680754	0.374037	-1.820019	0.0723
X2LN (DTE)	0.129069	0.048594	2.656083	0.0094
X3 (NPM)	-0.003535	0.000486	-7.279537	0.0000

Adjusted R-squared = 0.136003; F-statistic = 1.714912; Prob(F-statistic) = 0.037486

Tax management, represented by the Effective Tax Rate (ETR), records a coefficient of −0.680754 with a probability value of 0.0723, indicating that the first hypothesis is not statistically supported at the 5% significance level. Although the coefficient is negative, the evidence suggests that variations in effective tax rates do not materially explain differences in discretionary accruals among the sampled firms. One plausible explanation is that companies in the consumer goods sector operate under relatively high public visibility and regulatory scrutiny, reducing incentives to employ aggressive tax strategies that could simultaneously influence reported earnings. The descriptive statistics also reveal a relatively homogeneous ETR distribution, limiting the explanatory variation available for regression estimation. Stable effective tax rates frequently reflect compliance-oriented tax management rather than opportunistic earnings manipulation, particularly among well-established listed firms with stronger governance mechanisms (Faruq et al., 2024). This finding is consistent with Nafiah (2025) but differs from the positive association reported by Suryani (2025), indicating that industry characteristics and observation periods may moderate the relationship between tax management and earnings management.

Deferred tax liabilities exhibit a positive coefficient of 0.129069 with a probability value of 0.0094, supporting the second hypothesis that deferred tax liabilities positively influence earnings management. The positive relationship indicates that firms recognizing larger deferred tax liabilities tend to report higher discretionary accruals after controlling for firm-specific characteristics. Temporary differences between accounting income and taxable income provide managers with greater flexibility in determining the timing of revenue and expense recognition, thereby increasing opportunities for accrual-based earnings management. This empirical pattern is consistent with the conceptual argument that deferred tax accounts reflect accounting estimates requiring managerial judgment rather than immediate cash transactions. Prior studies have similarly identified deferred tax items as informative indicators of managerial discretion because they originate from timing differences embedded within financial reporting standards (Hamdi & Utami, 2024). The finding also aligns with Puspito and Karlina (2024), reinforcing the proposition that deferred taxation constitutes one of the accounting components most closely associated with discretionary financial reporting behavior.

Profitability, measured by Net Profit Margin (NPM), records a coefficient of −0.003535 with a probability value below 0.001, indicating a statistically significant but negative relationship with earnings management. The third hypothesis is therefore rejected because the estimated coefficient contradicts the predicted positive direction. Companies with stronger profitability appear to rely less on discretionary accruals because satisfactory operating performance already fulfills investor expectations without requiring substantial accounting adjustments. Firms experiencing lower profitability may instead possess stronger incentives to increase reported earnings through accrual management in order to maintain market confidence and preserve external financing opportunities. The inverse association observed in this study suggests that operating performance itself can reduce incentives for opportunistic reporting when firms consistently achieve favorable financial outcomes (Amirullah & Sihombing, 2026). This result contrasts with the positive relationship documented by Safitri and Sipayung (2024) and Sovita and Simamora (2025), indicating that profitability may influence earnings management differently depending on industrial characteristics, governance quality, and macroeconomic conditions.

Taken together, the partial regression results demonstrate that the explanatory variables do not contribute equally to earnings management among consumer goods companies listed on the IDX. Deferred tax liabilities provide the strongest empirical evidence because both the statistical significance and coefficient direction support the theoretical expectation that temporary tax differences expand managerial reporting discretion. Tax management, in contrast, appears to reflect compliance with prevailing tax regulations rather than deliberate manipulation of accounting earnings, while profitability is associated with reduced reliance on discretionary accruals as firms achieve stronger operational performance. These findings illustrate that earnings management is influenced by a combination of accounting discretion, taxation practices, and firm performance rather than by a single financial indicator. Similar conclusions have been reported in studies emphasizing that deferred tax reporting captures managerial judgment more directly than conventional tax planning measures, whereas profitability often reflects the economic capacity to reduce incentives for earnings manipulation (Wibisono et al., 2022). The overall pattern also supports the view that accounting choices embedded within temporary tax differences remain a more sensitive indicator of earnings management than effective tax rates among Indonesian consumer goods companies.

Simultaneous Effect and Model Implications

The simultaneous effect of tax management, deferred tax liabilities, and profitability on earnings management was evaluated using the F-test to determine whether the explanatory variables jointly contribute to the regression model. The results demonstrate that the overall model is statistically significant, indicating that the independent variables collectively explain variations in discretionary accruals among consumer goods companies listed on the IDX. Although the explanatory variables exhibit different levels of individual significance, their combined contribution remains meaningful within the estimated panel regression framework. The hypothesis testing summary presented in Table 6 provides a comprehensive overview of the statistical decisions for each research hypothesis. Model evaluation also considers the adjusted coefficient of determination to assess the proportion of earnings management explained by the selected explanatory variables (Andreano & Permatasari, 2026). These results offer broader insight into the collective influence of taxation-related variables and profitability beyond their individual coefficients.

Table 6. Summary of Hypothesis Testing Results

Hypothesis	Variable	Coefficient	Prob.	Decision
H1	Tax Management	-0.680754	0.0723	Rejected
H2	Deferred Tax Liabilities	0.129069	0.0094	Accepted
H3	Profitability	-0.003535	0.0000	Rejected (Opposite Direction)
H4	Simultaneous Effect (F-test)	-	0.037486	Accepted

The F-test produces a probability value of 0.037486, which is below the 5% significance level, supporting the acceptance of the fourth hypothesis. This finding indicates that tax management, deferred tax liabilities, and profitability jointly influence earnings management despite the differing statistical contributions observed in the partial tests. The estimated model therefore captures a meaningful relationship between financial reporting incentives and taxation-related accounting variables when evaluated collectively. Earnings management is influenced by multiple organizational decisions rather than by isolated accounting measures, making simultaneous analysis more informative than separate coefficient interpretation. Similar evidence has been reported in recent studies demonstrating that taxation variables and financial performance interact in explaining managerial reporting behavior among Indonesian listed companies (Imawan & Mas'adah, 2026). The statistical significance of the F-test confirms that the proposed research model possesses adequate explanatory capability for examining earnings management within the consumer goods sector.

The adjusted coefficient of determination reaches 0.136003, indicating that approximately 13.60% of the variation in discretionary accruals is explained by the three explanatory variables included in the model. Although this proportion is relatively modest, it is consistent with empirical accounting research where earnings management is recognized as a multidimensional phenomenon influenced by numerous internal and external factors. Managerial reporting behavior may also respond to leverage, corporate governance quality, ownership structure, audit quality, firm size, macroeconomic uncertainty, and industry-specific competitive pressures that are not incorporated into the present model. Financial reporting decisions are rarely determined by taxation variables alone because managers simultaneously consider contractual obligations, investor expectations, regulatory oversight, and long-term corporate objectives. Prior studies likewise acknowledge that corporate reporting quality is shaped by multiple governance and financial characteristics operating simultaneously within the firm's institutional environment (Alamsyah, 2026). The explanatory power observed in this study therefore remains acceptable for firm-level panel data research involving discretionary accrual measures.

Among the three explanatory variables, deferred tax liabilities constitute the only variable that consistently supports both the proposed hypothesis and the theoretical expectations. The positive coefficient indicates that temporary differences between accounting income and taxable income provide greater flexibility for managers to exercise accounting discretion through accrual recognition. Deferred tax accounts inherently involve estimates regarding the timing of future tax consequences, making them more closely connected with managerial judgment than effective tax rates derived from realized tax expenses. The statistical evidence reinforces the argument that deferred tax information contains signals relevant to assessing the quality of reported earnings. Similar conclusions have been documented in studies emphasizing that deferred tax items serve as practical indicators for identifying firms with greater opportunities to manage reported earnings through accrual-based mechanisms (Hamdi & Utami, 2024). This finding also complements the evidence reported by Lubis and Ali (2024), who highlight the close relationship between deferred tax reporting and corporate financial performance within Indonesian manufacturing companies.

The empirical findings also provide implications for several accounting theories adopted in this study. Agency Theory remains relevant because managers retain discretion over accounting estimates that may not always align with shareholders' information needs, particularly in areas involving temporary tax differences. Positive Accounting Theory receives partial support because managerial accounting choices appear to be concentrated in accounting components offering greater reporting flexibility rather than in effective tax planning alone. Stakeholder Theory is likewise reflected in the insignificant effect of tax management, suggesting that companies with high public visibility may prioritize regulatory compliance and corporate legitimacy over aggressive tax strategies. Contemporary accounting research increasingly recognizes that taxation decisions emerge from interactions between governance mechanisms, stakeholder expectations, and financial reporting objectives rather than from isolated managerial incentives (Haydar & Machmuddah, 2024). The empirical evidence therefore indicates that accounting discretion associated with deferred taxation represents a more relevant mechanism for earnings management than variations in effective tax rates within the sampled firms.

From a practical perspective, the results provide useful implications for investors, auditors, regulators, and corporate management when evaluating the quality of financial reporting. Investors may consider deferred tax liabilities as an additional analytical indicator when assessing the credibility of reported earnings because the variable demonstrates a statistically significant association with discretionary accruals. Auditors can incorporate deferred tax accounts into risk assessment procedures to identify financial statement areas requiring greater professional skepticism during the audit process. Regulatory authorities may also strengthen monitoring of temporary tax differences without discouraging legitimate tax compliance practices undertaken by listed companies. Effective supervision of deferred tax reporting contributes to improving financial reporting transparency while maintaining compliance with prevailing accounting and taxation standards (Soemarsono et al., 2024). These implications highlight that the quality of earnings cannot be evaluated solely through profitability or effective tax rates but should also consider accounting estimates associated with deferred taxation.

CONCLUSION

This study investigated the effects of tax management, deferred tax liabilities, and profitability on earnings management among 22 consumer goods companies listed on the Indonesia Stock Exchange during the 2020–2024 period, generating 110 firm-year observations analyzed using the Fixed Effect Model with White diagonal standard errors. The empirical findings reveal that tax management, measured by the Effective Tax Rate (ETR), does not have a statistically significant effect on earnings management, indicating that relatively homogeneous tax compliance practices among the sampled firms do not create sufficient variation to explain discretionary accruals. Deferred tax liabilities exhibit a positive and statistically significant effect on earnings management, suggesting that temporary differences between accounting income and taxable income provide managers with greater flexibility in determining the timing of revenue and expense recognition. Profitability, represented by Net Profit Margin (NPM), demonstrates a statistically significant negative effect on earnings management, implying that firms with stronger operating performance tend to rely less on accrual-based earnings manipulation. Simultaneously, tax management, deferred tax liabilities, and profitability significantly influence earnings management, confirming that the proposed research model is statistically valid despite differences in the individual contribution of each explanatory variable. The adjusted coefficient of determination of 13.60% indicates that earnings management is also influenced by numerous financial and governance factors beyond those examined in this study. These findings emphasize that deferred tax liabilities constitute the most informative accounting indicator for identifying potential earnings management practices among consumer goods companies listed on the Indonesia Stock Exchange.

The findings offer practical implications for corporate management, investors, auditors, and regulators in evaluating financial reporting quality and strengthening corporate governance practices. Companies are encouraged to improve the transparency and consistency of deferred tax reporting while maintaining sustainable operational performance instead of relying on accounting discretion to achieve earnings targets, particularly when profitability declines. Investors and creditors should consider deferred tax liabilities together with profitability indicators when assessing earnings quality because these variables provide complementary information regarding managerial reporting incentives. Auditors are expected to increase their attention to temporary tax differences and accounting estimates during the audit process, whereas regulators may strengthen oversight of deferred tax disclosures to improve financial reporting transparency without discouraging legitimate tax compliance. The relatively low explanatory power of the model suggests that future studies should incorporate additional determinants such as leverage, firm size, audit quality, institutional ownership, managerial ownership, and corporate governance mechanisms to obtain a more comprehensive understanding of earnings management behavior. Future research is also encouraged to employ alternative earnings management proxies, including the Kothari Model, extend the observation period and industrial coverage, and apply dynamic panel estimation methods such as the Generalized Method of Moments (GMM) to address potential endogeneity issues. These developments are expected to improve the robustness, explanatory power, and generalizability of empirical evidence regarding earnings management in emerging capital markets.

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