

The Implication of IFRS Convergence on Tax/Earnings Management Behavior of Public Companies in Indonesia

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Abstract- The purpose of this study is to describe whether International Financial Reporting Standards (IFRS) convergence in Indonesia implies the behavior of tax management or earnings management of publicly-listed companies whose corporate income tax is not subject to final tax. This study uses a mixed approach, collecting textual data using document analysis techniques and participant observant, and collecting numerical data from public companies' audited financial statements available on the official website of the Indonesian Stock Exchange. This study uses the Book-Tax Difference (BTD) approach to identify the behavior of tax management or earnings management. Based on 288 sample data (1,152 firm-year observations) for the 2010-2013 period, this study revealed that corporate behavior in the form of tax management or earnings management continues to occur before and after public companies adopt IFRS in their financial statement.

Index Terms- IFRS implication, book-tax difference, earnings management, tax management

I. INTRODUCTION

The relationship between accounting and tax is a complex and multidimensional topic. One explanation for this is that shifting in local accounting standards to IFRS poses a particular challenge for the tax laws. Besides, the adoption of IFRS also raises the need to review the theoretical and practical bases for using accounting as the starting point for calculating corporate taxes (Samuel, Samuel, & Obiamaka, 2013, p. 169).

The study of Mulyadi et al. (2012) reveals that the implementation of IFRS will change the financial statements, and it will lead to a change in the tax reports. However, the tax impact is essential and must be analyzed carefully. The tax implications due to changes in the Financial Accounting Standards (FAS) in many countries are very complex and require thorough and careful analysis (Mulyadi, Soepriyanto, & Anwar, 2012, pp. 159-160).

According to the IFRS Foundation (2016), there have been 147 countries in the world, implementing IFRS as a global financial accounting standard issued by the IASB (International Accounting Standard Board). Concerning IFRS implications on taxes, there are many studies found in international scientific journals with various focuses. Some of the studies are: (1) mere international literature studies (Samuel, Samuel, & Obiamaka, 2013); (2) case studies of one country, for example: Belgium (Haverals, 2007), Australia (Goodwin, Cooper, & Johl, 2008), Germany (Knirsch, 2010), Nigeria (Madawaki, 2012; Oseni, 2013), United States (Harper, Leatherbury, Machuca, & Phillips, 2012), Hong Kong (Helen, 2013); (3) comparative studies of two countries, for example: Britain and Italy (Fox & Hannah, 2013); (4) comparative studies among EU member states (De Simone, 2013); and (5) comparative studies among numerous countries in various continents (Mulyadi, Soepriyanto, & Anwar, 2012). From these previous studies, only Mulyadi et al. (2012) discuss the implications of IFRS on tax in Indonesia. However, Mulyadi et al. (2012) do not give examples of companies in Indonesia that have implemented IFRS.

Based on previous studies above, the implications of IFRS on tax vary significantly in many countries. The extent of the implications of IFRS on tax in a country or company depends on three factors (Samuel, Samuel, & Obiamaka, 2013, p. 172). The first factor is to what extent financial accounting relates to tax accounting in a country is. The second factor is whether a country chooses to use the "full IFRS" option for the annual financial statement of companies in a country. The third factor is to what extent national accounting standard setters consider IFRS when setting standards for national Generally Accepted Accounting Practice (GAAP) and what choices of accounting principles companies can make within national GAAP.

For the case of Indonesia, the beginning of IFRS convergence started effectively on 1 June 2012. IFRS converged into Statement of Financial Accounting Standards (SFAS) is mandatory for publicly listed companies for audited financial statements for the book year 2012. Besides, state-owned companies and financial institutions are also obligated to implement SFAS convergent with IFRS. Mulyadi et al. (2012, p. 162) suggest that the implementation of IFRS in Indonesia has an impact on companies whose corporate

income tax is not final, whereas those whose income is subject to final tax is not affected by the implementation of IFRS.

After the literature study of Mulyadi et al. (2012), there are some further investigations of the implication of IFRS convergence using BTD approach and samples from public companies listed on the Indonesia Stock Exchange (IDX). Santy et al. (2016) conclude that IFRS implementation does not result in a change in earnings management practices. The study of Wulandari et al. (2017) with the samples from public companies listed on the IDX as well also reveals the same conclusion as Santy et al. (2016).

As a follow-up of Mulyadi et al. (2012), this study focuses on a research question concerning the comparison of the practice of tax management or earnings management performed by publicly-listed companies whose income is not subject to final tax before and after IFRS implementation in Indonesia. The main issue of the study relates to the continually changing Indonesian SFASs in line with IFRS changes, but no amendment to the Indonesian taxation rules occurs after IFRS implementation in 2012.

II. CONCEPTUAL FRAMEWORK

A. Bookkeeping System & Book-Tax Difference

To answer the research question above, one of the conceptual frameworks useful as a research instrument is the concept of Book-Tax Difference (BTD). In the research literature, BTB is the difference between accounting rules and tax rules. BTB can also be calculated by adding permanent differences and temporary differences (Tang & Firth, 2011, p. 181). BTB results from the bookkeeping system in the literature consisting of two systems, namely the one-book system and the two-book system (Schanz & Schanz, 2010, pp. 311-312). The one-book system will not result in BTB since financial accounting is also applicable for tax accounting. The two bookkeeping system will separate tax accounting and financial accounting so that BTB will arise. After the implementation of IFRS in many countries, there is a new bookkeeping system, namely the three-book system. These three accounting systems are dynamic.

In the two-book or dual accounting system, tax and financial reporting are separate but related, accounting systems with different objectives. Financial statements are designed to provide information to shareholders and others for evaluating firm performance (Plesko, 2000, p. 171). For tax purposes, financial statements are designed to provide information to the tax authority to calculate corporate tax liabilities based on taxable income. This taxable income, whose definition is subject to change by legislative action, provides a measure of income that leaves little room for some managerial discretion that may lead to horizontal differences in tax liabilities (Plesko, 2000, p. 171).

There are two forms of BTBs, namely permanent differences and temporary differences. Permanent differences arise when an item (a) affects book income, but never affects taxable income; or (b) affects taxable income, but never affects book income (Graham, Raedy, & Shackelford, 2012, p. 24). Some of the examples are income subject to final tax, income as a non-tax object, and non-allowable expenses (i.e., donation and tax fines). Temporary differences arise when the tax basis and the book basis of an asset or liabilities differ (Graham, Raedy, & Shackelford, 2012, p. 24). Some of the examples are depreciation expense, amortization expense, and allowance for doubtful accounts.

Several previous studies show that BTB is caused by differences in the objectives of accounting reporting and tax reporting, earnings management, and tax management. Examples of such studies are Tran (1997); Hanlon (2002); Phillips, Pincus, & Rego (2003); Tang (2005); Hanlon & Shevlin (2005); Jeanjean & Stolowy (2008); and Tang & Firth (2011). Tran (1997) noted that the concept of “wherewithal to pay” in taxation has resulted in BTB from temporary differences. Hanlon & Shevlin (2005) examined BTB from the context of earnings management or tax sheltering behavior (p. 107), as shown in Figure 1. Higher accounting profit (book income) indicates the earnings management behavior, while lower taxable profit (taxable income) indicates the tax sheltering behavior.

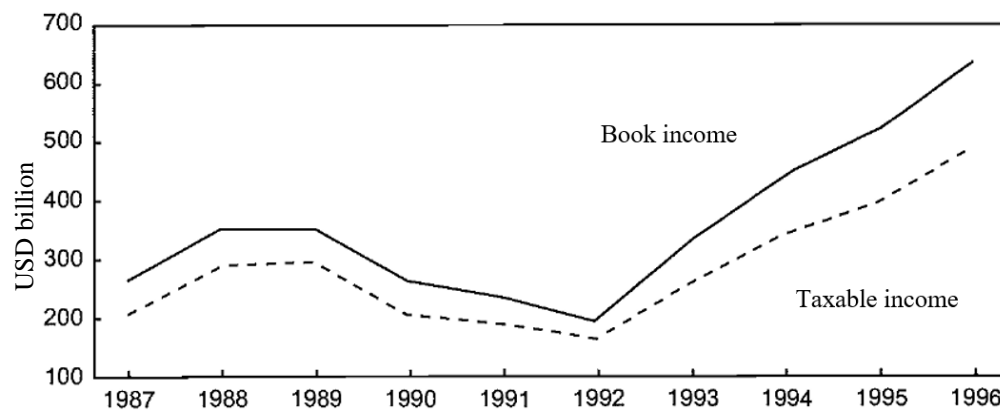


Figure 1: Book Income versus Taxable Income for Corporations with More Than USD1 Billion in Assets. Adapted from the U.S. Department of the Treasury (1999) in “Book-Tax Conformity for Corporate Income: An Introduction to the Issues” by Hanlon & Shevlin (2005, p. 107).

B. Classification of BTD

Companies are required to disclose BTD in their financial statements and tax returns. For tax purposes, tax reconciliation is a part of the tax returns and presents the necessary adjustments (fiscal corrections) for accounting profit to obtain the taxable profit. In the financial statements, BTD is disclosed in the Notes to Financial Statements and is usually divided into temporary differences and permanent differences (Hoepen, 1981, p. 17; Hanlon & Shevlin, 2005, pp. 105-106).

Figure 2 summarizes the types of BTD synthesized from Hoepen (1981, p. 22) and Gallego (2004, p. 805). If the figure is associated with Phillips et al. (2003, p. 30)'s study, BTD with temporary difference type resulting in DTL is beneficial for detecting earnings management practices. It is because the negative fiscal correction of temporary differences results in higher accounting profit than taxable profit, or the book income is higher than the taxable income.

Some researchers discussed BTD more comprehensively. They considered BTD as a result of several behaviors, namely: (1) financial reporting abuses (Plesko, 2004, p. 178); (2) conservatism in determining taxable income (Heltzer, 2006, p. v); (3) earnings management (Tang T. Y., 2006, p. 30; Lee, Vetter, & Williams, 2015, p. 55); (4) tax management (Tang T. Y., 2006, p. 30); (5) tax avoidance (Tang T. Y., 2014, p. 25; Fadilah & Wijayanti, 2017); (6) tax management (Wahab & Holland, 2014, p. 4); (7) tax sheltering (Lee, Vetter, & Williams, 2015, p. 55); and (8) aggressive tax management (Martinez, Souza, & Monte-Mor, 2016, p. 177).

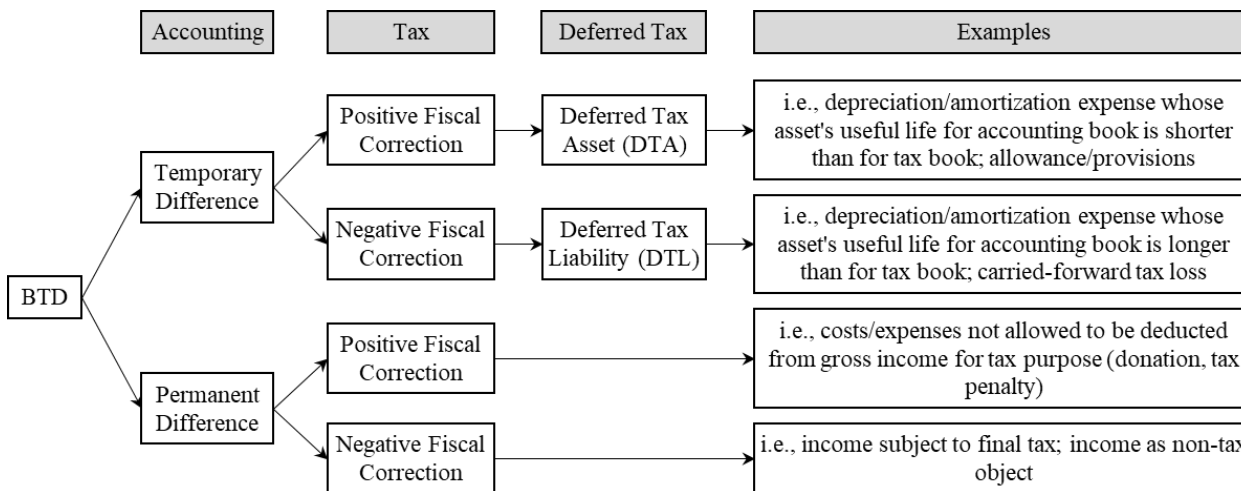


Figure 2: Classification of BTD based on accounting book and tax book,

Notes: This figure is adapted from a synthesis between “Anticipated and Deferred Corporate Income Tax in Companies’ Financial Statements” by Hoepen (1981, p. 22) and “The Accounting and Taxation Relationship in Spanish Listed Firms” by Gallego (2004, p. 805).

However, according to Tang (2005, p. 8) and Formigoni et al. (2009, pp. 44-45), BTD does not always derive from opportunistic behaviors. Tang (2005) defines BTD as a function of book and taxable income or a function of prima facie income tax (p. 8). The definition of BTD refers to the logic that BTD is a function of accounting-tax misalignment, earnings management, and tax management. BTD reveals not only the institutional discrepancy between book and tax reporting rules but also the philosophies behind management’s strategies or behavior in managing earnings and taxes (Tang T. Y., 2005, p. 8).

There are two drivers of BTD. BTD resulting from the misalignment between the accounting and tax standards constitutes non-discretionary difference or Normal BTD (NBDT), assuming that it is a not-opportunistic application of the law (Formigoni, Antunes, & Paulo, 2009, pp. 44-45). Tang (2005) stipulates that NBDT is because of mechanical differences due to different requirements between book and tax reporting (p. 8).

BTD caused by opportunistic behavior constitutes Abnormal BTD (ABTD). In this case, the administrators have incentives to act opportunistically, concerning the accounting numbers and the taxable result bringing about discretionary differences or ABTD (Formigoni, Antunes, & Paulo, 2009, pp. 44-45). Tang (2005) stipulates that ABTD is because of opportunistic differences attributed to aggressive book and tax reporting (p. 8). Concerning the management of accounting results, Heltzer (2006) mentions ABTD as aggressive book reporting (p. 3), whereas Seidman (2010) calls ABTD earnings management (p. 1). Meanwhile, for management of tax, Heltzer (2006) refers to ABTD as aggressive tax reporting (p. 3), and Seidman (2010) calls ABTD tax sheltering (p. 1).

Concerning the two types of BTD above, Tang (2005) makes a BTD conceptual framework (p. 29), as shown in Figure 3. Based on the figure, there are three types of ABTD (EM, TM, and EM+TM) with a summarized explanation as to the following. Number (1) means that a company applies EM by managing book income while keeping taxable income (taxes) constant ($B' > 0$ and $B' < 0$, where $T' = 0$). Number (2) means a company applies TM by managing taxable income (taxes) while keeping book income constant ($T' < 0$ and $T' > 0$, where $B' = 0$). Number (3) means a company applies EM and TM by managing the book income and taxable income (taxes) simultaneously, either in a different direction or in the same direction ($B' > T'$ and $B' < T'$; where $B' \neq T'$).

According to Tang (2005), accounting rules and tax rules are not able to determine the accounting and tax treatments for each business transaction because business activities are complex and continually changing. Such condition results in uncertainty in the implementation of accounting standards and tax rules (p. 7). Besides, GAAP also makes discretion and flexibility possible, allowing the choice of the accounting treatment for managers in financial reporting practices. As a consequence, uncertainty and discretion allow corporate managers to behave opportunistically according to the choice of accounting policies and available tax rules leading to distorted or abnormal BTD. However, the American Accounting Association (AAA) stated that “*accounting is a behavioral process*” dan “*principle purpose of accounting reports is to influence action: i.e., behavior*” (Cao & Buchanan, 1985, p. 115; Balachandran, 1985, p. 23).

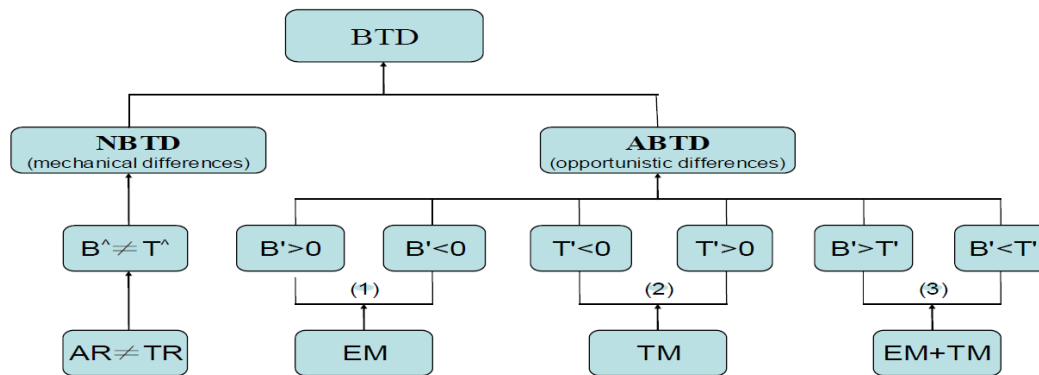


Figure 3: The Conceptual Framework of Book-Tax Difference

Notes: The definition of symbols is as the following. B^{\wedge} is unplanned book revenue as the basis for calculating tax expense according to accounting standards, before applying earnings management (EM) or tax management (TM). T^{\wedge} is unmanaged taxable revenue, which is the basis for calculating tax debt according to tax rules, before applying EM or TM. B' is planned book revenue as the basis for calculating tax expense according to accounting standards after applying EM or TM. T' is planned taxable revenue, which is the basis for calculating tax debt according to tax rules, after applying EM or TM. AR is accounting rules under FAS, while TR is tax rules under the applicable tax rules. Adapted from Tang (2005, p. 29)

In terms of literature on taxation principles, Mazur & Plumley (2007) suggests that uncertainty, as mentioned above, arises because many interpretations of the tax laws must be made to match the pattern of taxpayer transactions with rules and the taxpayer has a different interpretation from the tax authority ultimately affecting the tax gap (p. 569). In terms of literature on positive accounting theory, discretion and flexibility, as mentioned above, are parts of the hypothesis that underlies positive accounting theory (PAT) because company managers will determine the choice of available accounting policies. The selection of accounting policies, according to the available options, is part of creative accounting. The goal is for managers to (1) increase their bonuses; (2) increase earnings for the year; and (3) minimize administrative costs, such as regulations and taxes (Watts & Zimmerman, 1990, pp. 138-140).

III. METHODOLOGY

This study uses a mixed-method (MM), which combines qualitative approaches and quantitative approaches under the MM scope, according to Tashakkori & Creswell (2007, p. 1). There are two types of data for further analysis (textual data and numerical data). This study exercises textual data by thematic analysis and numerical data through descriptive statistical analysis. By using the notation for mixed research, according to Morse (1991, p. 121-122), this study uses the “QUAL + quan” notion. This notion implies that this study uses the mixed method with priority on the qualitative approach and its additional components in the forms of quantitative data, which are analyzed simultaneously with qualitative data (Creswell, 2010, pp. 98-99; Creswell & Clark, 2011, p. 137).

The textual data collection uses document analysis and participant observant technique, according to the approach of Grady (1998, p. 22). Document analysis is carried out on SFASs published by the Indonesian Institute of Accountants (IAI), textbooks, scientific journals related to research objectives and topics in various countries, and income tax rules relevant to the SFASs. Participant observant is done by socially interacting with informants in a comfortable, close, and open manner to obtain the study data (Taylor, Bogdan, & DeVault, 2016, pp. 54, 64). The numerical data collection technique utilizes the sample data of public companies taken from the official website of the IDX (www.idx.com). As IFRS convergence in Indonesia takes effect from 2012, the sample data of public companies refer to the two-year reporting period before IFRS implementation (2010-2011) and two years after IFRS implementation (2012-2013).

IV. RESULT & DISCUSSION

A. Selection of Samples and Descriptive Statistics

Table 1 summarizes the stages of selecting the samples of companies listed on the stock exchange. The table shows 521 public companies, as shown on www.idx.com (see no. 1), which uploaded their audited financial statements to the IDX website. Based on the financial statements of each public company, manual checking is carried out for each financial report for the 2010-2013 book year. The purpose of checking is to ensure that the financial statements of the 521 public companies are available for further analysis.

Table 1: Stages of Study Sample Selection

Description	Σ	Unit
Observations available on the website www.idx.com (Indonesia Stock Exchange, 2010)	521	Companies
Observations not available for further analysis in this study:		
Observations for which the 2010-2013 financial statements, including information about fiscal reconciliation in notes to financial statements, are not complete	108	Companies
Observations for which the 2010-2013 financial statements use the non-Rupiah for presentation currency	63	Companies
Observations for which the income of the public companies is subject to final tax	60	Companies
Observations for which the public companies make changes to the accounting period so that there are two tax returns based on one fiscal year	2	Companies
Total observations not available for further analysis in this study	233	Companies
Observations available for further analysis for this study:	288	Companies
The final set of firm-year observations for descriptive statistical analysis	1,152	firm-year observations

Note: Processed by the author.

The final set of 1.152 firm-year observations is calculated based on four book year x 288 selected public companies whose 2010-2013 audited financial statements are complete for further analysis.

Based on the 288 selected sample data summarized in Table 1 and determined by adapting from Hanlon et al. (2012)'s study, Table 2 summarizes the sample distribution. According to IDX Fact Book 2010 (Indonesia Stock Exchange, 2010), there are nine business sectors, which are further broken down into sub-sectors or group category. The classification of the group category of listed companies of the IDX refers to the Jakarta Stock Industrial Classification (JASICA).

Table 2: Distribution of Research Samples Based on Industries

Sector & Subsector	Business Category	Σ listed company	Σ N Valid	Σ firm-year	%
A.	Primary Sector				
1.	Agriculture				
1.1	Crops	1	1	4	0,35%
1.2	Plantation	16	10	40	3,47%
1.3	Animal Husbandary	-	-	-	0,00%
1.4	Fishery	3	2	8	0,69%
1.5	Forestry	-	-	-	0,00%
1.9	Others	1	1	4	0,35%
	Subtotal Sector 1	21	14	56	4,86%
2.	Mining			-	
2.1	Coal mining	22	6	24	2,08%
2.2	Crude petroleum and natural gas production	7	1	4	0,35%
2.3	Metal and mineral mining	9	6	24	2,08%
2.4	Land/stone Quarrying	2	2	8	0,69%
2.9	Others	-	-	-	0,00%
	Subtotal Sector 2	40	15	60	5,21%
B.	Secondary Sector (Industry & Manufacturing)			-	
3.	Basic industry and chemicals			-	
3.1	Cement	5	3	12	1,04%
3.2	Ceramics, Glass, Porcelen	6	6	24	2,08%
3.3	Metal and allied products	16	11	44	3,82%
3.4	Chemicals	10	7	28	2,43%
3.5	Plastics & Packaging	13	8	32	2,78%

Table 2: Distribution of Research Samples Based on Industries

Sector & Subsector	Business Category	Σ listed company	Σ N Valid	Σ firm-year	%
3.6	Animal feed	4	4	16	1,39%
3.7	Wood industries	2	1	4	0,35%
3.8	Pulp & paper	8	4	16	1,39%
3.9	Others	-	-	-	0,00%
	Subtotal Sector 3	64	44	176	15,28%
4.	Miscellaneous industry			-	
4.1	Machinery and heavy equipment	2	-	-	0,00%
4.2	Automotive and components	13	9	36	3,13%
4.3	Textile & garment	17	4	16	1,39%
4.4	Footwear	2	2	8	0,69%
4.5	Cable	6	5	20	1,74%
4.6	Electronics	1	-	-	0,00%
4.9	Others	-	-	-	0,00%
	Subtotal Sector 4	41	20	80	6,94%
5.	Consumer goods industry			-	
5.1	Food & beverages	15	12	48	4,17%
5.2	Tobacco manufactures	4	3	12	1,04%
5.3	Pharmaceuticals	10	6	24	2,08%
5.4	Cosmetics & Household	5	4	16	1,39%
5.5	Houseware	4	3	12	1,04%
5.9	Others	-	-	-	0,00%
	Subtotal Sector 5	38	28	112	9,72%
C.	Tertiary Sectors (Service)			-	
6.	Property, Real Estate, & Building Construction			-	
6.1	Property & real estate	50	2	8	0,69%
6.2	Building construction	10	2	8	0,69%
6.9	Others	-	-	-	0,00%
	Subtotal Sector 6	60	4	16	1,39%
7.	Infrastructure, Utilities, Transportation			-	
7.1	Energy	4	1	4	0,35%
7.2	Toll road, airport, harbor and allied products	3	3	12	1,04%
7.3	Telecommunication	6	5	20	1,74%
7.4	Transportation	33	9	36	3,13%
7.5	Non Building Construction	7	4	16	1,39%
7.9	Others	-	-	-	0,00%
	Subtotal Sector 7	53	22	88	7,64%
8.	Finance			-	
8.1	Bank	42	29	116	10,07%
8.2	Financing institution	15	10	40	3,47%
8.3	Securities Company	12	11	44	3,82%
8.4	Insurance	12	10	40	3,47%
8.9	Others	8	6	24	2,08%
	Subtotal Sector 8	89	66	264	22,92%
9.	Trade, Service, & Investment			-	
9.1	Wholesale (Durable & Non-Durable Goods)	34	19	76	6,60%
9.3	Retail Trade	23	17	68	5,90%
9.4	Tourism, Restaurant & Hotel	19	16	64	5,56%
9.5	Advertising, Printing, & Media	14	9	36	3,13%
9.6	Health Care	4	1	4	0,35%
9.7	Computer Services & Other Devices	6	4	16	1,39%
9.8	Investment Company	10	7	28	2,43%
9.9	Others	5	2	8	0,69%
	Subtotal Sector 9	115	75	300	26,04%
	Total [1+...+9]	521	288	1.152	100,00%

B. Data Analysis Based on the Book-Tax Difference Approach

Analysis of the study sample data refers to the study of Gallego (2004) and BTD calculations (Revsine, Collins, Johnson, Mittelstaedt, & Soffer, 2015, p. 750; Graham, Raedy, & Shackelford, 2012, p. 132). Meanwhile, analysis of the management behavior related to the study sample BTD refers to the behavioral accounting theory initiated by the American Accounting Associated entities (AAA) in 1971.

Textual Data Analysis. For the textual data analysis, from the perspective of Indonesian income tax rules, BTD for corporate taxpayers is under various articles of the Income Tax Laws (Law No. 7/1983; Law No. 36/2008). Income tax rules do not categorize BTD based on temporary differences and permanent differences but slightly based on positive corrections and negative corrections. Meanwhile, in the Notes to Financial Statements, additional explanations about tax reconciliation often divide BTD into permanent differences and temporary differences.

Based on Figure 2 and the descriptive analysis of Indonesian income tax laws, the summary of BTD is in Figure 4, and the relevant explanation is as the following. In Figure 4, ABTD showing accounting income higher than taxable income because of opportunistic management of earnings refers to example B number 1) and 2) as well as example D number 3) and 4). ABTD, which shows nil taxable income because of tax management practice by utilizing carried forward tax loss, refers to example B number (4). ABTD, which shows unreported income for tax book, refers to example C number 3).

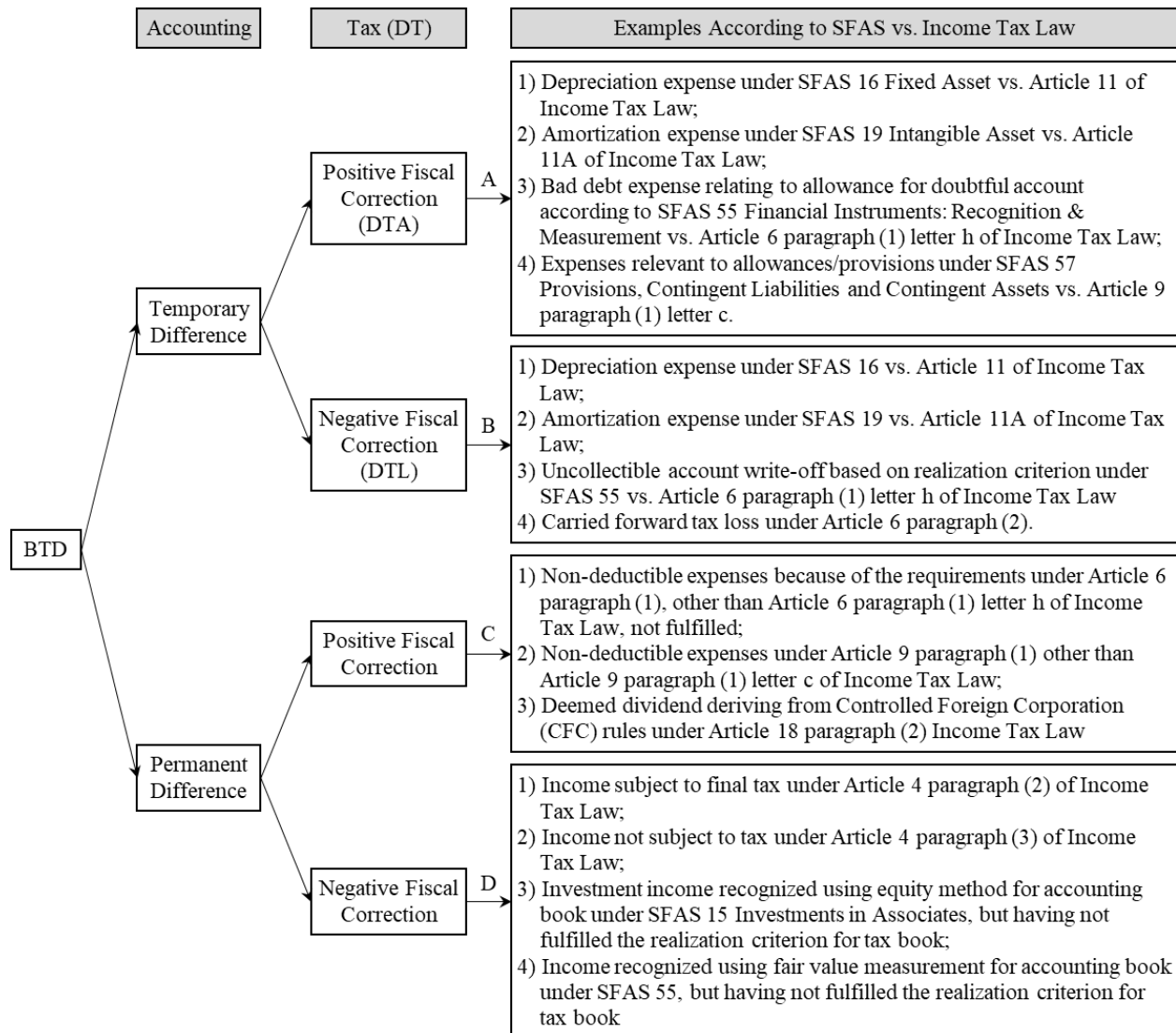


Figure 4: The Summary of BTD Examples under Income Tax Laws.

Examples of tax avoidance implementation according to the tax rules in Indonesia are more challenging to illustrate due to the textual exploitation of the income tax rules (Cunningham & Repetti, 2004, p. 21; Tran, 1997, p. 77). However, by referring to Figure 4,

deemed dividend unreported under CFC rules of Income Tax Laws can be an actual example, and the analysis on the notes to financial statements can reveal the unreported deemed dividend. The practice of tax avoidance is based on the expertise of tax consultants with their tacit knowledge (Dampney, Busch, & Richards, 2002, p. 13).

Numerical Data Analysis. As a result of numerical data analysis, Table 3 summarizes average BTDs for each sector and subsector. As described previously, there are nine sectors, and each sector consists of several sub-sectors. One important thing to underline is that the analysis of ABTD will be far more accurate if being done for each firm-year observation. For simplification purposes in Table 3, we call the BTD exceeding zero value “positive BTD” as the BTD average value derives from the following formula: accounting profit – taxable profit > 0. We call the BTD less than zero value “negative BTD” because of the following formula: accounting profit – taxable profit < 0.

Table 3 reveals that the two most significant positive BTDs are sub-sector 4.2 Automotive and Components as well as sub-sector 7.3 Telecommunications. The listed companies contributing the highest positive BTD for sub-sector 4.2 and sub-sector 7.3 are PT Astra International, Tbk (IDX code: ASII), and PT Telekomunikasi Indonesia Tbk (IDX code: TLKM) respectively.

Table 3 Average 2010-2013 BTD of all Sectors and Subsectors of Listed Companies

Sector & Subsector	Valid N	BTD 2010	BTD 2011	BTD 2012	BTD 2013
1. Agriculture					
1.1 Food Crops	1	-9,744,000	-9,867,000	-7,644,000	-44,945,000
1.2 Plantation	10	203,111,225	313,218,881	110,612,099	-77,085,255
1.4 Fishery	2	-88,483,284	-748,508,175	104,995,125	-214,325,718
1.9 Others	1	-493,382	130,332	897,236	2,247,114
Average per Sector 1	14	-946,055	-16,023,953	26,700,644	51,424,571
2. Mining					
2.1 Coal mining	6	-9,524,555	-17,630,379	-27,141,302	-13,022,060
2.2 Crude petroleum and natural gas production	1	52,945,685	-25,065,433	457,132,950	-81,858,341
2.3 Metal and mineral mining	6	5,466,137	-5,062,741	-4,291,311	-4,863,664
2.4 Land/stone Quarrying	2	20,893,700	-18,286,145	191,151,843	-13,690,134
Average per Sector 2	15	-946,055	-16,023,953	26,700,644	51,424,571
3. Basic Industry & Chemicals					
3.1 Cement	3	25,750,983	-70,269,601	-157,503,920	-81,164,283
3.2 Ceramics, Glass, Porcelain	6	-5,831,901	-7,076,282	-10,504,835	-11,869,770
3.3 Metal and allied products	11	30,715,884	20,375,575	14,371,039	6,083,490
3.4 Chemicals	7	3,506,914	10,921,317	5,208,564	1,991,706
3.5 Plastics and Packaging	8	-1,645,961	4,482,885	-3,931,963	-2,331,589
3.5 Animal feed	4	-69,255,480	-11,340,898	-17,432,110	-44,544,516
3.7 Wood industries	1	47,261,939	-77,042,810	8,977,552	35,937,000
3.8 Pulp and Paper	4	21,421,190	20,027,346	29,004,516	53,680,408
Average per Sector 3	44	5,623,676	929,093	-7,208,816	-4,091,438
4. Miscellaneous industries					
4.2 Automotive and Components	9	583,891,480	956,375,090	866,355,722	1,173,741,765
4.3 Textiles & Garment	4	10,874,413	573,442	-21,893,982	-18,532,816
4.4 Footwear	2	7,098,189	1,364,252	-3,348,246	4,096,237
4.5 Cable	5	-5,907,291	-8,664,218	-6,212,678	-10,894,574
Average per Sector 4	20	264,159,045	428,453,850	383,593,284	522,163,212
5. Consumer Goods Industry					
5.1 Food and Beverages	12	-62,573,445	767,370	-6,970,998	-33,219,588
5.2 Tobacco manufactures	3	-144,063,000	-149,105,333	-189,927,000	-132,195,000
5.3 Pharmaceuticals	6	29,467,104	37,108,680	10,067,224	56,751,680
5.4 Cosmetics & Household	4	7,796,334	6,660,876	32,180,415	35,632,500
5.5 Houseware	3	-1,606,466	-1,927,657	-2,858,653	-1,863,123
Average per Sector 5	28	-34,996,492	-6,949,820	-16,888,712	-11,348,905
6. Property, Real Estate, & Building construction					
6.1 Property & Real Estate	2	35,638,925	40,736,302	465,730,645	642,032,572
6.2 Building Construction	2	78,518,085	82,820,377	118,842,806	123,289,768
Average per Sector 6	4	57,078,505	61,778,340	292,286,726	382,661,170
7. Infrastructure, Utilities, Transportation					
7.1 Energy	1	1,650,078	-425,644	-446,123	-327,409

Table 3 Average 2010-2013 BTD of all Sectors and Subsectors of Listed Companies

Sector & Subsector	Valid N	BTD 2010	BTD 2011	BTD 2012	BTD 2013
7.2 Toll Roads, Airports, ports and allied products	3	134,697,522	244,167,091	86,229,565	60,800,646
7.3 Telecommunications	5	2,299,826,194	1,765,583,598	1,762,332,235	2,248,373,841
7.4 Transportation	9	-113,862,009	622,051,810	32,532,078	-25,348,861
7.5 Non-Building Construction	4	144,160,113	151,383,478	241,520,398	387,000,428
Average per Sector 7	22	520,761,636	716,545,173	469,489,729	579,263,895
8. Finance					
8.1 Bank	29	-39,652,999	186,455,394	103,374,480	-77,582,094
8.2 Financing Institutions	10	38,390,183	41,027,893	-2,526,447	-16,429,400
8.3 Securities Companies	11	26,122,280	9,355,877	-512,642	5,520,624
8.4 Insurance	10	62,022,310	30,089,607	28,304,562	22,381,087
8.5 Others	6	65,621,358	17,863,388	68,106,364	69,661,199
Average per Sector 8	66	8,110,018	95,886,006	55,433,942	-25,934,391
9. Trade, Services, & Investment					
9.1 Wholesale (Durable & Non-Durable Goods)	19	55,839,937	40,639,129	79,558,798	65,187,669
9.3 Retail trade	17	339,989,092	-5,904,907	34,195,846	48,196,809
9.4 Tourism, Restaurant & Hotel	16	8,724,466	9,347,410	14,757,666	16,306,428
9.5 Advertising, Printing, & Media	9	11,267,317	-25,187,308	14,219,579	11,494,312
9.6 Health care	1	-3,881,396	-1,350,708	-6,646,518	-2,105,534
9.7 Computer Services & Other Devices	4	-4,643,501	219,259	4,796,354	51,722,477
9.8 Investment Company	7	0	131,925,368	89,062,054	41,317,501
9.9 Others	2	5,727,163	11,229,516	9,420,025	16,862,319
Average per Sector 9	75	107,259,049	20,534,610	41,491,450	39,333,262
Total [1+...+9]	288				

Note: The amount in the table above is in thousands Rupiah

To identify whether positive BTD derives from ABTD or NBTB, we conducted a descriptive analysis of the tax reconciliation information disclosed in the notes to financial statements of the audit report belonging to ASII and TLKM. Our analysis revealed that the positive NBTB of ASII significantly results from dividend income as a non-tax object. This NBTB does not indicate tax management behavior. For TLKM's fiscal reconciliation information, the positive BTB significantly comes from the share of the net profit of subsidiaries and associated entities. This negative correction relates to the application of the equity method valuing assets in the form of investments in subsidiaries and associated entities. According to Tang & Firth (2011), such an asset valuation can indicate earnings management behavior due to accounting flexibility that allows the management to behave opportunistically to influence the performance of subsidiaries or associates, resulting in asset increase (investments in subsidiaries or associated entity) (p. 178). In turn, the increase of such an asset instrument also increases TLKM's comprehensive income.

Besides the analysis of ASII and TLKM, as described above, we also conducted the same analysis process of tax reconciliation information disclosed in the financial statements to all firm-year observations showing positive BTB. The result reveals that the practice of earnings management or tax management kept occurring before and after IFRS implementation in 2010-2013. IFRS still provides accounting flexibility allowing the management to behave opportunistically to influence financial performance. The positive ABTD found in this study derives from (1) depreciation, (2) amortization, (3) finance leases, (4) sales of subsidiaries in British Virgin Island (BVI), (5) sale of shares of associated entities in the Philippines, (6) the application of equity method, (7) the application of fair value accounting, and (8) unreported deemed dividend in the financial statements.

V. CONCLUSION

This study concludes that the application of IFRS in Indonesia does not have implications on changes in earnings management and tax management behavior of listed companies whose income is not subject to final tax. Both corporate behaviors continue to occur before and after the implementation of IFRS in Indonesia. The result of this study is in line with the result of Santy et al. (2016) and Wulandari et al. (2017).

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