Determinants of Tax Inspection in Indonesia Stock Exchange

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Abstract

The objective of the study was to identify factors that can predict the outcome of tax inspection conducted by the Directorate General of Taxation (DGT) and earnings management practices in companies listed in the Indonesia Stock Exchange (IDX). To realize the intention, the agency theory was used as the basis of this study. It is used to explain the conflict among corporate taxpayers and DGT. The variables applied in this study are tax inspection, profitability, permanent differences, temporary differences, tax planning, and earnings management. This study examined 156 non-financial companies, which were inspected by the DGT in the period from 2008 to 2013. Path analysis was used to build a research model. This study indicated that temporary and permanent differences can be used to predict tax inspection results ; whilst, permanent differences and tax planning affect earnings management. However, this study did not find any model, which can be explained by path analysis.

Key words : **temporary difference, permanent difference, tax inspection**

JEL Classification : E62, H21, M41

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Tax can be elaborated from two different perspectives. First, it serves as a source of state revenue that is used to fund state spending, both routine and physical development. Second, tax also means charges people have to give away to the state. High tax-rates certainly increase the state revenue, but high tax-rates can become a concern for some people. In a clean government, tax revenue is mostly used for providing and maintaining public facilities and infrastructure, security, health-care, education, environmental preservation, and also to improve the welfare and prosperity of the people.

In the state budget, tax revenue consists of some components, one of which - the sources of tax revenue is derived from corporate taxpayers. Compliance of corporate taxpayers in counting, disbursement, and reporting tax expenses, affect the amount of corporate income tax in the state budget revenues. In order to force corporate taxpayers to comply with the legislation, the Director General of Taxation (DGT) has the authority to conduct surveillance and control on the corporate taxpayer (Hidayat, 2013). It is necessary to apply law enforcement and strict control to make taxpayers' compliant (Priantara, 2011). It was also stated that 'tax-inspection' is a tool to determine compliance of the taxpayers. The results of tax inspection that were published by the Directorate General of Taxation are the tax overpayment letters, tax less payment letters, and tax nil letters.

The difference of income between accounting and taxation can be delineated as a factor that causes the difference between income tax, reported by corporate taxpayers with income tax based on taxation. Income tax is based on accounting standard unless the regulations specify otherwise (Gunadi, 2013). This means that the book keeping system does not require a dual recording system. Tax regulation is based on the recording system in accordance with the accounting standard as long as there are no differences. Correction fiscal should be made if

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there is a difference in the determination of income according to accounting and tax. The difference between income in accounting and tax can be categorized into two different groups, namely, temporary and permanent differences (Gunadi, 2013; Mills & Plesko, 2003). Temporary difference occurs as a consequence of differences in standards regarding the recognition and measurement of revenue and expenses. These differences disappear along the time. Permanent differences are initiated by differences in assumptions used to recognize and measure revenues and expenses. These differences are not driven by accounting accruals process (Hanlon & Heitzman, 2010). There are limitations on spending for natural disasters which are exemplified in tax regulations that say that spending must be no more than 5 years period. In contrast, these regulations are not determined in accounting (Gunadi, 2013). The differences in determining income between accounting and tax as described above in many studies of taxations are called the book tax gap (BTG) problem. Temporary and permanent differences are components of tax planning.

Tax planning is required to be done by the corporate taxpayer if the results of expected tax inspection conducted by the DJP are not much different from the tax expenses stated by corporate taxpayers (Permatasari & Laskito, 2013). Tax planning can be described as an attempt to take advantage of various loopholes which are not covered by taxation regulations, and do not violate the existing stipulation. Using such approach, the payable tax can be minimized (Pohan, 2013). Syakura and Baridwan (2014) states that one of the variables that affect the implementation of tax planning is financial condition. Companies with good tax planning tend to report smaller profits to minimise tax to be paid (Wijaya & Martani, 2011). Additionally, tax planning can also be used as a tool to detect management practices for earnings (Sumomba & Hutomo, 2012).

Identification of the Problem

Based on the 2013 financial statements published by banks operating in Indonesia, 76 banks were revealed to have been examined by the DGT during the period time from 2008 to 2012. Whereas, in the year of 2014, 173 non-financial companies listed in the Indonesia Stock Exchange, which had been inspected by the DGT in the period from 2008 to 2013 and the results has also been revealed to public. Nearly 90% of the companies inspected by the DGT received underpayment letter and 70% among them submitted to the taxation court. Why did the result of tax inspection look like this? Corporate taxpayers which had implemented tax planning and earning management, theoretically, did not violate existing provision. The bigger concern is whether the tax planning and earning management had not been implemented appropriately.

Review of Literature

The agency theory begins with conflict of interest between the principal and agent (Jensen & Meckling, 1976). This theory proposed that since people have their own interests, further conflicts will emerge when they work together. Conflict might happen in a firm, or corporate, or social organizations. But in its development, the theory focuses more on conflict of interest between agent and principal in public companies. This conflict occurs because agents do not always behave in the interests of the principal. There is a discrepancy between the principal and the agent, which can be explained as follows: the principal attempt to minimize the agency costs, while agents in business management try to meet their own interests (Jensen, 1994).

The conflict between the agent and the principal as explained above can occur in the form of relationship between corporate taxpayers and the government which is represented by the DGT. Corporate taxpayer wants to pay minimal taxes, whereas the DGT attempt to raise more tax revenue. Although corporate taxpayers implement tax planning and earnings management, they do not always comply with tax regulations. Conflict arise when the DGT conducts tax inspection and then sends underpayment letters to corporate taxpayers. Those underpayment letters drive corporate taxpayers to appeal to the taxation court.

(1) Self Assessment and Tax Inspection : Self-assessment is one of the early milestones for tax restructuring in Indonesia, which was started in the year of 1984. In this system, the taxpayer is given the authority to calculate, pay, and report the amount of tax which is due to the state. The Directorate General of Taxation (DGT) delivers service and supervision of taxation (Hutagaol, 2007). One of the supervisory functions that was executed by the DGT is inspection. The legal basis of tax inspection for testing compliance of corporate taxpayers is the Director General of Taxation Circular No. SE-85/PJ/2011, as a renewal of the Director General of Taxation Circular no. SE-10/PJ.04/2008 dated December 31, 2008.

Tax inspection can be described as an activity to collect and process data, and or evidence objectively and professionally in accordance with applicable auditing standards aimed to test compliance and tax obligations or for other purposes relating to the implementation of taxation legislation (Hidayat, 2013). Thus, tax inspection is different from the audit of financial statements. The goal of tax inspection is not only to produce an opinion about financial statements, but also to test compliance fulfillment for tax obligations and for other purposes in order to implement regulation of the tax legislation as mentioned in Article 29 paragraph (1) of the DGT.

Technical constraints are some of the obstacles in tax inspection (Hutagaol, 2007). These constraints are related with the size of the company, use of information technology, capital ownership, and the scope of transactions. The problems of technical constraints are the size of larger companies, high use of information technology, an open capital ownership or public ownership, and transactions involving parent company, as well as transactions with other countries. These factors would definitely bring more impact on the level of complexity of the implementation of tax inspection.

Tax inspection will continue if there is a dispute between corporate taxpayer and the inspector (DGT). DGT then makes inquiry and runs an investigation based on law. It can be explained that the tax inspector requires absolute confidence that any corporate taxpayer has not followed the requirements prescribed by the applicable tax regulations (Priantara, 2011). The result of tax inspection is the decision of tax that would have been payable (Priantara, 2011). Underpayment or overpayment letter is one of the output of tax inspection.

(2) Tax Planning : Tax planning can be interpreted as an attempt by corporate taxpayers to pay tax as correctly, and to avoid the breach of tax regulations. To do tax planning, a tax payer should understand tax regulations, set goals to achieve, never violate tax laws, and understand the business nature of corporate taxpayers. He or she also needs to understand the level of fairness of transaction rules of tax planning, and apply accounting principles supported by sufficient document (Hidayat, 2013).

The purpose of tax planning is to minimize tax expense for current year and following year (Harnanto, 2013). Furthermore, accounting profit and cash surplus after tax are expected to become maximum. The first step to do for implementing tax planning is to make tax savings (Darmayasa & Hardika, 2011). There are at least four purposes of conducting tax planning, i.e. reduce tax payable, profit after taxes, tax shocks in case of a tax audit, and fulfill tax obligations properly, efficiently, and effectively (Pohan, 2013). Whereas good tax planning must comply with tax regulation, be acceptable in term of business, and should be supported by sufficient evidence.

(3) Earnings Management : In general, earnings management is related to a manager who wants to get benefits, incentives and personal interest through deferred or accrual charges. An example of earnings management is the effort of managers to maximize bonus and hide poor performance, which should be disclosed in financial statements (Moreira & Pope, 2007). Another example that describes the benefits of conducting earnings management for an institution and a violation of debt covenants is changing credit rating and avoiding penalties due to losses reported (Moreira & Pope, 2007). Earnings management is accomplished when the benefits are higher than the costs. There are very thin differences between earnings management and accrual accounting when both of them are linked (Chandraseragam, Rahimansa, Rahman, Abdullah, & Mat, 2013). The difference depends only on the fact of how accounting policies and procedures are chosen by a manager. However, earnings management must be practiced based on accounting standards. Furthermore, based on accounting practice, managers can choose policies that fit their interests. Earnings management can be done through income minimization, income maximization, income smoothing, and revenue recognition (Sensi, 2007).

Research Objectives and Significance

The objective of this study was to identify factors that can predict the magnitude of tax inspection through several alternative models described by path analysis. This study is expected to be able to provide information for corporate taxpayers regarding the factors that can predict tax inspection results and to provide information to the DGT regarding the implementation of tax planning and earnings management that is conducted by corporate taxpayers.

Hypotheses Development

Temporary differences and permanent differences occur due to the differences between income based on accounting and taxation. Corporate taxpayers make a positive fiscal correction if the accounting income is less than the income based on tax regulation. Permanent difference is the difference in the recognition of revenue or expense between accounting and tax regulation that cannot be removed along the time, whereas, temporary difference is the difference in recognition revenue or expense that can be removed along the time. An understanding of temporary differences and permanent differences is used to develop hypotheses in this research. To minimize tax expense, corporate taxpayers implemented tax planning and earning management. Unfortunately, tax planning and earning management do not always comply with tax regulation.

Temporary difference is caused by time difference in recognition of expenses and revenues between accounting standard and tax regulation (Rosanti & Zulaikha, 2013 ; Sari, 2014). These factors drive agent to report high profits but recognize low tax expense. Income adjustment mechanism is a choice for management to achieve these objectives. According to the agency theory (Jensen & Meckling, 1976), management (agent) does not always comply with tax regulations (principal), and this fact affects the outcome of tax inspection conducted by DGT. Therefore, temporary difference can be identified as a factor for predicting tax inspection result.

➯ **H1 : Temporary differences have an effect on tax inspection.**

Adjustments from accounting income to income based on tax regulation is a strategy to determine the amount of tax to be paid without violating tax regulations. For example a company that sufferes loss in a year that can be covered by profit for next period (Comprix, Graham, & Moore, 2011). In this particular case, according to tax regulations losses during current year are permitted to be reduced by profit for next period. Adjustments are to be made through fiscal correction by corporate taxpayers (Persada & Martani, 2010 ; Sumomba & Hutomo, 2012 ; Suwandika & Astika, 2013). To minimize this tax burden, tax planning can be used.

➯ **H2: Temporary differences have an effect on tax planning.**

Tax planning gives significant benefit (Darmayasa & Hardika, 2011 ; Hidayat, 2013 ; Harnanto, 2013). Tax planning is a plan that does not violate tax regulations and accounting policies, and supported by adequate documents. Furthermore, tax expense is paid and reported correctly in a timely manner, which affects efficiency of resource being used. Meanwhile, tax inspection is the activity of collecting and processing data objectively and professionally to test the compliance of corporate taxpayers. Tax inspection focuses on evaluating compliance in calculating, picking, cutting, including payment, and reports of all obligations of corporate taxpayer in accordance with the applicable regulations (Hidayat, 2013 ; Priantara, 2011) . Thus, it can be said that tax planning has an impact on tax inspection result.

H3: Tax planning has an effect on tax inspection.

Temporary differences can be explained as a choice of accounting policies and procedures that differ between methods chosen by management with tax regulations (Persada & Martani, 2010). Management can choose accounting practices, policies and procedures which fit their interests. This practice can generate earning management.

H4 : Temporary differences have an effect on earnings management.

Permanent differences occur because of revenue and expenses which are not only subject to tax but also are based on accounting standard included in the category of revenues and expenses. This difference does not affect tax expense in the following period (Persada & Martani, 2010). Tax planning is meaningfully positive if the tax paid by corporate taxpayers complies with tax regulation, and consists of complete report, is authentic, and submitted in time. Such certainty affects the efficiency of resources used (Darmayasa & Hardika, 2011). Tax planning commences, irrespective of a transaction subject to tax. If it is subjected to tax, then tax expense can be reduced.

H5: Permanent differences have an effect on tax planning.

Permanent difference is any difference due to transactions revenue and expenses that are approved for accounting purposes but not accepted according to taxation (Rosanti & Zulaikha, 2013). Differences on recognition of revenues and expenses are described in Article 4 paragraph (3), Article 9 paragraph (1), and Article 18 of Indonesian Law no. 36/2008. Permanent differences do not require the allocation of income tax since permanent difference is the absolute difference (Sari, 2014). Using the agency theory, in which the manager (corporate taxpayers) does not always meet the wishes of the principal (tax authorities), the provisions of Article 4.9, and Article 18 of Indonesia Law No. 36/2008 are likely to be ignored by corporate taxpayers. Furthermore, tax inspection as a consequence of the Self Assessment system, provides the difference between tax expense that is reported by corporate taxpayers in comparison with the tax inspection result conducted by DGT. Income between accounting and taxation is regularly dissimilar.

H6 : Permanent differences have an effect on tax inspection.

Accounting adheres to conservative principles, it means that if there is an indication of losses, this must be immediately recognized. Conversely, if there is indication that revenue will soon be realized, but actually is not yet to be realized, then revenue cannot be recognized as income. As a result, according to accounting, income tends to be understated while tax tendency in determining income would be overstated. This variance characterizes permanent difference. With the existence of these differences, manager would then gain the motivation to manage earnings. It means they would set profit in accordance with the need (Chandraseragam et al., 2013 ; Philips, Pincus, & Rego, 2003 ; Sumomba & Hutomo, 2012).

H7: Permanent differences affect earnings management.

Corporate finance has positive effect on compliance of taxpayers (Harinurdin, 2009 ; Syakura & Baridwan, 2014) stated that financial condition is a factor that influences compliance of taxpayers through tax planning. Tax expense is a burden for the corporate taxpayer (Suarningrat & Setiawan, 2013). Therefore, in order to lessen the burden, corporate taxpayers with good financial condition carry out tax planning with the main objective of minimizing tax expense.

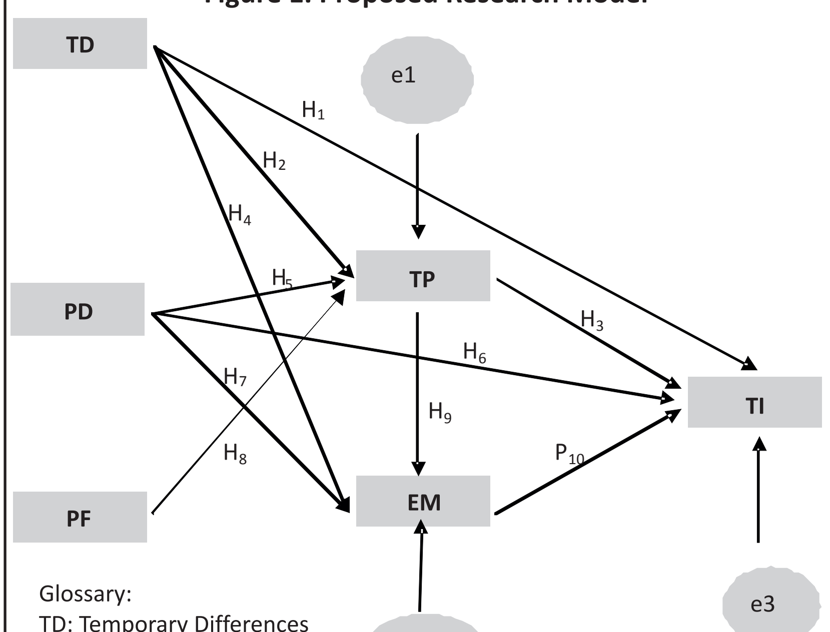
➯ **H8: Profitability affects tax planning.**

Tax planning is done for the purpose of saving resources, so that companies can pay taxes in small amounts and pay them at the most recent period. They can choose accounting method to reach tax saving. Earning management can be implemented by applying strategy of choosing method depreciation, allowance for bad debt, and amortization of intangible assets, inventory valuation methods, selection of alternative basic book keeping, and bonuses to buyers (Persada & Martani, 2010). Therefore, tax planning drives companies to implement earning management.

➯ **H9: Tax planning affects earning management.**

Highly profitable companies tend to conduct earnings management practices more than little profitable companies (Wijaya & Martani, 2011). The motivation is to get benefit of tax savings and big bonus or incentives (Sensi, 2007). Earnings management can also be used with the aim of avoiding reports on profit decline, avoid reporting of loss, and avoid difficulties in predicting future earnings. Therefore, it is necessary to detect earnings management in order to assess the quality of reported earnings (Philips , Pincus, & Rego, 2003). The purpose of earnings management is to get the manager interested (Chandraseragam et al., 2013). On the other side, the objective of tax inspection conducted by the DGT is to assess compliance level of corporate taxpayers in counting,

Figure 1. Proposed Research Model



Glossary:
TD: Temporary Differences
PD: Permanent Differences
PF: Profitability
EM: Earning Management
TP: Tax Planning
TI: Tax Inspection

picking, cutting, paying, and reports in accordance with appropriate rules (Priantara, 2011).

↳ **H10: Earnings management have an effect on tax inspection.**

Research Methods

This research is a quantitative research that examines factors affecting the outcome of tax inspection. Independent variables are *temporary differences, permanent differences, and financial conditions*. *Tax planning* and *earning management* are intervening variables. *Tax inspection* is the dependent variable. Public companies listed in Jakarta Stock Exchange were inspected by the DGT in the period 2008 to 2013.

The Table 1 explains variables that are used in this study. This is followed by special proxy for earnings management by discretionary accruals using modified formulations Jones Models.

↳ **Sample and Data Sources :** The companies involved in this study were listed on Indonesia Stock Exchange. Purposive sampling was used to select corporate taxpayers. There were four requirements for the research sample. First, the company must be listed in the Indonesia Stock Exchange. Second, the company was not a financial company. Third, the company had been inspected by the DGT. Fourth, the company published data needed for this research.

Table 1. Variable Operationalization

No.	Variable	Measurement
1.	**Tax Inspection Result**	Tax Assessment Letter:
	The amount of the tax expense based on tax inspection. [Hidayat (2013); Priantara, (2011); Mandagi, Sabijono, and Tirayoh (2014)]	overpayment, underpayment, nil.
2.	**Tax Planning:**	
	Efforts made by corporate taxpayer so that tax expense is minimum in ways that are still in accordance with the applicable tax regulations. [Darmayasa & Hardika, (2011), Hidayat (2013), Harnanto (2013), Wijaya & Martani (2011), Sumomba & Hutomo (2012)]	Retention tax rate = Net income divided by pretax income
3.	**Earning Management:**	
	Choosing accounting policies and methods so that income that appears in financial statements is in accordance with expected management. [Chandrasegaram et al. (2013), Philips , Pincus, and Rego, (2003), Sensi (2007)]	Discretionary accruals = Total accrual - Non discretionary accruals
4.	**Permanent Differences:**	
	The difference due to revenue and expense transactions that is recognized by accounting standards but is not covered by tax regulations. [(Persada and Martani, (2010) Rosanti and Zulaikha (2013), Sari, (2014)].	Permanent differences value presented in the financial statements or notes of financial statements.
5.	**Temporary Differences:**	
	The difference recognition of revenue and expense between accounting standards and taxation. However, this difference is temporary. [Sari (2014); Persada and Martani (2010); Sumomba and Hutomo (2012); Rosanti and Zulaikha (2013); Suwandika and Astika (2013)].	The value of temporary differences are presented in the financial statements or notes of financial statements.
6.	**Financial Condition:**	
	The company's ability to resolve financial obligations and generate income from the main activity. [Harinurdin (2009), Syakura and Baridwan (2014)]	Return on Assets (ROA)

Analysis and Results

Path analysis is used to test the developed hypotheses. In addition, path analysis is also applied to obtain a causal relationship of one variable with other variables in order to explain the result of direct and indirect influence between independent variables and the dependent variables. Path analysis processed 156 sample companies during the years 2008-2013. Table 2 displays descriptive statistic of sample companies.

Table 2, column 5 exhibits temporary and permanent difference which have positive figure. This indicates that many corporate taxpayers reported income to be smaller than it should be. Retention tax rate demonstrates the effectiveness of tax planning with values getting closer to 100%, representing more effective tax planning. With an average value of 69.16% results of processed data exhibit that tax planning of corporate taxpayers in this study are in general, effective. Meanwhile, figure of earnings management is negative, which indicates that corporate taxpayers tend to report income tax lower than it should be. This value suggests that corporate taxpayers tend to reduce tax expense through earnings management. Another variable is tax inspection, which has positive value. This indicates that most of corporate tax payment is underpayment.

Table 2. Descriptive Statistics

Variable	*N*	Minimum	Maximum	Mean	Std. Deviation	Variance
TI	156	-,151290	1,526040	,02521401	,140264037	,020
TP	156	-3,757391	,998048	,69157421	,385680269	,149
EM	156	-,389172	,217704	-,00780096	,053505279	,003
TD	156	-,129716	,781097	,01278989	,068738333	,005
PD	156	-,124561	,240847	,00228279	,032346237	,001
PF (ROA)	156	-,288308	,884856	,07407788	,118095978	,014
Valid *N* (listwise)	156					

Glossary:

TI : Tax Inspection

TP : Tax Planning

EM : Earning Management

TD : Temporary Differences

PD: Permanent Differences

PF : Profitability (Return On Assets)

Table 3. Regression Weight Estimates and *p* - value for Direct Effect

Independent variable		Dependent variable	Estimate	Standard error	C.R. value	*p* - value
TD	--- >	*TP*	-0,01	0,08	-0,18	0,393
TD	--- >	*EM*	-0,06	0,08	-0,75	0,301
TD	--- >	*TI*	0,17	0,08	2,17	0,038**
PD	--- >	*TP*	-0,07	0,08	-0,88	0,271
PD	--- >	*EM*	0,22	0,08	2,82	0,007**
PD	--- >	*TI*	0,14	0,08	1,72	0,091*
PF	--- >	*TP*	-0,02	0,08	-0,28	0,384
TP	--- >	*EM*	0,20	0,08	2,63	0,013**
TP	--- >	*TI*	-0,14	0,08	-1,73	0,089*
EM	--- >	*TI*	0,11	0,08	1,36	0,158

* Significant at 10% level

** Significant at 5% level

It can be inferred from Table 3 that Temporary Difference *(TD)* does not directly affect Tax Inspection *(TI)* with path coefficient of 0.17 and *p*-value of 0.038 (less than 5%). Furthermore, the direct effect of Earning Management *(EM)* on Permanent Differences *(PD)* variables were also significant 5%, with a *p*-value of 0.007 and path coefficient of 0.22. Tax Planning directly affects and has a significant effect on *EM* variable with *p*-value of 0.013 (less than 5%) and path coefficient of 0.20. At a significant level of 10%, the permanent differences variable directly affects *TI* with *p*-value of 0.091 and *TP* variable directly affects *TI* with *p*-value of 0.089. Each of these variables has a path coefficient of 0.14 and -0.14, respectively. The coefficients imply that if the independent variables increase one unit, the dependent variables increase or decrease by respective coefficient percent.

From the indirect relationship, all variables presented in Table 4 have *p*-value more than 5%. All independent variables have no indirect effect on dependent variables.

The total effect in Table 5 is the sum of direct and indirect effects. Variables that have any direct or indirect effects, the coefficient values and their significance are automatically the same as those for direct or indirect effect. According to Table 5, there are four variables that have significant relationship effect. These are total effect of TD on IT which have coefficient path value of 0.16 and a significance of 0.45. Furthermore, total effect of *PD* on *EM* has coefficient path of 0.20 and a significance value of 0.14. Total effect of *PD* on *TI* has coefficient path value of 0.17 and a significance value of 0.039. *TP* total effect of *TP* on *EM* has coefficient path of 0.20 and a significance of 0.013.

Table 4. Regression Weight Estimates and *p*-value for Indirect Effect

Independent variable		Dependent variable	Estimate	Standard error	C.R. value	*p* - value
TD	--- >	*TI*	-0,0003	0,01	-0,34	0,377
TD	--- >	*EM*	-0,004	0,02	-0,18	0,393
PD	--- >	*TI*	0,03	0,02	1,44	0,141
PD	--- >	*EM*	-0,01	0,02	-0,83	0,283
PF	--- >	*TI*	0,003	0,01	0,28	0,384
PF	--- >	*EM*	-0,006	0,02	-0,28	0,384
TP	--- >	*TI*	0,02	0,02	1,21	0,192

Table 5. Regression Weight Estimates and *p* - value for Total Effect

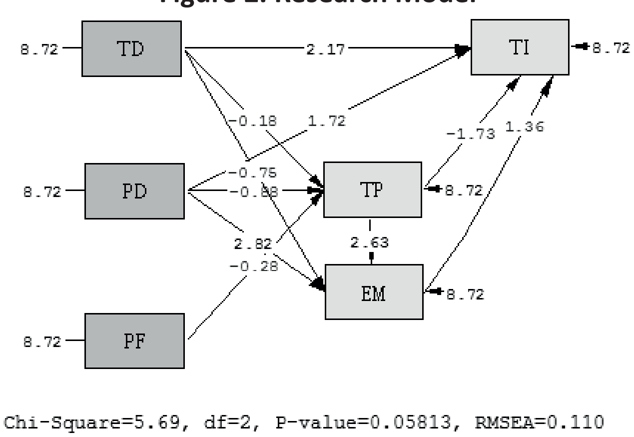
Independent variable		Dependent variable	Estimate	Standard error	C.R. value	*p* - value
TD	--- >	*TP*	-0,01	0,08	-0,18	0,393
TD	--- >	*EM*	-0,06	0,08	-0,77	0,297
TD	--- >	*TI*	0,16	0,08	2,09	0,045**
PD	--- >	*TP*	-0,07	0,08	-0,88	0,271
PD	--- >	*EM*	0,20	0,08	2,58	0,014**
PD	--- >	*TI*	0,17	0,08	2,16	0,039**
PF	--- >	*TP*	-0,02	0,08	-0,28	0,384
PF	--- >	*EM*	-0,006	0,02	-0,28	0,384
PF	--- >	*TI*	0,003	0,01	0,28	0,384
TP	--- >	*EM*	0,20	0,08	2,63	0,013**
TP	--- >	*TI*	-0,12	0,08	-1,47	0,135
EM	--- >	*TI*	0,11	0,08	1,36	0,158

* Significant at 10% level ** Significant at 5% level

Table 6. Results of Hypotheses Testing

Code	Result	Description
H1	**Accepted**	Temporary difference is used as a tool to predict the result of tax inspection. It can be explained that more the management undertakes fiscal correction, higher the value of underpayment letter issued by DGT (equation 1).
H2	Rejected	Temporary differences is not used as tax planning policy. This result does not correspond with the results of research by Persada and Martani (2010); Sumomba and Hutomo (2012); Suwandika and Astika (2013); Xian Sun, and Zhang (2014). They found that there is trade off between tax planning with large book tax gap avoidance.
H3	Rejected	The hypothesis is rejected, but accepted when the significance level is 10%. It can be explained that excessive tax planning, affects lower value of underpayment letter issued by DGT (equation 1).
H4	Rejected	Temporary difference does not affect earnings management. This result is supported by Hu, Cao, and Zheng (2015), who said that from a tax cost and income perspectives, conforming earning management is done for the purpose of changing the loss to profit and to avoid the cost penalty associated with the finding of fraud.
H5	Rejected	Permanent difference does not affect tax planning. Persada and Martani (2010) said that permanent difference does not influence profit in the next year.
H6	Rejected	This hypothesis is rejected if level of significance 5% applied but accepted at significant level 10%. Permanent difference tends to be used as a tool to violate rules of taxation.
H7	**Accepted**	Permanent difference is used as earning management policy. It supported the idea of Sensi (2007) Sumomba & Hutomo (2012), Philips, Pincus, and Rego (2003), Chandraseragam et al. (2013) who said that the existence of permanent differences on the recognition of revenues and expenses, becomes a motivation for management to apply earnings management.
H8	Rejected	Tax planning is not affected by profitability. Even though according to Harinurdin (2009), Syakura and Baridwan (2014) financial condition affects tax compliance, such compliance is not done through tax planning.
H9	**Accepted**	This result is supported by Sumomba & Hutomo (2012) who stated that tax planning can be used to detect the practice of earning management.
H10	Rejected	Earning management does not affect tax inspection. According to Priantara (2011), earning management is done for the sake of management interest. Although earning management is implemented in accordance with accounting standard and taxation, it can't be used as a tool to predict the result of tax inspection.

Figure 2. Research Model



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The equations path model is a relationship between an independent (exogenous) variable with the dependent (endogenous) variable. In this case, there are three endogenous variables, namely *TI, TP,* and *EM*, and there are also three exogenous variables, namely *TD, PD,* and *PF*. The exogenous variables affect the endogenous variables, while the endogenous variables can affect the other endogenous variables. Based on the results of the path diagram (Figure 2), the following equations are constructed:

Equation 1 : $TI = 0.16\,TD + 0.17\,PD + 0.003\,PF - 0.12\,TP + 0.11\,EM$

Equation 2 : $\mathrm{TP} = \text{-}0.01\,TD - 0.07\,PD - 0.02\,PF$

Equation 3 : $EM = \text{-}0.06\,TD + 0.20\,PD - 0{,}006\,PF + 0.20\,TP$

Based on the above equations, the effect of variable *TD* on *TI* is 0.16, that is, if variable *TD* increases by 1%, then *IT* increases by 0.16%, and so on, as it is true for other path coefficients. Based on this path analysis, hypotheses H1, H7, and H9 are accepted and the other hypotheses are rejected (see Table 6).

Hence, it can be inferred that Temporary Difference variable significantly affects Tax Inspection. It can be explained that the higher the Temporary Differences, the higher the impact on underpayment letters that are issued by the DGT. Permanent Differences also affect Tax Inspection positively, although the significance level was 10%. This study proved that only Temporary and Permanent Differences affect Tax Inspection. This study also proves that Tax Planning has significant influence on Earning Management similar to the findings of Sumomba and Hutomo (2012). However, Earnings Management as intervening variable in this research does not have signficant effect on Tax Inspection conducted by the DGT. With regard to the above path analysis, it can be stated that Temporary Difference, Permanent Difference, and Tax Planning affects Tax Inspection although Permanent Difference and Tax Planning is significant at 10% confidence level. Tax Planning has negative value, which means that the better the Tax Planning, the worse the result of Tax Inspection done by the DGT is.

Conclusion and Implications

These studies just identify one factor that affected Tax Inspection, but there are two other factors that also affect Tax Inspection, although with level of error more than 5%. Those factors are temporary difference, permanent difference, and tax planning. This study also proves that tax planning and permanent difference effect on earnings management. Overall, this study could not show the influence of independent variables on intervening variables and their impact on dependent variable as research model as expected in this study.

Correction of corporate income for income tax should be based on accounting standards and then should be done in accordance with the policy of taxation, because non-compliance to regulation will increase the risk of the issuance of an underpayment letter if DGT conducts tax inspection for a company. The DGT needs to pay attention to permanent and temporary differences of fiscal corrections which are made by corporate taxpayers, which can further make assessment effective and efficient.

Limitations of the Study and Scope for Further Research

This study has limitations of data size because it is relatively small. Tax inspection and tax inspection result are often used interchangeably, although they have the same meaning. To obtain the factors that influence tax inspections result, researchers have to focus on temporary, permanent difference, tax planning, and applying tax inspection from the side of tax regulator.

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