

ABSTRACT

This research is comparing earnings management practice on manufacturing companies listed in Indonesia Stock Exchange towards the Income Tax rate reduction. This research aims to find whether any differences on earnings management practice as a response to the change of the corporate income tax rate according to Tax Law No. 36 2008. The sample of this research is manufacturing companies listed in IDX year 2008-2010. The sampling method used is purposive sampling and the data sample is 45 companies represented the set of criteria. The data analysis method used is quantitative analysis, involving descriptive statistics and inferential statistics. The result proved that there are differences on earnings management practice toward the change of the law. And that the companies proved to have implemented tax savings. Tax policy which reduced the corporate income tax rate will affect the management behavior in performing reported earnings manipulation such as earnings management. The main value of this research is to compare the accrual-based earnings management practice as a response to corporate tax rate changes by showing that firms manipulate income upward in the low-tax-rate periods and downward in the high-tax-rate periods.

Keyword: earnings management, discretionary accrual, income manipulation, tax savings.