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Abstract
The purpose of this study is to examine whether a company can achieve its earning goal by using the regulation of deferred income tax expenses/benefits. Many empirical studies have been carried out in past decades by focusing on the measurements of the deferred income tax valuation allowances within the deferred income tax assets. However, the estimation results show that most estimated values are not statistically significant. According to the Burgstahler and Dichev (1997), Mills and Newberry (2001), and Phillips, Pincus, and Rego (2003) studies, this study tries to examine whether the income tax expense/benefit has the ability to forecast the earnings management by using the temporary differences between GAAP and tax law while under the control of non-discretionary accruals and tax incomes.
The estimation results show that the deferred income expense has positive relationship with earnings management, indicating that the more changes in earnings, the more possibilities that enterprise may decorate the earning level by using deferredincome tax. Additionally, the empirical result also shows that the instrument of earnings management for an enterprise usually focuses on the adjustment of recognition timing from the income and expense of the enterprise rather than the deferred income tax valuation allowances due to the temporary differences between GAAP and tax law, which is consistent with the previous studies.
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