



International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 21 • 2017

Book-Tax Differences and Earnings Persistence

Michelle Alodia Jovita¹ and Verani Carolina²

^{1,2}Universitas Kristen Maranatha, Bandung-Indonesia. Email: ¹michelle.alodia@gmail.com, ²velove_n4_jc@yahoo.com

ABSTRACT

This research aims to identify the factors that affects book-tax differences and analyze the effect of book-tax differences on the persistence of earnings of manufacturing companies listed on the Indonesia Stock Exchange from 2011 until 2015. Samples were taken by the purposive sampling method, with the criteria as follows: (1) the manufacturing companies listed on Indonesia Stock Exchange during the period 2011 until 2015, (2) they published their financial statements per December 31 which has been audited from 2011 until 2015, (3) they have positive profit in the current years, (4) they have positive income growths, and (5) they have all data needed in this research completely. Data was proceeded using multiple regression test. The results showed that (1) income growths and dirty fixed assets, partially, have positive influences through permanent book-tax differences, but they have no influences through temporer book-tax differences, (2) size of the companies has no influences through book-tax differences. Meanwhile book-tax differences have negative influence through persistence of earnings on manufacturing companies which were listed on the Indonesia Stock Exchange from 2011 until 2015.

Keywords: Book-tax Differences, Persistence of Earnings, Income Growth, Dirty Fixed Assets, and Size of The Company.

1. INTRODUCTION

Indonesia is a country that relies on tax as its main source of revenue. As a country that relies on taxes as the main revenue, the government sets up various tax laws that have a different purpose from the accounting rules. The objective's difference between those two regulations makes each company will produce two types of profit, accounting profit and fiscal profit. The difference between accounting profit and fiscal profit is what is known as Book-Tax Differences which occurs in almost all countries. Book-tax differences can be divided into two parts, namely temporary differences and permanent differences. Temporary differences, also known

as time differences, are the different between temporary accounting and taxation treatments, whereby the overall expense and/or revenue of accounting or taxation in fact are the same, but have different allocations annually. Meanwhile, permanent differences, also known as fixed differences, occur due to the differences in the recognition of income and expenses according to accounting and fiscal that result in an accounting profit or loss (profit before tax/pretax income) being constantly different from profit or loss under fiscal (taxable income) (Agoes and Trisnawati, 2013). The greater the value of a firm's book-tax differences shows that there is a lot of fiscal reconciliation (correction). Because the fiscal correction is allowed, then the possibility of data manipulation within the company becomes greater. Fiscal correction will ultimately affect the taxable income (profit before tax) so that the difference between accounting profit and fiscal profit (book-tax differences) can provide an opportunity for every company to make earnings management. Earnings management conducted by the company is feared to affect the quality of profit displayed for investors.

Earnings reported to investors is expected to be able to predict financial performance, financial condition, and future cash flows more precisely and accurately (Subramanyam and Wild, 2010). Therefore, earnings should be judged by its quality. Tang and Firth (2011) mentioned that book-tax differences can provide information about earnings quality. To assess the quality of earnings, earnings persistence is often used as a consideration because earnings persistence is a component of qualitative characteristics of relevance that called predictive value (Jonas and Blanchet, 2000). Penman (1991) states that earnings persistence is expected future earnings that is reflected in current earnings.

This study will empirically test whether book-tax differences affect earnings persistence, so investors have consideration before investing by looking at the book-tax differences owned by the company. On the other hand, this study will also look at the various characteristics of the company that will contribute to the emergence of the book-tax differences itself.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

This theory states that there are two parties namely principal and agent. Principal is the owner of the company while the agent is the party who is entrusted by the company owner to run the company. Basically there is a difference of interest between those two parties. Principal wants the company to run well or what is known as going concern. Agent wants incentives from profits generated by the company, so the agent will always try to generate the best profit to get the desired incentives without thinking about sustainability in the future (Jensen and Meckling, 1976; Eisenhardt, 1989). This difference of interest makes the agent has a tendency to do the earnings management.

One way to do the earnings management is to avoid taxes, especially taxes is something that will reduce profits and this is certainly not preferred by the agent. Tax evasion by companies is certainly not an illegal tax avoidance, but tax avoidance that is done by utilizing different accounting rules with tax rules. Differences with the rules of accounting taxation is what makes the difference in accounting profit and tax profit.

Accrual Earnings and Earnings Persistence

Statement of Financial Accounting Concept No. 1 states that information about company's earnings based on accrual accounting usually gives an indication of the company's ability to generate better cash

flow in the future compared to information that is limited by financial aspects such as cash receipts and payments (FASB, 1996). According to Subramanyam and Wild (2010), accrual accounting overcomes the limitations of free cash flow by capitalizing on long-term assets and allocating costs over the period of useful life. This capitalization and allocation process improves the relevance of earnings, either through the reduction of volatility as well as the linking of long-term investment costs with its benefits. However, behind the superiority of predictive value of accrual accounting, there is another problem of the freedom of management in assessing and acknowledging accounts that are deemed appropriate and meeting the requirements set out in IFRS. For example sales can be recognized as long as the sale has been realized. The meaning realized can be interpreted differently from one company to another depending on the interests they have. Sales can be said to be realized when it comes out of the warehouse, has been received in the hands of buyers, and various other interpretations. Management can have more discretion in recording and attributing income and expenses, compared to cash flows whose amount of money can be seen more clearly. This also applies to profits recorded on the accrual basis in the financial statements of the company. The profits no longer reflect the amount of money/wealth owned by the company, but only the note numbers on paper. Companies with high profits this year can not be predicted to earn such profits for several years to come despite the fact that accrual earnings have a high accuracy in predicting. The profits must first be assessed for quality to ensure that similar profits will occur again within the company for several years to come or not.

Earnings persistence according to Penman (1991) is expected future earnings revision implied by earnings innovation in current earnings. Earnings persistence is one of the quality measure of earnings where the profit quality can show the continuity of profit, so that a persistent profit tends to be stable or not fluctuate in each period. Users of financial statements should set up a vigilance antenna if the profit is not persistent. If the company suddenly reports profit with a very significant increase compared to previous years, then there is the possibility that management has engineered profit by using unethical means. Conversely, if companies suddenly report earnings with a very drastic rate of decline or suffered large losses without adequate information, that is also suspicious because it may be management effort to avoid tax (Lako, 2007).

Earnings persistence is used by Jonas and Blanchet (2000) to assess earnings quality because earnings persistence contains predictive value elements so that financial-report's users can use it to evaluate past, present and future events. The magnitude of the difference in accounting profit with taxable income is considered as a signal of earnings quality. The bigger the difference, the lower the quality of profit which means the lower the persistence is.

Book-Tax Differences

The differences between rules based on accounting standards and taxation rules resulted in companies having to make two different financial statements. Accounting standards will allow companies to have a common standard for providing information to stakeholders. However, the government has another goal of organizing a fair tax-collection-system in order to meet state revenues. Therefore, a tax regulation is created to generate taxable income. The company continues to submit financial statements based on existing accounting standards, but the tax calculations should be based on financial statements that have been subject to existing tax rules. The difference between the rules of accounting and tax causes book-tax differences which is the difference between accounting profit and fiscal profit.

Book-tax differences can be grouped into fixed differences and time differences. Differences will occur when there are still transactions that are recognized by accounting standards but are not recognized under the tax rules. This resulted in accounting earnings to be constantly different from the fiscal profit. Unlike the fixed difference, the time difference will only result in a temporary difference between accounting profit and fiscal profit because this difference occurs because of the difference in the time of recognition of a transaction or event.

Previous Research

Blaylock, et. al., (2012) underscores the importance of considering book-tax differences in a company's earnings-quality-assessment. It is also necessary to look deeper into the sources or factors that build up the book-tax differences themselves. This is reinforced by the statement of Manzon and Plesko (2002) which mentioned the importance of looking at book-tax differences-forming factors such as firm size, in addition besides only emphasizing at fixed differences and time differences in book tax differences.

Hanlon's research (2005) provides concrete results that firms with large book-tax differences exhibit low earnings persistence, meaning that earnings quality is not as high as the earnings quality of firms that have small book-tax differences. Phillips, et. al., (2003) also stated that deferred tax expenses, arising from time differences, are useful for detecting whether a company is making earnings management or not. On the other hand, Jackson (2009) finds that differences remain have a positive effect on earnings growth, but negatively related to changes in tax expense. Meanwhile, the time difference has a negative effect on the profit growth in the next period.

Hypotheses Development

Based on the previous theories and research that have been put forward, then the factors of forming the book-tax differences need to be considered. The first factor is income growth. Income growth within a company is one of the positive signals that accounts receivable inside the company are increasing, because for large-scale companies, credit sales have become very commonplace. With the existence of increasing in receivables, the reserves for bad debts that should be recorded by the company will also increase in accordance with the principle of conservatism. Even among these reserves, if the collectivity rate is highly questionable, then the company will immediately record it as bad debt expense. This is customary in commercial accounting practices and is suggested in PSAK No.1 regarding disclosure and acknowledgment of an account as reserve/allowance or expense. According to Kieso, et. al., (2011) the establishment of estimated allowance for doubtful accounts is based on the percentage of sales or percentage of trade receivables. However, the provisions of taxation do not allow the formation of reserves for bad debts. Taxation provisions are more in reality and apply direct write-off method (Agoes and Trisnawati, 2013). This will trigger the occurrence of book-tax differences due to the recording of bad debts expense which differ commercial and fiscal accounting. Taxation provisions do not close the possibility of recording bad debts expense, but the terms of procedure is very complicated when compared with commercial accounting so that even if recognized in the same amount, the period of recognition may be different and still cause the temporary book-tax differences. If it can not be acknowledged by fiscal, permanent book-tax differences will arise.

H1: Income growth have an effect on permanent book-tax differences.

H2: Income growth does not have an effect on permanent book-tax differences.

The second factor is the gross fixed assets. Companies that own fixed assets will surely record the depreciation of their fixed assets. The taxation provisions have specific and clear rules in recording the depreciation expenses of those property, plant and equipment based on the classification that was already mentioned in the previous description. Commercial accounting, on the other hand, determines only three methods of depreciation, namely the straight-line method, the declining balance method, and the number of units of production method and gives the company the freedom to choose one of the three that is most relevant and reliable methods to shrink its fixed assets' value. The taxation provisions do not permit the residual value to be included as a basis for calculating depreciation of any fixed assets, while SFAS No. 16 allows the use of residual values as a basis for calculating depreciation of property, plant and equipment. This will clearly lead to book-tax differences, where more fixed assets are owned by the company then the book-tax differences will also be greater. In addition, the longer the fixed assets are controlled and depreciated by the firm, the difference between the commercial and fiscal depreciation expense will be greater and this is reflected in the accumulated depreciation of property and equipment. The use of fixed asset proxy as one of the factors affecting book-tax differences is assumed that the fixed asset is calculated by the amount before deducting the accumulated depreciation so that it can be compared to book-tax differences in the form of temporary differences or permanent differences owned by the company. Temporary differences are the effect that is more affected by this proxy because the depreciation expense will eventually be the same for the company concerned at a given point in time.

H3: Gross fixed assets have an effect on permanent book-tax differences

H4: Gross fixed assets do not have an effect on permanent book-tax differences.

The third factor is firm size. The size of a company can be seen from various things and ratios, but total assets is the most common measure to determine the size of a company. The total assets owned by the company can show the assets owned by the company to run its business. The larger the size of the company, the better the tax planning that can be done because it has a higher flexibility, so it can increase the book-tax differences (Scholes, 2009). Flexibility is the ability and disrection to make tax arrangements through accounts owned by the company. The diversive accounts will not invite excessive suspicion for tax auditors and after all, companies have many loopholes to plan their taxes. If it can not be done from one account, then the tax planning can be made from another account and so on. The company may transfer its tax burden more freely and the possibility of book-tax differences will be greater with the increasing variety of accounts owned by the company, given the provisions of the taxation is so complex and detailed in the settings of those accounts.

H5: Firm size has an effect on permanent book-tax differences.

H6: Firm size does not have an effect on permanent book-tax differences.

Earnings persistence according to Penman (1991) is expected future earnings implied by current earnings. Non-persistent earnings are often caused by the differences between accounting profit and fiscal profit. This difference exists due to the differences in the objectives and regulations of each regulation in reporting earnings (between the provisions of taxation with SAK). The difference between commercial

and fiscal profit (book-tax differences) can provide information about earnings quality. The underlying logic is that there is a little freedom of recording allowed in the measurement of commercial profits, while the provisions of taxation in fiscal financial reporting have a more binding and detailed regulations. The purpose of fiscal reporting is to examine compliance with tax obligations and increase state revenues from taxes. Meanwhile, the purpose of commercial financial reporting is to produce relevant and reliable financial statements for financial-statement's users.

According to Djamaluddin, et. al., (2008) the difference between accounting profit and fiscal profit (book-tax differences) can provide information about management disreccion accrual. The persistence of accounting earnings is a revision in expected future accounting implied by accounting earnings of the current year (Djamaluddin, et. al., 2008). The magnitude of this revision shows the level of earnings persistence. Basically revision or better known as fiscal reconciliation aims to facilitate financial reporting conducted by companies so that companies do not need to make double bookkeeping (bookkeeping for the purpose of commercial reporting and fiscal reporting), but the existence of fiscal reconciliation is actually utilized by the management company to manage earnings because the company has deferred tax assets and deferred tax liabilities that can be used at any time depending on the tax planning undertaken by the management company. Thus, the greater the book-tax differences are owned by the company, the greater the likelihood that earnings generated by a firm are not persistent as deferred tax assets liabilities may arise when the earnings experience a particular circumstance and, therefore, the accrual earnings loses its predictive value.

H7: Permanent book-tax differences have an effect on earnings persistence.

H8: Temporary book-tax differences have an effect on earnings persistence.

3. METHODS

Sampling Methods

This study aims to know the factors that influence the book-tax differences (income growth, gross fixed assets, and firm size) and its effect on earnings persistence in manufacturing companies so that the population of this study are manufacturing companies listed on the Indonesia Stock Exchange). The reason why the researcher uses a manufacturing company is caused by the number of fixed assets owned by manufacturing companies which will become one of the main sources of fiscal correction due to the difference in recognition between the depreciation expense according to the provisions of taxation and according to SAK. This can make the value of book-tax differences clearer. Meanwhile, the use of samples of financial institution companies gives different results because their income is influenced by government regulation and construction service companies subject to final tax as well as mining having different tax regulation. This research is similar to Hanlon (2005) which focuses only on manufacturing companies.

Sampling is done by using non-probability sampling where there is limitation in sampling, that is called purposive sampling method which is done by taking sample from population based on criterion in the form of certain judgment (Jogiyanto, 2004). The criteria used in taking samples are as follows: (1) companies are manufacturing company listed on the BEI in the period 2011-2015. (2) The companies under criteria number 1 discloses audited financial statements as of December 31 in Rupiah during the 2011-2015 observation period. (3) Companies under criteria number 1 and number 2 have positive year

profit data. (4) Companies that enter on criteria number 1, 2, and 3 have positive revenue growth data. (5) Companies entering on the criteria of number 1, 2, 3, and 4 also have the data required in this study completely. Samples are taken from www.idx.co.id.

Operational Definition of Variables

Revenue Growth: Revenue is the gross cash inflows of economic benefits arising from the normal activities of an entity during one period if such cash inflows resulted in an increase in equity that is not derived from an investment contribution (PSAK No. 23). Income growth indicator used in this study is the company's income on the company's financial statements t minus the company's earnings in the financial statements $t-1$ ago divided by total assets in the company's financial statements t :

$$\frac{\text{Income year } t - \text{Income year } t - 1}{\text{Total assets year } t}$$

(Tang (2006); Manzon dan Plesko (2002))

Gross Fixed Assets: Fixed assets are tangible assets held-for-use in the production or supply of goods or services, to be rented to other parties, or for administrative purposes and are expected to be used for more than one period (PSAK No. 16). The gross fixed asset indicator used in this study is gross fixed assets (before deducting accumulated depreciation) in the company's financial statements year t divided by total assets in the company's financial statements year t :

$$\frac{\text{Gross fixed assets year } t}{\text{Total assets year } t}$$

(Tang (2006))

Firm Size: The firm size is the size of the company that can be seen from the value of equity, sales value or asset value (Riyanto, 2008). The indicator of firm size used in this study is the natural logarithm of total assets in the company's financial statements year t :

$$\text{Ln (total assets year } t)$$

(Manzon dan Plesko (2002))

Temporary Differences: The temporary difference is the difference between the carrying amount of assets or liabilities in the statements of financial position and the tax bases (PSAK No. 46). Temporary difference indicator used in this study is the temporary difference in the company's financial statements t divided by total assets in the company's financial statements year t :

$$\frac{\text{Temporary differences } t}{\text{Total assets year } t}$$

Permanent Differences: Permanent differences occur due to differences in recognition of income and expenses according to accounting with fiscal, i.e. the income and expenses recognized under accounting but not recognized by fiscal or otherwise (Agoes and Trisnawati, 2013). Temporary difference indicator used in this study is permanent difference in the company's financial statements t divided by total assets in the company's financial statements year t :

$$\frac{\text{Permanent differences year } t}{\text{Total assets year } t}$$

Earnings Persistence: Earnings persistence is proxied by using Return on Assets (ROA). ROA is a company's financial ratios relating to profitability measures the ability of companies to generate profits or earnings at the level of income, assets, and capital stocks (Hanafi and Halim, 2009). The formula is the profit of the current year (net profit after tax) on the company's financial statements t divided by total assets in the company's financial statements t :

$$\frac{\text{Net income year } t}{\text{Total assets year } t}$$

Data analysis method: The classical assumption test is performed before performing the data analysis. Data analysis in this study using multiple regression with the regression model as follows:

$$\text{BTD}_{i,t} = \alpha_0 + \beta_1 \text{PP}_{i,t} + \beta_2 \text{ATK}_{i,t} + \beta_3 \text{UP}_{i,t} + \epsilon_{i,t} \quad (1)$$

$$\text{TBTD}_{i,t} = \alpha_1 + \beta_4 \text{PP}_{i,t} + \beta_5 \text{ATK}_{i,t} + \beta_6 \text{UP}_{i,t} + \epsilon_{i,t} \quad (2)$$

$$\text{PBTD}_{i,t} = \alpha_2 + \beta_7 \text{PP}_{i,t} + \beta_8 \text{ATK}_{i,t} + \beta_9 \text{UP}_{i,t} + \epsilon_{i,t} \quad (3)$$

$$\text{PL}_{i,t} = \alpha_3 + \beta_{10} \text{BTD}_{i,t} + \epsilon_{i,t} \quad (4)$$

$$\text{PL}_{i,t} = \alpha_4 + \beta_{11} \text{TBTD}_{i,t} + \epsilon_{i,t} \quad (5)$$

$$\text{PL}_{i,t} = \alpha_5 + \beta_{12} \text{PBTD}_{i,t} + \epsilon_{i,t} \quad (6)$$

where in:

$\text{BTD}_{i,t}$ = Book-tax differences in company i in the end of year t

$\text{PP}_{i,t}$ = Income growth in company i in the end of year t

$\text{ATK}_{i,t}$ = Gross fixed assets in company i in the end of year t

$\text{UP}_{i,t}$ = Firm size in company i in the end of year t

$\text{PL}_{i,t}$ = Earnings persistence in company i in the end of year t

$\text{PBTD}_{i,t}$ = Permanent book-tax differences in company i in the end of year t

$\text{TBTD}_{i,t}$ = Temporary book-tax differences in company i in the end of year t

$\alpha_0 - \alpha_5$ = constants

$\beta_1 - \beta_{12}$ = coefficients

$\epsilon_{i,t}$ = disturbance variables in company

4. EMPIRICAL TESTS AND RESULTS

Samples that match the criteria that previously mentioned are 58 companies. With a five year observation period from 2011 to 2015, the pooled data for the 5 periods is 290 (58x5). Testing data has been done and has met the classical assumptions of the assumption of normality, multicollinearity, heteroscedasticity, and autocorrelation.

From the result of research, hence obtained equation as follows:

$$BTD_{i,t} = 0.030 + 0.013PP_{i,t} + 0.018ATK_{i,t} - 0.002 UP_{i,t} + \epsilon_{i,t} \quad (1)$$

$$TBTD_{i,t} = 0.024 - 0.003PP_{i,t} - 0.003ATK_{i,t} - 0.001 UP_{i,t} + \epsilon_{i,t} \quad (2)$$

$$PBTD_{i,t} = 0.006 + 0.016PP_{i,t} + 0.021ATK_{i,t} - 0.001 UP_{i,t} + \epsilon_{i,t} \quad (3)$$

$$PL_{i,t} = 0.102 - 0.670BTD_{i,t} + \epsilon_{i,t} \quad (4)$$

$$PL_{i,t} = 0.105 - 1.195TBTD_{i,t} + \epsilon_{i,t} \quad (5)$$

$$PL_{i,t} = 0.101 - 0.544PBTD_{i,t} + \epsilon_{i,t} \quad (6)$$

Goodness of Fit Test

The table below shows that the regression model used is appropriate. The independent variable can predict the dependent variable.

**Table of Goodness of Fit Test
ANOVA^a**

	<i>Model</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	,012	3	,004	3,860	,010 ^b
	Residual	,308	286	,001		
	Total	,320	289			

^aDependent Variable: BTD

^bPredictors: (Constant), Firm Size, Gross Fixed Assets, Income Growth

ANOVA^a

	<i>Model</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	,165	2	,082	9,300	,000 ^b
	Residual	2,545	287	,009		
	Total	2,710	289			

^aDependent Variable: Earnings Persistence

^bPredictors: (Constant), Temporary Differences, Permanent Differences

Empirical Result

The table below is the result of data analysis:

Coefficients^a

	<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1	(Constant)	,024	,013		1,793	,074
	Income Growth	-,003	,003	-,051	-,870	,385
	Gross Fixed Assets	-,003	,003	-,067	-1,138	,256
	Firm Size	-,001	,000	-,088	-1,496	,136

^aDependent Variable: Temporary Differences

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,006	,030		,214	,831
Income Growth	,016	,008	,123	2,123	,035
Gross Fixed Assets	,021	,006	,204	3,530	,000
Firm Size	-,001	,001	-,049	-,847	,398

^aDependent Variable: Permanent Differences

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,105	,006		18,449	,000
Temporary Differences	-1,195	,411	-,169	-2,906	,004

^aDependent Variable: Earnings Persistence

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,101	,006		17,861	,000
Permanent Differences	-,544	,182	-,173	-2,988	,003

^aDependent Variable: Earnings Persistence

H1: Revenue growth has an effect on permanent book-tax differences

With a significant value of 0.035 it can be concluded that revenue growth has an effect on permanent book-tax differences. The value of positive coefficient shows the positive effect of revenue growth on permanent book-tax differences, the greater the revenue growth in a company the greater the permanent book-tax differences will be. Increase in revenue in a company is accompanied by an increase in cost to generate revenue (matching concept). That opportunity cost is a very large non-deductible expense. The large number of non-deductible expenses means that the permanent differences of the company are also large. This is in line with Manzon and Plesko (2002) which states that revenue growth has a positive effect on book-tax differences.

H2: Revenue growth has an effect on temporary book-tax differences

With a significant value of 0.385 it can be concluded that revenue growth has no effect on temporary book-tax differences. This happens because revenue growth does not always result in an increase in receivables that result in an increase in reserves for bad debts that will lead to temporary book-tax differences. Even if the receivables increase due to revenue growth but it does not always make the company increasing their uncollectible receivables. This resulted in a change of revenue which did not change temporary differences

in earnings under the terms of taxation and commercial accounting provisions so that the temporary book-tax differences were not affected by revenue growth variables. This is in line with research conducted by Persada and Martani (2010), but contrary to research conducted by Tang and Firth (2011) in China, where revenue growth has a significant negative effect on book-tax differences. The results of inconsistent research can be caused by differences in taxation provisions applicable in Indonesia and China.

H3: Gross fixed assets have an effect on permanent book-tax differences

With a significant value of 0.000, it can be concluded that gross fixed assets have an effect on permanent book-tax differences. The positive coefficient value shows the positive effect of gross fixed assets on permanent book-tax differences. The greater the company's gross fixed assets the greater its permanent book-tax differences. This can happen because the company has fixed assets that are leased and the income tax is final for leasing, causing permanent book-tax differences. In addition, for fixed assets used and taken home by the directors, the cost of maintenance and depreciation of these fixed assets may only be recognized in a half under Indonesian tax laws. Thus this necessarily raises permanent book-tax differences. In addition, long-term fixed asset variables can cause a permanent difference in the recognition of depreciation expense that is no longer allowed by fiscal or commercial (useful life, where the fixed asset is still used even though it has exceeded one fiscal useful life based on the taxation provisions, as well as commercial provisions referring to SAK and fixed asset's conditions in the field).

H4: Gross fixed assets have an effect on temporary book-tax differences

With a significant value of 0.256 it can be concluded that the gross fixed assets do not affect the temporary book-tax differences. Temporary book-tax differences arising in connection with property, plant and equipment are from depreciation expenses. The results of this study show different results with studies that have been done by researchers before. This may be due to the possibility of a company having fixed assets of varying useful life, longer tax life, or otherwise, longer accounting life. Thus, the deferred tax arising between the deferred tax assets and the deferred tax liabilities will not have too much difference so that the temporary book-tax differences from depreciation expense of fixed assets are not very visible in this study.

H5: Firm size has an effect on permanent book-tax differences

H6: Firm size has an effect on temporary book-tax differences

With a significant value of 0.398, it can be concluded that firm size does not affect permanent book-tax differences. Similarly, the temporary book-tax differences, with a significant value of 0.136 it can be concluded that firm size does not affect the temporary book-tax difference. In this study, the size of companies that are marked by the size of their assets does not affect the book-tax differences, especially if they are able to manage each transaction to make a little difference between accounting and taxes. Basically every company wants the lowest tax payments, both large and small companies, so this does not affect the book-tax differences owned by both companies.

H7: Permanent book-tax differences have an effect on earnings persistence

H8: Temporary book-tax differences have an effect on earnings persistence

With a significant value of 0.003, it can be concluded that permanent book-tax differences have an effect on earnings persistence. Similarly, temporary book-tax differences also have significant value of 0.004,

so it can be concluded that the temporary book-tax differences have an effect on earnings persistence. Both variables produce negative coefficients which means that the bigger the book-tax differences the smaller the persistence of profit or in other words the quality of earnings decreases. The amount of book-tax differences indicates that many companies make fiscal correction. This can be interpreted that after the company prepares income statement based on accounting standards, there are revenues or fees that are not allowed under the rules of taxation or otherwise. The more differences shows a good reference of poor quality of corporate profits. The number of differences indicates the company is practicing earnings management, so the profit presented becomes irrelevant. So it can be concluded that the greater the difference in accounting profit with the fiscal profit derived from both the permanent book-tax differences and the temporary book-tax differences, the more the profits presented are not persistent or in other words have lower quality of profit.

5. CONCLUSION

The existence of different rules between accounting and taxation resulted in differences in profits generated. Through this, the company has the opportunity to make earnings management, so that the quality of the profits presented to investors becomes doubtful. In this study, it has been proved that the existence of book-tax differences can be a reference to assess the quality of earnings. Companies that have a lot of corrections on accounting differences with fiscal, in other words have a large book-tax differences, indicating that the quality of profits decreased. In addition, it should be noted there are some factors that formed book-tax differences itself. This study provides results that only revenue growth and gross fixed assets have a positive effect on permanent book-tax differences.

References

- Agoes, S., dan Trisnawati, E. (2013). Edisi 3. *Akuntansi Perpajakan*. Salemba Empat. Jakarta.
- Blaylock, B., Shevlin, T., and Wilson, R.J. (2012). Tax Avoidance, Large Positive Temporary Book-Tax Differences, and Earnings Persistence. *The Accounting Review*, Vol. 87 No. 1, 91-120.
- Djamaluddin, S., Wijayanti, H.T., dan Rahmawati. (2008). Analisis Perbedaan antara Laba Akuntansi dan Laba Fiskal Terhadap Persistensi Laba, Akrualdan Aliran Kas pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Jakarta. *Jurnal Riset Akuntansi Indonesia*, Vol. 11 No. 1, 52-74.
- Eisenhardt, K. M. (1989). *Agency Theory: an Assessment and Review*. The Academy of Management Review, Vol. 1 No. 1, 57-74.
- Financial Accounting Standard Board. (1996). *Statement Financial Accounting Concept* Financial Accounting Standard Board. Connecticut: Financial Accounting Standard Board.
- Hanafi, M.M. dan Halim, A. (2009). *Analisis Laporan Keuangan*. Edisi 4. UPP STIM YKPN. Yogyakarta.
- Hanlon, M. (2005). The Persistence of Earnings, Accruals, and Cash Flows When Firms Have Large Book-Tax Differences. *The Accounting Review*, Vol. 80 No. 1, 137-166.
- Ikatan Akuntan Indonesia. (2012). *Standar Akuntansi Keuangan Per 1 Juni 2012*. Jakarta: Ikatan Akuntan Indonesia.
- Jackson, M. (2009). *Book-Tax Differences and Earning Growth*. Disertasi, Oregon: Program Pascasarjana University of Oregon Graduate School.
- Jensen, M. C., and Meckling, W. H. (1976). *Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure*. Journal of Financial Economics, Vol. 3 No. 4, 305-360.

- Jogiyanto. (2004). *Metodologi Penelitian Bisnis: Salah Kaprah dan Pengalaman-Pengalaman*. BPFE. Yogyakarta.
- Jonas, G. dan Blanchet, J. (2000). Assessing Quality of Financial Reporting. *Accounting Horizons*, Vol. 14 No. 3, 353-363.
- Kieso, Donald E., Weygandt J.J., and Warfield T.D. (2011). *Intermediate Accounting Twelfth Edition*. John Wiley and Sons. New Jersey.
- Lako, A. (2007). *Laporan Keuangan dan Konflik Kepentingan*. Edisi 2. Amara Book. Yogyakarta.
- Manzon, GB. and Plesko, GA. (2002). The Relation Between Financial and Tax Reporting Measures of Income. *Tax Law Review*, Vol. 55, 175-214.
- Penman, S.H. (1991). An Evaluation of Accounting Rate-of-Return. *Journal of Accounting, Auditing, and Finance*, Vol. 6, 233-259.
- Persada, A.E dan Martani, D. (2010). Analisis Faktor yang Mempengaruhi Book Tax Gap dan Pengaruhnya Terhadap Persistensi Laba. *Jurnal Akuntansi dan Keuangan Indonesia*, Vol. 7 No. 2, 205-221.
- Phillips, J., Pincus, M., and Rego, SO. (2003). Earnings Management: New Evidence Based on Deferred Tax Expense. *The Accounting Review*, Vol. 78 No. 2, 491-521.
- Riyanto, B. (2008). *Dasar-Dasar Pembelanjaan Negara*. BPFE. Yogyakarta.
- Scholes, M.S. (2009). *Taxes and Business Strategy: A Planning Approach*. Edisi 4. Prentice Hall. New Jersey.
- Subramanyam, K.R. dan Wild, J.J. (2010). *Analisis Laporan Keuangan*. Edisi 10. Salemba Empat. Jakarta.
- Tang, TYH. (2006). Book-Tax Differences, a Proxy for Earnings Management and Tax Management-Empirical Evidence from China. Working Paper, The Australia National University.
- Tang, T. dan Firth, M. (2011). Book-Tax Differences, a Proxy for Earnings Management and Tax Management - Empirical Evidence from China. *The International Journal of Accounting*, Vol. 46 No. 2, 175-204.

www.idx.co.id

