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Deferred Tax, Earning Persistence, and their effects on Firm Performance: Evidence from Indonesia

Vierly Ananta Upa
Universitas Hasanuddin
***Email:** upava22a@student.unhas.ac.id

ABSTRACT

The purpose of this study is to evaluate and analyse the impact of deferred tax on financial performance, with earnings persistence serving as a moderating variable. The population of this study includes all tourism, hotel, and restaurant enterprises registered on the Indonesia Stock Exchange (IDX). Purposive sampling is the approach used for sample selection. Using this strategy, 77 observations were gathered. Multiple Linear Regression was the analysis strategy employed. This study shows that deferred taxes have no effect on financial performance. However, earnings persistence has an impact on company performance.

INTRODUCTION

Deferred taxes are one factor that might have an impact on a company's financial success. Deferred tax can have an impact on a company's performance because it appears on the financial income statement as an income tax expense, reducing earnings. According to Waluyo (2009), deferred tax is the amount of income tax that is considered recoverable in the future due to temporary differences, which can be deducted from any residual compensated losses. Deferred tax is separated into two categories: deferred tax assets and deferred tax liabilities. Deferred tax assets are defined as predicted advantages that can be claimed in the future, whereas deferred tax liabilities are estimated future income taxes (Stice & Stice, 2012). Deferred tax should always be recognised and reflected in financial statements in order to provide users with accurate information. In theory, an increase in deferred tax would result in a fall in profitability because deferred tax as an expense reduces companies' net income.

This study also incorporates earnings persistence. Earnings persistence is frequently related with business size, as it is assumed that larger corporations with more operations have more stable earnings than smaller corporations. Earnings persistence can be defined as sustainable earnings that can be used to forecast future earnings, as well as a measuring tool to determine the quality of earnings because it indicates stability (Penman, 1992). Investors would feel much safer investing in companies with a track record of consistent earnings.

Each company will make every effort to present an appealing financial report in which burdens are reduced and earnings are increased. Such a thing is designed to pique the interest of possible investors. Investment is one of the most crucial aspects of running a business. The tourism, hotel, and restaurant sectors have a lot of potential for investment, according to the Indonesian Ministry of Investment, and the government is enthusiastic about making Indonesia a world-class tourist destination. Over nine million foreigners visited Indonesia in 2014, with the figure nearly doubling by 2017. Indonesia is a country made up of thousands of islands with breathtaking scenery that most people are unaware of. The top ten tourist

locations in Indonesia are spread out throughout Sumatra, Java, Sulawesi, Maluku, and East Nusa Tenggara. More investment in the tourism industry will benefit hotels, restaurants, and other positive chain reactions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Deferred Tax

Deferred tax is the impact of future income tax caused by temporary differences (time) between accounting and taxation treatments, as well as fiscal losses that can be compensated in the future; thus, it must be included in an accounting period's financial statement (Kharifah, 2019).

A deferred tax account is required in a financial report because, while a firm may pay lower taxes now, it may incur more tax liability in the future, and vice versa. So, if the impact of future taxes is not included in both the balance sheet and the income statement, the financial report may be deceptive to its readers (Cheng, 2009).

The process of adjusting the amount used to compute the fiscal profit is known as fiscal reconciliation (correction) to achieve the taxable net income. According to Setiawan and Musri (2006), fiscal reconciliation is the modification of provisions based on accounting standards that should be altered to reflect tax provisions. Fiscal correction happens as a result of disparities in the commercial and fiscal recognition of revenue and expenses, which manifest as permanent and temporary differences (time). Permanent discrepancies occur when revenues and expenses are recognised commercially but not financially, eliminating the need for future rectification. Temporary disparities arise from a time-related discrepancy in recognising income and expenses between the tax provisions and SAK (Suandy, 2008), which may have an impact on future taxable income.

When the commercial profit exceeds the fiscal profit, there is a deferred tax liability; when the fiscal profit exceeds the commercial profit, a deferred tax asset exists. Furthermore, the transitory differences should be recognised as deferred tax revenue or expense, and will be included in the profit and loss statement with the current tax expense.

Earnings Persistence

Earnings persistence in accounting refers to the anticipated future profit represented by the current year accounting profit. Earnings persistence can alternatively be described as a measure of a company's capacity to retain its current profit level into the future (Fanani, 2010). Aside from that, earnings persistence is regarded as one of the approaches to assess the quality of profit or earnings in a firm because it is time-dependent and predictive. Predictive value is a component of relevance, which is a qualitative feature of a financial report (Dechow & Dichev, 2002).

Persistent earnings are profits that demonstrate a company's long-term viability since they are persistent rather than temporary. A transitory event is one that can occur at any time, has no continuous effect, but causes a significant shift in the created profit or loss amount (Maulita and Framita, 2021). According to Barth and Hutton (2004) and Wijayanti (2016), information about a firm's earnings is essential for investors since it helps them ensure the quality and worth of the company.

Financial Performance

Financial or company performance is carried out to evaluate both the efficiency and effectiveness of a company based on its operations and activities over a certain period of time; the report for company's financial performance is in the form of a financial statement. The financial performance of a company becomes one of the bases when it comes to judging the condition of the company. However, the true purpose of the financial report is to give a bigger picture in order to help forecast the potential future profits and dividends (Kusumajaya, 2011).

According to Fahmi and Irham (2011), financial performance is a description of a firm's financial situation that is analysed using financial analysis methods in order to present the good and bad financial conditions of a company that reflect work performance over a specific period. It is critical that resources are utilised optimally in the face of environmental changes.

Munawir (2010) also stated that the goals of measuring financial performance are to determine the amount of liquidity, solvency, profitability, and stability. Hence, for this research work, the measurement chosen to describe the financial performance of the associated organisations is profitability. The formula for profitability (return on equity).

Return on equity (ROE) is a probability ratio that can help you understand a company's financial health and business success. ROE is a ratio that demonstrates a corporation's capacity to calculate how much return is generated by shareholders' equity invested in the company. Companies with high ROE are thought to perform better than those with lower ROE. The return on equity ratio represents the amount of profit earned per dollar of common shareholders' equity; for example, a return on one signifies that every dollar of equity generates one dollar of net income.

Hypothesis

H1: Deferred tax has an influence towards the financial performance
H2: Earnings persistence has an influence towards the financial performance

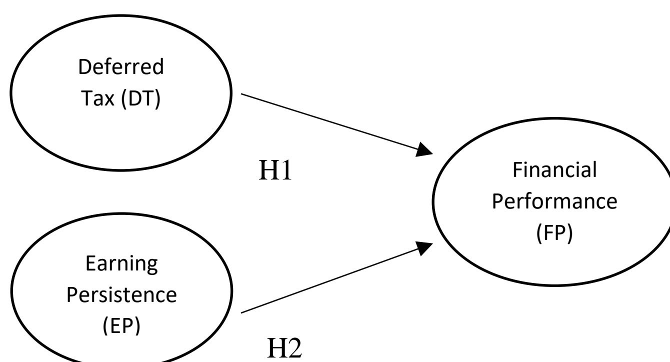

Figure 1. Model analysis

METHODS

Population and Sample

This study's population comprises of 43 companies in the tourism, hotel, and restaurant sectors that were listed on the Indonesia Stock Exchange (IDX) between 2011 and 2017. The purposive sampling method was utilised to determine the samples for this investigation.

According to Arikunto (2010), the purposive sampling approach is the process of picking a sample based only on the researcher's specified criteria.

1. Tourism, Hotel, and Restaurant companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2017.
2. Complete financial statements for tourism, hotel, and restaurant enterprises from 2011-2017.
3. Companies in the tourism, hotel, and restaurant industries did not experience any losses between 2011 and 2017.

Multiple Linear Regression Test

The formula employed in this study is a designed multiple linear regression analysis model.

$Y = \alpha + \beta 1X1 + \beta 2X2 + e$ ……………………………………………… (1)

Y=financial performance; α=constant; β= Regression Coefficient; X1=Deferred Tax; X2= Earnings Persistence; e=error

RESULTS

Descriptive Statistics

The mean for deferred tax is 0.00057, suggesting that the average result of deferred tax in proportion to total assets from the previous year is just 0.057 in percentage, representing a low number. Earnings persistence, with an average of 0.07231, represents the average proportion of the next year's income before tax to the average total assets. The average value of financial performance is 0.08164. It is the average of the return on equity ratio, which is calculated by dividing net income by shareholder equity.

Table 1. Descriptive Statistics

Variables	Min	Max	Mean
Deferred Tax (X1)	-0.02905	0.01843	0.00057
Earnings Persistence (X2)	0.00148	0.43542	0.07231
Financial Performance (Y)	0.00267	0.3513	0.08164

Source: *Author's compilation*

Multiple Linear Regression Analysis

The table above shows the result of the multiple linear regression on the model for the influence of deferred tax and firm size towards the financial performance with earnings persistence as the moderating variable. Based on the results, the equation derived is:

$Y = -0.601 - 0.003X1 + 9.141X2 + e$……………………………………………… (2)

Y=financial performance; α=constant; β= Regression Coefficient; X1=Deferred Tax; X2= Earnings Persistence; e=error.

Table 2. Multiple Linear Regression Analysis

Description	Unstandardized Coefficient (B)
(Constant)	-0.601
Deferred Tax (X1)	-0.003
Earnings Persistence (X2)	0.00267

Source: *Author's compilation*

Partial t-Test

Deferred Tax (X1) towards Financial Performance (Y):

The level of significance for deferred tax is 0.061. It is concluded that deferred tax has no partial influence on the financial influence and H1 is rejected.

Earning Persistence (X2) towards Financial Performance (Y):

The level of significance for earnings persistence is 0.008. It is concluded that earnings persistence has an influence on the relationship of deferred tax with financial performance and H2 is accepted.

Table 3. Partial t-Test

Variable	Significance	Result
Deferred Tax (X1)	0.061	No influence
Earnings Persistence (X2)	0.008	Has an influence

Source: *Author's compilation*

DISCUSSION

The Influence of Deferred Tax towards Financial Performance (H1)

Deferred tax has no impact on financial performance (ROE). This suggests that the amount of deferred tax has no effect on the company's profitability ratio, as measured by return on equity. Based on the descriptive statistics of the data collected in this study, it is estimated that the mean value of deferred tax is only 0.00057, or 0.057%. This mean value for deferred tax is quite minor in terms of the deferred tax formula. A mean value of 0.057% is regarded very modest because it is less than 0.1%, indicating that the deferred tax has no significance. Furthermore, because return on equity is calculated by dividing net income by shareholder equity, the percentage of deferred tax to net income is also low, which may contribute to the fact that deferred tax has little impact on profitability.

Furthermore, deferred tax refers to the temporary discrepancy in recognition between commercial and fiscal calculations; the most typical cause of these variations is depreciation and amortisation, as mentioned by Wijayanti (2016) in Bhaktiar and Hidayat (2020). In commercial accounting, internal management can decide on the depreciation method and the useful life of assets. However, under the law, the depreciation method is confined to the straight-line and double-declining balance methods. The useful life is separated into two categories: buildings and non-buildings. Buildings are classified as permanent or non-permanent, while non-buildings are divided into four groups. The discrepancies in recognition make depreciation expense appear different even while the total amount remains the same. According to Wijayanti (2016) and Bhaktiar and Hidayat (2020), this means that deferred tax has no effect on profit.

The Influence of Earning Performance towards Financial Performance (H2)

According to the prior hypothesis test results, H2 is accepted, indicating that earnings persistence influences financial performance. The amount of deferred tax in a financial report contributes as one of the ways to reduce their tax burden and make the financial reports appear more profitable, resulting in constant profit in the annual reports. Consistent profit

symbolises long-term earnings, which investors want because it gives them peace of mind when investing in a company.

Attracting investors in the tourism, hotel, and restaurant sectors is critical, as the government has attempted to expand Indonesia's tourism industry for many years. In 2011, the Indonesian government launched a scheme dubbed Wonderful Indonesia to attract tourists and increase revenue for the country. Wonderful Indonesia has successfully increased the number of tourists in Indonesia, from 7.6 million in 2011 to 14.04 million in 2017. As the tourism industry grows, companies will obtain more stock from various investors to fund their operations, resulting in increased revenue and profitability ratios.

CONCLUSION

Based on the findings in the previous chapter, the research paper concludes that H1 is rejected because deferred tax has no influence on financial performance, whereas H2 are accepted because earnings persistence has an impact on those relationships. According to the findings of this study the researcher proposes that future studies add more independent variables or new variables, as the independent variables only explain 21.7% of the dependent variable. Companies in the tourism, hotel, and restaurant sectors should be more aware of their asset management and tax planning in order to ensure efficacy and efficiency in maximising profits and attracting more investors to further expand the business with more equity obtained; and investors and other financial statement users should thoroughly analyse the companies' potential and advantages. Investors can also consider investing in companies that have the potential to grow regardless of size for as long as the business is operational.

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