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Effect of Accounting Income And Taxable Income on Earnings Persistance on Miscellaneous Industry Sector Registered in Indonesia Stock Exchange 2015-2019

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ABSTRACT

Earnings persistence is an indicator to evaluate expected future accounting income implemented in current year earnings. The objective of this research was to collect empirical proof of the effects of permanent differences, temporary differences, large positive book-tax differences, and large negative book-tax differences on Earnings Persistence. Population involved in the current research was Manufacture Companies in Miscellaneous Industry Sector registered in Indonesia Stock Exchange in 2015-2019. Among population involved, 11 companies were chosen as research sample through purposive sampling method. Hypothesis raised, in this case, was tested using panel data regression. Research results indicated that permanent differences significantly affected earnings persistence. Meanwhile, other results obtained that temporary differences, large positive book-tax, and large negative book-tax did not affect earnings persistence. Simultaneous test further confirmed that permanent difference, temporary differences, large positive book-tax differences, and large negative book-tax differences affected earnings persistence simultaneously.

1. INTRODUCTION

One of developing and popular issues in analyzing tax regulation is *book tax differences.* Book tax differences means difference between taxable income according to tax regulation and accounting income according to accounting standard. Tax regulation and accounting have different objectives, thus such differences emerge almost in all countries. The phenomenon of *book-tax differences* causes possibility of earnings management and company earnings quality occurrences. Differences between accounting income and taxable income (book tax-differences) are able to provide information regarding earnings quality. Earnings persistence is an indicator employed to evaluate expected future accounting income implemented on current year earnings. Persistent earnings indicates a profit which does not experience fluctuation frequently on each of its period and has stabile tendency.

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Therefore, earnings persistence often utilized as an indicator to measure earnings quality because quality earnings will indicate continuous earnings. Several accounting review literatures claim that *book tax differences* give contribution in evaluating earnings quality reported by a company.

In managing company well, stakeholders, in making decision, always need information, both in terms of financial information and non-financial information. Such information can be obtained from financial statement reported by company. Indonesian companies report financial statement based on applied standards, including Financial Accounting Standard and reporting taxable financial statement based on laws and regulation of tax. This then emerges terms of commercial financial statement and fiscal financial statement.

Commercial financial statement is a financial statement constructed based on Financial Accounting Standard which provides information during certain period and proposed to evaluate the economy performance and financial condition. This is different from fiscal financial statement which is constructed based on tax provisions and proposed more to calculate payable tax (Resmi 2011:329). The differences of these two financial statements making cause differences in calculating the earnings (loss) of an entity. Due to such differences, differences occur between accounting income and taxable income. The cause of differences between accounting income and taxable income are categorized into *permanent differences* and *temporary differences* or *timing differences*.

Permanent differences emerge due to different regulation related to the admission of earnings and cost between Financial Accounting Standard and Provisions of Laws and Regulation of Tax, while temporary differences emerge due to different period of earnings admission and cost based on Financial Accounting Standard and Provisions of Laws and Regulation. The emerging temporary differences are reflected in commercial financial statement as *deferred taxes*. Deferred taxes can be in the form of deferred tax asset and deferred tax liability.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory claims that agent and principal have different interest. Such agency model is a system designed to involve the two parties in a company. A company which distinguishes function between agent and principal tends to have agency conflict. Therefore, accurate and clear employment contract is needed between principal and agent, so that agreement is expected to maximize utility of principal as well as satisfy and ensure the agent to receive reward. *Such utility and reward* are obtained from result of company management activities reflected in company earnings (Lambert, 2001 in Sanjaya, 2008).

Differences between accounting standard and tax provisions obliged management to construct two types of income statement at the end of each period, those are commercial income statement and fiscal income statement. Commercial income statement is an earnings report based on provisions of laws and regulation of tax to determine *taxable income*.

Muljono and Wicaksono (2009:60) stated that permanent differences are caused by different regulation related to earnings admission and cost between Financial Accounting Standard and Provisions of Laws and Regulation of Tax. Based on provisions of laws and regulation of tax, there are several incomes which are not tax object, while commercially, income is considered as earnings. Vice versa, according to provisions of laws and regulation of tax including fiscal cost which cannot be reduced, while commercially, such income is considered as earnings.

Temporary difference is caused due to time differences between earnings admission and cost for calculating earnings. The occurrence of such differences is caused by provisions of laws and regulation of tax which claims that there is earnings or cost that can be reduced on previous accounting period or next accounting period from current accounting period. Meanwhile, commercial admits them as earnings or cost on related period (Zain 2008:213).

Temporary differences occur due to differences in objective between accounting and regulation of tax.

Large positive book-tax differences are differences between accounting income and taxable income, where accounting income is greater than taxable income. The occurrence of *large positive book-tax differences is caused by temporary* differences in earnings admission and weight between accounting standard and regulation of tax.

Large negative book-tax differences are differences between accounting income and taxable income, where accounting income is smaller than taxable income. *Large negative book-tax differences* occur due to temporary differences in admission of earnings and weight between accounting standard and regulation of tax (Prabowo, 2010 in Fatkhur, 2013).

H1: Temporary differences in book-tax differences have an effect on the persistence of company earnings

H2: Permanent differences in book-tax differences have an effect on the persistence of company earnings

H3 :The large negative book-tax differences have an effect on the persistence of company earnings

H4 : The difference in large positive book-tax differences has an effect on earnings persistence

3. RESEARCH METHOD

a. Research Variable

Research variables consists of dependent and independent variable. The dependent variable of this research was earnings persistence proxied by net income growth. Meanwhile, the independent variable of this research was permanent differences, temporary differences, *large positive book-tax differences, and large negative book-tax differences.*

b. Population and Sample

Population involved in this research was Manufacture Companies in Miscellaneous Industry Sector registered in Indonesia Stock Exchange in 2014-2018. Time range of five years was chosen so that this research can focus only to that range.

Samples were chosen based on *purposive sampling* method with several criteria as presented:

1. Manufacture companies in miscellaneous industry sector registered consequently in Indonesia Stock Exchange in 2015-2019 period
2. Companies which published financial statement consecutively in 2015-2019 period
3. Companies which did not Rupiah in their financial statement.
4. Companies which did not experience loss in 2015-2019 period

c. Analysis Method

Research data collected were analyzed and tested using several statistical test, including descriptive statistical test, heteroscedasticity test, multicolinearity test, and panel data regression test to test hypothesis raised by using output of Eviews 10.

$$PRST\ it = \beta 0 + \beta 1 Temporaryit + \beta 2 Permanentit + \beta 3\ LPBTDit + \beta 4 LNBTDit + \varepsilon i$$

Where:
B0 = constant
B1, β2,...,βn = coefficient of population regression equation

PRSTit = Earnings persistence/ net income of company i in year of t
Temporaryit = temporary b*ook-tax differences* temporer of company i in year of t
Permanentit = permanent *Book-tax differences* of company i in year of t
LNBTD = differences between accounting income and negative taxable income (*large negative book-tax differences*)
LPBTD = differences between accounting income and negative taxable income (*large positive book-tax differences*)
εi = standard error

4. RESULTS

As many as 45 manufacture companies in miscellaneous industry sector and registered in Indonesia Stock Exchange were involved as research population. Among those manufacture companies, 11 financial statement in period of 2015-2019 were collected as research samples through *purposive sampling technique.* These 11 financial statements were manufacture companies in miscellaneous industry sector registered in Indonesia Stock Exchange in period of 2015-2019.

Descriptive statistic describes data showing the minimum, maximum, mean and standard deviation value. Research data involved including earnings persistence, permanent differences, temporary differences, *large positive book-tax differences, and large negative book-tax differences* as follow:

Table 1. Descriptive Statistic

Descriptive Statistic

Sample: 1 55

	Earnings Persistence	Permanent Differences	Temporary differences	Large Positive Book-Tax	*Large Negative Book-Tax*
Mean	2105867044010	-907355019706	28469083750	-22189981092	3616390466553
Maximum	27372000000000	35458547068	1036000000000	-1317162189	31955000000000
Minimum	1933819152	-11125000000000	-398490000000	-71679000000	1492944533
Std. Dev.	6254246080180870	2853907325745110	161699802785092	17258680652037	8747284301566620
Observ.	55	55	55	21	34

Source: Processing data using Eviews 10, 2020

1. Classical Assumption Test

In order to know deviation on classical assumption, classical assumption test was carried out. When deviation occurs on the assumption, it indicates assumption is wrong. The classical assumption test carried out in this research initially showed abnormal data, therefore dependent variable was transformed into logarithm.

2. Normality test

Normality test aimed to test whether residual has normal distribution in the regression model. According to Gujarati (2013), normality test on residual using *Ordinary Least Square* method can be detected formally from method proposed by *Jarque- Bera* (JB). Such test was done by identifying probabilities of *Jarque Bera* (JB) as follow:

a. If probability > 0.05 then data is normally distributed

b. If probability < 0.05 then data is not normally distributed

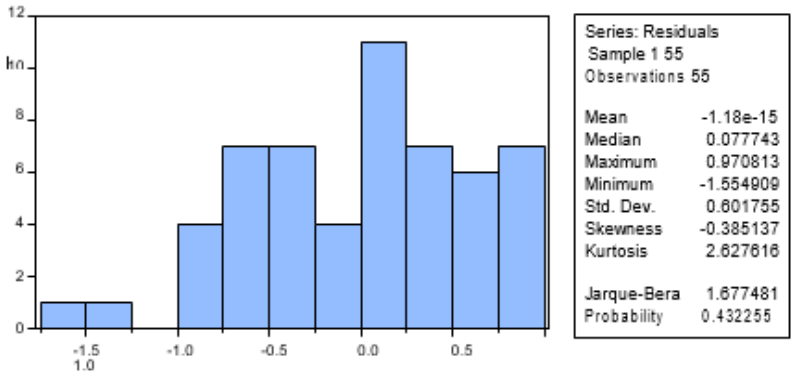

Figure 1 above shows that Jarque-bera value of 1.677481 has probability value of 0.432255. Therefore, it can sum up that research data were normally distributed, since probability value of 0.432255 is greater than 0.05.

3. Heteroscedasticity Test

Heteroscedasticity test aimed to know variance differences occur from one observation to another observation occurs in regression model. If variance from one observation to another observation is constant, it indicates homoscedasticity, but if variance is not constant, it indicates heteroscedasticity.

Table 2
Heteroscedasticity Test Result
Heteroscedasticity Test: Glejser

F-statistic	1.158012	Prob. F(4,50)	0.3405
Obs*R-squared	4.663246	Prob. Chi-Square(4)	0.3236
Scaled explained SS	3.609553	Prob. Chi-Square(4)	0.4614

Source: Procession data using Eviews 10, 2020

Table 2 above presents *chi-square probability value from Obs*R-Squared* was 0.3236 which is greater than 0.05. It indicates that heteroscedasticity did not occur in this research model.

4. Autocorrelation Method

Autocorrelation test is relationship between series members of observations sorted based on *data time series* or data *cross section* (Gujarati, 2013). Good regression model is a regression free from autocorrelation. One of tests that can be done to detect presence of autocorrelation is *Breusch Godfrey* test or called *Lagrange Multiplier*. If probability value is greater than α = 5%, it indicates no autocorrelation occurs. However, if probability value is smaller than < α = 5%, it indicates that autocorrelation occurs. Table 3 above shows *chi-square* probability value of 0.0551 which is greater than 0.05. It indicates that autocorrelation did not occur on regression model used.

Table 3
Autocorrelation Test Result

F-statistic	11.3709	Prob. F(2,48)	0.0561
Obs*R-squared	17.6812	Prob. Chi-Square(2)	0.0551

Source: Procession data using Eviews 10, 2020

5. Multicolinearity Test

Such test was carried out to investigate whether there was correlation between independent variables in the regression model. A model is considered good if no correlation occurs between independent variables. According to Gujarati (2013), if correlation coefficient between dependent variable is greater than 0.8, it means model experiences multicolinearity. However, if correlation coefficient is smaller than 0.8, no multicolinearity occurs in model.

Table 4
Multicolinearity Test Result

	Temporary Differences	Permanent Difference	*Large Positive Book-Tax Differences*	*Large Negative Book-Tax Differences*
Temporary Differences	1.000000	-0.684934	-0.094864	0.103879
Permanent Differences	-0.684934	1.000000	0.255109	-0.264986
Large Positive	-0.094864	0.255109	1.000000	-0.962533
Large Negative	0.103879	-0.264986	-0.962533	1.000000

Source: Procession data using Eviews 10, 2020

Multicolinearity carries out shows that all correlations between independent variables did not have value more than 0.8, indicating no multicolinearity occurs or no correlation between independent variables in model.

6. Hypothesis Testing

a. Partial Test (t Test)

T test was done to analyze partial effect of independent variable on dependent variable. Such test was done by seeing probability value as follow:

a. If significance value is smaller than 0.05, then H0 is rejected, which means that relationship between dependent and independent variable is not significant
b. If significance value is greater than 0.05, then H0 is accepted, which means that relationship between dependent and independent variable is significant

Table 5
Partial Test of Random Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Permanent Differences	-1.86E-13	6.09E-14	-3.058665	0.0036
Temporary Differences	-2.98E-13	4.12E-13	-0.723872	0.4725
Large Positive	-0.208166	0.382053	-0.544861	0.5883
Large Negative	0.217507	0.381765	0.569741	0.5714

Source: Procession data using Eviews 10, 2020

The first hypothesis test was carried out in current research to know effect of permanent differences on earnings persistence. In Table 5, probability of permanent differences is 0.0036 which is less than α 0.05 with a coefficient value of -1.86E-13. This indicates that permanent difference negatively affected earnings persistence. Therefore, it sums up that the first hypothesis (H_1) is accepted, showing that permanent difference affected earnings persistence

The second hypothesis testing was then proposed to know effect of temporary differences on earnings persistence. Table 5 presents that temporary differences have probability value of 0.4725 which is greater than α 0.05 with coefficient value of -2.98E-13. This indicates that temporary differences did not affect earnings persistence, summing up that the second hypothesis (H_2) is rejected.

The third hypothesis test proposed in this research was carried out to know effect of *large positive book-tax differences* on earnings persistence. Table 5 above indicates that *large positive book-tax differences* have probability value of 0.5883 which is greater than α 0.05 with coefficient value of -0.208166. This indicates that *large positive book-tax differences* did not affect earnings persistence, summing up that third hypothesis (H_3) is rejected.

Furthermore, fourth hypothesis was also performed aiming to investigate whether large negative book-tax differences affected earnings persistence. Table 4.13 shows that probability value large negative book-tax differences was 0.5714 which is greater than α 0.05 with coefficient value of 0.217507. This indicates that large negative book-tax differences did not affect earnings persistence, summing up that the fourth hypothesis (H4) is rejected.

b. Simultaneous Test (F Test)

Basically, simultaneous test (F-Test) shows whether all independent variables involved in current research has simultaneous effect on dependent variable (Ghozali, 2016). Based on F test that has been done, following result was obtained:

Table 6
Simultaneous Test of Random Model

	Weighted Statistics		
R-squared	0.273725	Mean dependent var	2.625419
Adjusted R-squared	0.215623	S.D. dependent var	0.380005
S.E. of regression	0.336551	Sum squared resid	5.663335
F-statistic	4.711119	Durbin-Watson stat	1.835275
Prob(F-statistic)	0.002642		

Source: Procession data using Eviews 10, 2020

Table 6 above presents result of F-statistic probability of 0.002642 which is less than 0.05, with F-statistic value of 4.711119. It indicates that all independent variables significantly and simultaneously affected dependent variable. Therefore, the fifth hypothesis, stating that permanent differences, temporary differences, *large positive book-tax differences*, and *large negative book-tax differences* affect earnings persistence simultaneously, is accepted.

c. Determination Coefficient ($R^{2)}$

Determination coefficient (R^2) was employed to obtain percentage of independent variable which simultaneously explains dependent variable. If determination coefficient (R^2)

= 1, independent variable provides information needed to predict dependent variables. However, if determination coefficient (R2) = 0, then independent variable cannot explain dependent variable.

Table 7

Result of Data Regression R^2 of *Random Model*

Weighted Statistics

R-squared	0.273725	Mean dependent var	2.625419
Adjusted R-squared	0.215623	S.D. dependent var	0.380005
S.E. of regression	0.336551	Sum squared resid	5.663335
F-statistic	4.711119	Durbin-Watson stat	1.835275
Prob(F-statistic)	0.002642		

Source: Procession data using Eviews 10, 2020

Table 7 above shows *R-squared* of 0.273725. It was changes into percentage, indicating percentage of independent variable on dependent variable. Therefore, permanent differences, temporary differences, *large positive book-tax differences*, and *large negative book-tax differences variables* involved in current research explain 27.37% of earnings persistence variable variation, while remaining 72.63% is affected by other variables were not involved in this regression model.

5. CONCLUSION

Result obtained in current research indicates that permanent differences affect earning persistence, indicating that hypothesis on permanent differences on earnings persistence is accepted. Meanwhile, temporary differences, *large positive book-tx differences, and large negative book-tax differences* do not affect earnings persistence. This shows that hypothesis stating that temporary differences, *large positive book-tax differences, and large negative book-tax differences* affected earning persistence is rejected.

Simultanous test was also carried out, showing F-statistic of 0.002642 which is less than 0.05. This explains that permanent difference, temporary differences, *large positive book-tax differences*, and *large negative book-tax differences* simultaneously affect earnings persistence. Therefore simultaneous test is accepted.

There were several limitations in current research. First, manufacture companies of miscellaneous industry sector are suggested to consider the earnings persistence more by paying attention to the permanent difference on taxable income. Second, the companies also need to consider different model used in research on earnings persistence and presence of variable which may affect the earnings persistence including *corporate governance,* ownership structure, etc.

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