

## **BOOK TAX DIFFERENCES, OPERATING CASH FLOW, LEVELS OF DEBT, AND PERSISTENCE OF EARNINGS**

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**Abstract:** One part of the report that gets a lot of attention from internal and external parties of the company is information about profits. Quality profit information will help interested parties in policy making. This study aims to analyze the role of book tax differences, operating cash flow, and debt levels on earnings persistence. The research population is manufacturing companies in the consumer goods industry sector which are listed on the Indonesia Stock Exchange for the 2018-2020 period, totaling 51 companies. The sample in this study amounted to 14 manufacturing companies in the consumer goods industry sector using a purposive sampling technique. The results in this study indicate that book tax differences affect earnings persistence, operating cash flow does not affect earnings persistence, and debt levels do not affect earnings persistence in manufacturing companies in the consumer goods industry sector which are listed on the Indonesia Stock Exchange.

**Keywords:** *Book Tax Differences, Operating Cash Flow, Debt Level, Earnings Persistence*

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### **1. Introduction**

Financial reports are a source of information for an entity that reflects the financial situation of the results of company operations in a specific period of time to interested parties (Putri and Noviar, 2020). The part of the report that has received the most attention from the company's internal and external parties is profit information. Quality profits will help interested parties in making policies, such as investment policies and policies related to tax purposes (Sa'diyah and Suhartini, 2022).

Profit persistence is profit that tends to be stable and shows that profits can last in the future (Amin et al, 2022). The level of earnings persistence is also often used as a qualitative characteristic of earnings quality and many people interpret the level of net income as a determinant of whether earnings quality is good or not (Nurhafifah et al., 2022).

Earnings persistence can be affected by book tax differences, operating cash flow, and debt levels. The following table shows the persistence of earnings, operating cash flow, and debt levels in manufacturing companies in the consumer goods industry sector:

**Table 1.** Profit persistence in manufacturing companies  
in the consumer goods industry sector period 2018-2020

<b>Kode Emiten</b>	<b>Tahun</b>	<b>Persistensi Laba</b>	<b>Arus Kas Operasi</b>	<b>Tingkat Utang</b>
CAMP	2018	0,0897	0,0935	0,1071
	2019	0,0537	0,1498	0,1155
	2020	0,1161	0,1864	0,1152
CLEO	2018	0,2071	0,1581	0,2380
	2019	0,1347	0,1580	0,3818
	2020	0,1709	0,1683	0,3087
ICBP	2018	0,2164	0,1354	0,3393
	2019	0,2573	0,1911	0,3110
	2020	0,0959	0,0901	0,5142

Source: www.idx.co.id (processed data)

Based on table 1, there are three persistences of profits for manufacturing companies in the consumer goods industry sector experiencing increases and decreases. At PT. Campina Ice Cream Industry Tbk (CAMP) profit persistence in 2020 has increased by 6.24% and operating income has also increased, so that it can help the company from debt pressure (kontan.co.id). The opposite condition occurred at PT Sariguna Primatirta Tbk (CLEO) which in 2019 showed an increase in operating cash, but debt levels tended to increase. This causes the company to experience difficulties in paying debts and results in a decrease in the persistence of company profits by 7.24% (cnbcindonesia.com).

Profit efficiency is profit that tends to be stable and shows that profit can survive in conditions in the future (Amin et al, 2022). Earnings efficiency is affected by several factors such as book tax difference, level of debt, and operating cash flow. Book tax difference is the difference between accounting profit calculation and fiscal profit calculation (Huang and Wang, 2013). This is caused by a difference in regulations between PSAK and the Tax Law (Jasmar and Yuliana, 2022). Book tax differences (BTD) play an important role in explaining the quality of earnings in companies. BTD and earnings quality have been studied by many researchers for different reasons. Zdulhyanov's research (2015) shows that book tax differences have an effect on earnings persistence. Contrary to Gunarto's research (2019) which shows book tax differences have no effect on earnings persistence.

Operating cash flow is cash that arises from the company's operational activities and can describe the continuity of the company (Putri and Noviar, 2020). Cash flow data as a financial indicator is relatively difficult to manipulate. Putri and Kurnia (2017) show that operating cash flow has an effect on earnings persistence. This result contrasts with Nurhafifah et al. (2022) who concluded that operating cash flow has no effect on earnings persistence.

The level of debt is the level of use of debt in a company (Tuffahati et al, 2020). A large level of debt tends to encourage a company to increase profit efficiency with the aim of maintaining company performance (Nur Hayati et al, 2018). Good company performance is expected to increase creditor confidence in terms of funding. (Suwandika and Astika, 2018). Gunarto (2019) states that the level of debt has an effect on profit persistence. Research by Suwandika and Astika (2018) shows that the level of debt has no effect on earnings persistence.

Previous research has shown that the three factors can have a positive or negative impact, and influence earnings efficiency. Based on the phenomenon that occurred and the different research results, this research is important because there are inconsistencies from the previous research results. The focus of this study lies in the variable book tax difference, operating cash flow, and debt levels on earnings efficiency. The purpose of this study was to examine the effect of book tax differences, debt levels, and operating cash flow on earnings persistence.

## **2. Literature reviews**

This research was conducted to empirically examine book tax differences, operating cash flow, and debt levels as factors that influence earnings persistence. In order to construct and test the research model, the researcher uses 2 basic theories, namely agency theory and signaling theory.

### **Agency Theory**

This research was conducted to empirically examine book tax differences, operating cash flow, and debt levels as factors that influence earnings persistence. In order to construct and test the research model, the researcher uses 2 basic theories, namely agency theory and signaling theory. Agency theory states that there is an agency relationship between the principal and the agent in a contract, thus requiring the agent to act according to the contract. Each party, both agent and principal, will act opportunistically to maximize their respective utilities. The manager as the manager of the company (agent) has far better information than the principal will try to use accounting policies that can increase his own utility.

Conflict of interest increases when shareholders are unable to monitor management activities to ensure that managers are working in the interests of shareholders. However, this can be overcome through external supervision. External supervision can be carried out through the use of debt. The addition of debt in the capital structure can reduce the use of shares, thereby minimizing the agency costs of equity. However, the company has an obligation to return the loan and pay interest expense periodically. Managers will behave opportunistically in order to obtain relatively cheaper interest costs by providing a good picture of company profits. This creates an agency conflict between the company and the creditor.

### **Signalling Theory**

Signal theory states that the information conveyed by the company can be a signal to external parties regarding the persistence of company profits. This information relates to book tax differences, operating cash flow, and debt levels. Companies that have positive cash flow and good profit history provide a positive signal for earnings persistence. Companies that have low debt give a positive signal regarding earnings persistence. Companies with low book tax differences can give a positive signal regarding the persistence of company profits because managers act in accordance with applicable regulations.

## **Hypothesis**

### **Effect of Book Tax Differences on Profit Persistence**

Profits generated in accounting reports based on Financial Accounting Standards (SAK) may differ from profits generated in fiscal reports based on tax laws and regulations. This difference occurs due to differences in recognition between Financial Accounting Standards

(SAK) and tax laws and regulations. Commercial financial reports must be prepared in accordance with Financial Accounting Standards (SAK) so that they can be used in making decisions. .Alfiarini and Muid (2015) found that differences in accounting profit and taxable profit have a positive effect on earnings persistence.

**H1:** Book tax differences affect earnings persistence.

### **Effect of Operating Cash Flow on Profit Persistence**

Operating cash flow is the cash in and out of the company. Companies with positive and non-fluctuating operating cash flows are believed by investors to be able to generate good profits. High operating cash flow is an indicator of the stability of the company's profits. Low operating cash flow indicates that there is uncertainty in predicting cash flows that will be obtained by the company in the future and indicates operating instability. Statements of cash flows must report cash flows over a certain period and are classified according to operating, investing and financing activities (Asma, 2013). Cash flows from operating activities are mainly obtained from the company's main revenue-producing activities. Operating cash flow is calculated based on the total operating cash flow in the current year (Soemarso, 2005). Asma's research (2013) states that operating cash flow has an influence on earnings persistence.

**H2:** Operating cash flow affect earnings persistence.

### **Effect of Debt Level on Earnings Persistence**

Companies that have high levels of debt will have low earnings persistence. This is because high debt requires companies to provide a good performance picture to creditors (Putri and Supadmi, 2016). This encourages managers to behave opportunistically through earnings management by presenting higher profits than they should. Research conducted by Kasiono and Fachrurrozie (2016), found that debt has an effect on earnings persistence.

**H3:** Debt level affect earnings persistence.

## **3. Research Method**

### **Population and sample**

This research uses secondary data, namely the financial reports of companies listed on the Indonesian Stock Exchange (BEII). The population of manufacturing companies in the consumer goods industry sector is 51 companies, while the sample is 14 companies. The sampling technique uses purposive sampling with precision as follows:

- 1) Manufacturing companies in the consumer goods industry sector which are registered on the Indonesian Efeik Exchange (BEI) for the 2018-2020 period.
- 2) Manufacturing companies in the industrial and consumer goods sector which provide consecutively published annual financial reports for the 2018-2020 period.
- 3) Companies that have the data needed in each research variable.
- 4) Companies that have not suffered any losses during the memory year.

### **Operational Definitions of Variables**

#### **1) Dependent Variable**

##### **Profit Persistence (Y)**

Earnings efficiency is a profit that tends to be stable and shows that profits can survive in conditions in the future. Profit efficiency is measured by calculating profit before tax divided by total assets. The formula used (Hidayat and Fauziyah, 2020) is as follows:

$$\text{Profit Persistence} = \frac{\text{Profit before tax } t + 1}{\text{average total assets}}$$

## 2) Independent Variable

### Book Tax Differences (X1)

Book tax difference is the difference between the amount of accounting profit or commercial profit and tax profit (taxable income). Book tax difference can be measured by calculating accounting profit minus tax profit and divided by total assets. The measurement of the book tax difference is (Gunarto, 2019), namely:

$$\text{Book Tax Differences} = \frac{\text{Accounting Profit} - \text{Tax Profit}}{\text{Total Assets}}$$

### Operating Cash Flow (X2)

Operating cash flow is cash arising from the company's operational activities related to receipts, expenses, income, and costs (Putri et al, 2020). Operating cash flow can be measured using the formula (Sa'diyah and Suhartini, 2022):

$$\text{Operating Cash Flow} = \frac{\text{Total Operating Cash Flow}}{\text{Total Assets}}$$

### Debt Level (X3)

The level of debt is the level of obligations owned by the company and must be fulfilled when they are due without considering the financial condition of a company, both short-term and long-term obligations (Tuffahati et al, 2020). Debt levels can be measured using the formula (Jasmar and Yuliana, 2022):

$$\text{Debt Level} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

## Data Analysis Technique

This study uses the method of regression analysis. The data collected in this study were processed and analyzed using the following statistical tools:

### 1) Descriptive Statistical Test

Descriptive statistical tests are used to provide an overview or characteristics of the data used in this study. The description of a data can be seen from the average value (mean), standard deviation, maximum and minimum values.

### 2) Classical Assumption Test

The classical assumption test was carried out to find out whether the regression model obtained can produce a BLUE (Best Linear Unbiased Estimator) linear estimator. The assumption test consists of a normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

### 3) Hypothesis Testing

This study uses the method of regression analysis. Regression analysis aims to measure the strength of the relationship between two or more variables and shows the direction of the relationship between the dependent variable and the independent variable. The regression equation in this study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Information :

- Y = Profit Persistence
- a = Constant
- b1 = Regression coefficient X<sub>1</sub>
- b2 = Regression coefficient X<sub>2</sub>
- b3 = Regression coefficient X<sub>3</sub>
- X<sub>1</sub> = Book Tax Differences
- X<sub>2</sub> = Operating Cash Flow
- X<sub>3</sub> = Debt Level
- e = Estimated error

#### 4. Results And Discussion

##### 4.1 Results

##### Descriptive Statistical Test Results

**Table 2. Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
<i>Book Tax Differences</i>	42	,00	,15	,0491	,03756
Arus Kas Operasi	42	22,26	29,07	26,2464	1,80806
Tingkat Utang	42	,13	,72	,3328	,15025
Persistensi Laba	42	,03	,47	,1693	,09695
Valid N (listwise)	42				

Source: processed data

Based on the information in Table 2, it shows that the book tax difference variable (X1) has a minimum value of (0), maximum (0.15), average (0.0491), and standard deviation (0.03756). The operating cash flow variable (X2) shows that the minimum value is (22.26), maximum (29.07), average (26.2464), and standard deviation (1.80806). The debt level variable (X3) shows that the minimum value is (0.13), maximum (0.72), average (0.3328), and standard deviation (0.15025). The earnings precision variable (Y) shows that the minimum value is (0.03), the maximum value is (0.47), the average (0.1693), and the standard deviation (0.09695).

##### Normality Test Results

**Table 3 Normality Test**

		Unstandardized Residual
N		42
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	,08534828
Most Extreme Differences	Absolute	,124
	Positive	,124
	Negative	-,097
Test Statistic		,124
Asymp. Sig. (2-tailed)		,100 <sup>c</sup>

Source: processed data

Based on the information in table 3 the significant level (Asymp.Sig. 2-tailed) obtained is 0.100 exceeding 0.05, meaning that the data is normally distributed.

### Multicollinearity Test Results

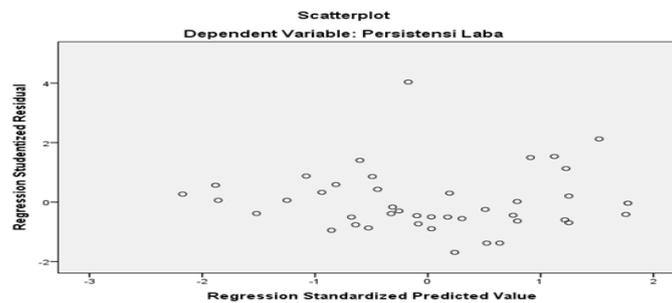
**Table 4 Multicollinearity Test**

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
<i>Book Tax Differences</i>	,787	1,271
Arus Kas Operasi	,699	1,430
Tingkat Utang	,851	1,176

Source: processed data

Table 4 provides information that the value of the tolerance book tax difference is (0.787), operating cash flow (0.699), and debt levels (0.851). The result exceeds 0.10. While the VIF values obtained for book tax difference (1.271), operating cash flow (1.430), and debt level (1.176), each is below 10. The statistical results show that there is no multicollinearity.

### Heteroscedasticity Test Results



**Figure 1. Heteroscedasticity Test Results**

Figure 1 shows that the points spread randomly under the number 0. This shows that there is no heteroscedasticity in the regression model.

### Autocorrelation Test Results

**Table 5 Autocorrelation Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,474 <sup>a</sup>	,225	,164	,08865	1,849

Source: processed data

The autocorrelation test results provide evidence that there is no autocorrelation. The DW result is 1.849 above the dU limit (1.65) and below the 4-dU value (2.35).

### Multiple Linear Regression Test Results

**Table 6 Multiple Linear Regression Analysis**

Model	Unstandardized Coefficients	
	B	Std. Error
1 (Constant)	-,220	,247
<i>Book Tax Differences</i>	-1,096	,416

Arus Kas Operasi	,018	,009
Tingkat Utang	-,088	,100

Source: processed data

Based on table 6, the regression equation can be made as follows:

$$Y = -0,220 - 1,096X1 + 0,018X2 - 0,088X3 + e$$

1. The constant value (a) is -0.220. This indicates that if the book tax difference variable (X1), operating cash flow (X2), and debt level (X3) are worth 0 (zero), then earnings efficiency will be worth -0.220.
2. The value of the regression coefficient of the book tax difference (X1) is -1.096. The regression coefficient value is negative, indicating that the book tax difference variable has a negative relationship with earnings efficiency (Y). This explains that every decrease in the book tax difference unit is not followed by an increase in profit efficiency (Y) and will experience a decrease in the value of the coefficient or not constant.
3. The value of the regression coefficient of operating cash flows (X2) is 0.018. The value of the regression coefficient is positive, indicating that the operating cash flow variable has a positive relationship to earnings efficiency (Y). This explains that every increase in operating cash flow units is also followed by an increase in profit efficiency (Y) and will experience an increase as big as the value of the coefficient or is constant.
4. The debt level regression coefficient (X3) is -0.088. The value of the regression coefficient is negative, indicating that the debt level variable has a negative relationship with earnings efficiency (Y). This explains that every decrease in the unit debt level is also followed by an increase in earnings efficiency (Y) and will experience a decrease in the value of the coefficient or not constant.

## **R<sup>2</sup> Test Results (Coefficient of Determination)**

**Table 7 Test of the Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,474 <sup>a</sup>	,225	,164	,08865	1,849

Source: processed data

The elimination coefficient shown in Table 7 for this study is 0.225 or 22.5%. This shows that the variables can be explained by the independent variables studied by 22.5% and the remaining 77.5% explained by other variables not studied in this study.

## **Test Results t**

**Table 8. T test**

Model	t	Sig.
1 (Constant)	-,890	,379
<i>Book Tax Differences</i>	-2,638	,012
Arus Kas Operasi	1,963	,057
Tingkat Utang	-,878	,386

Source: processed data

### **First Hypothesis (H1)**

Book tax difference (X1) has a calculated t value of -2.638 with a significant value of 0.012, so the Sig.t value is smaller than 0.05 ( $0.012 < 0.05$ ). H1 is accepted. This means that the book tax difference (X1) has an effect on earnings efficiency (Y).

### **Second Hypothesis (H2)**

Operating cash flow (X2) has a calculated t value of 1.963 with a significant value of 0.057, so the Sig.t value is greater than 0.05 ( $0.057 > 0.05$ ). H1 is rejected. This means that operating cash flow (X2) has no effect on earnings efficiency (Y).

### **Third Hypothesis (H3)**

The level of debt (X3) has a calculated t value of -0.878 with a significant value of 0.386, so the Sig.t value is greater than 0.05 ( $0.386 > 0.05$ ). H1 is rejected. This means that the level of debt (X3) has no effect on earnings efficiency (Y).

### **F test results**

**Table 9 F test**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	,087	3	,029	3,679	,020 <sup>b</sup>
Residual	,299	38	,008		
Total	,385	41			

Source: processed data

### **Fourth Hypothesis (H4)**

Table 9 obtained an F-count of 3.679 with a significant value of 0.020, so that Sig. F is greater than 0.05 ( $0.020 < 0.05$ ), then H5 is accepted. This means that the book tax difference (X1), operating cash flow (X2), and debt levels (X3) have an impact on earnings efficiency (Y).

## **4.2 Discussion**

### **Effect of Book Tax Differences on Profit Persistence**

The results of the research that has been carried out show that the significance value of the book tax difference is 0.012, smaller than 0.05 ( $0.012 < 0.05$ ) and H1 is accepted, so it can be concluded that the book tax difference has an effect on earnings efficiency. This is due to differences between Financial Accounting Standards (SAK) and tax laws and regulations in the recognition of income and profits. Book tax differences can affect earnings persistence due to differences in the method of preparing commercial financial reports and fiscal financial reports, the higher the difference between accounting profit and taxable profit, the lower the quality of earnings, which makes it difficult to predict earnings one year ahead. The higher the difference between accounting profit and fiscal profit, the higher the efficiency of earnings will be and vice versa (Situmorang and Sihotang 2021). This study supports the research of Jasmar and Yuliana (2022) which shows that there is an influence between book tax differences and earnings efficiency.

### **Effect of Operating Cash Flow on Profit Persistence**

The research results show that the significance value of operating cash flows is 0.057, greater than 0.05 ( $0.057 > 0.05$ ) which means H2 is rejected. It can be concluded that

operating cash flow has no effect on earnings efficiency. This happened because the level of operating cash flows from 2018-2020 was unstable, while measuring profit performance required stable cash flow information from year to year. The results of this study support the research of Prasetyo and Rafitaningsih (2015) which shows that operating cash flow has no effect on earnings efficiency. Sales are the most important part of a company's operating cycle in generating profits. If there is sales manipulation, the company's profit persistence will be low. Sales are the most important part of the company's operating cycle in generating profits. The low volatility of sales will indicate the ability of profits to predict future cash flows (Purwanti, 2010)

### **Effect of Debt Level on Profit Persistence**

The research results show that the significance value of the debt level is 0.386, greater than 0.05 ( $0.386 > 0.05$ ) which means H3 is rejected. The level of debt has no effect on earnings efficiency. The size of the debt level will not affect the decrease or increase in profit because the company's managers tend to perform the same performance as the debt level, both high and low (Suwandika and Astika, 2018). The results of this study support Gunarto's research (2019) which states that the level of debt has no effect on earnings efficiency. Debt has the consequence that the company must pay interest and principal at maturity. Companies that are unable to pay, will pose a risk of failure, so that the profit earned by the company will be prioritized to pay debts and interest rather than to increase company income and finance company operations. This will likely have an impact on decreasing company profits in the future

### **5. Conclusion**

- 1) Book tax difference has an effect on earnings efficiency. This is caused by a difference between the Financial Accounting Standards (SAK) and tax laws and regulations.
- 2) Operational cash flow has no effect on earnings stability. This happened because the level of operating cash flows from 2018-2020 was unstable, while measuring profit performance required stable cash flow information from year to year.
- 3) The level of debt has no effect on earnings efficiency. This indicates that the size of the debt level will not affect the decrease or increase in profits because the company's managers tend to perform the same with debt levels, both high and low.

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