

The Effect of Deferred Tax and Tax to Book Ratio on Company Performance with Debt Policy as an Intervening Variable in Indonesia

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ARTICLE INFO

Published Online:
09 December 2024

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ABSTRACT

The aim of this research is to examine and identify how deferred tax and the tax-to-book ratio influence financial performance, using debt policy as a mediating factor in companies within the food and beverage sub-sector. This study employs a quantitative approach for data collection, utilizing secondary data sourced from Indonesia. Stock Exchange covering a four-year period from 2020 to 2023 in the form of company financial reports, as many as 30 companies with a total of 120 annual financial reports. The analysis method used in this study is path analysis using SPSS 25.0. Based on the test results found. no significant effect of the Deferred Tax Ratio on Debt Policy. no significant effect of the Tax to Book Ratio on Debt Policy. a significant effect of the Deferred Tax Ratio on Profitability. There is a significant influence of the Deferred Tax Ratio on Profitability, no significant influence of Tax to Book Ratio on Profitability, There is no significant influence of Debt Policy on Profitability, There is no significant influence of the Deferred Tax Ratio on Profitability through Debt Policy, There is no significant influence of Tax to Book Ratio on Profitability through Debt Policy,

KEYWORDS: Deferred Tax, Tax to Book Ratio, Debt Policy, Profitability

I. INTRODUCTION

Tax according to the General Provisions and Tax Procedures in Article 1 paragraph 1 is "Compulsory contributions to the state that are owed by individuals or entities that are coercive based on law without receiving direct compensation and are used for state needs for the greatest prosperity people." (Government of Indonesia, 2009).

In Indonesia, the main source of state income comes from taxes. If calculated as a percentage, taxes account for around 80% of total state income. State income increases if the amount of tax paid by taxpayers increases. However, from the company's perspective, as a profit-oriented entity, taxes are costs, so expenses must be taken into account (Apriliani, 2021).

State revenues originating from tax sources, one of which is obtained from Income Tax (PPh), while income tax is known as a tax imposed on any additional income (PPh) charged on the income of individual taxpayers, companies or other legal entities in accordance with applicable regulations. (Saprudin et al., 2021). Tax is calculated based on the bookkeeping or financial reports made by the company. In taxation, the terms accounting profit and fiscal

profit are known. The distinction between accounting profit, also known as commercial profit (book income), and fiscal profit (taxable income) arises from differing regulations. Manufacturing companies listed on the Indonesia Stock Exchange prepare their financial reports reflecting commercial profits in accordance with financial accounting standards. In contrast, fiscal financial reports that yield fiscal profit (taxable income) are developed based on tax laws and regulations. These commercial financial reports serve as tools for evaluating performance. Consequently, evaluating the financial performance of the company holds significant importance. Investors consistently anticipate a substantial rate of return, which leads them to remain vigilant regarding the considerable risks encountered by the company. An analysis of financial performance can be conducted to assess how effectively and accurately a company has adhered to financial implementation regulations (Fahmi Irham, 2018).

Companies grow and develop in an increasingly competitive and complex business environment. In Indonesia, a large number of industrial sectors are listed on the Indonesian Stock Exchange, with the food and beverage sector at the forefront. Sectors that focus on food and

beverage production have a major impact on the country's economy, supporting national economic growth and development. This makes the industry an interesting area for further research. The food and beverage industry tends to remain stable even though economic conditions have the advantage that this industry continues to survive even though overall economic conditions, especially in Indonesia, are uncertain. In fact, when a crisis arises, investors are increasingly eager to sell their shares in companies operating in the food and beverage industry. Apart from that, the food and beverage industry can make a significant contribution to investment, productivity and even achieving employment standards (Zai, 2024), but look Return On Investment in company like :

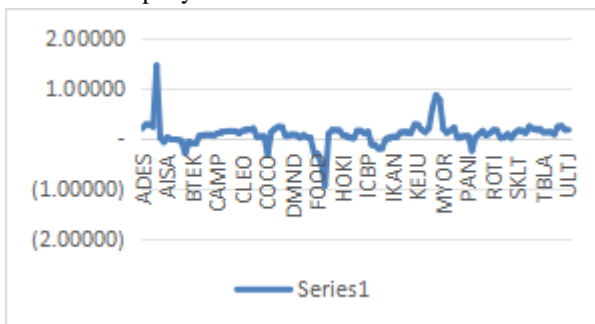


Figure 1. ROE in Company Food dan beverage

Not all of these companies provide profits, this must be anticipated whether because of debt or because of taxes.

Definition of tax according to tax law article 1 of Law no. 6 of 1983 was later revised into law. No. 28 of 2007 concerning general provisions and procedures was updated again into Law No. 16 of 2009 article 1, tax is a mandatory contribution to the state that is owed by an individual or body that is coercive based on law, with no direct compensation and use. for the needs of the state as much as possible for the people.

II. REVIEW OF LITERATURE

2.1 Deferred Tax

Deferred tax refers to the discrepancy arising from variations between PPh Payable and the Tax Expense, particularly concerning temporary differences, and should be documented and represented in commercial financial reports (Yati Mulyati et al., 2020). It cannot serve as a component for determining tax liabilities to the tax authority, and is noted to represent the tax debt amount in the financial statement for a specific financial year or period (Karianton Tampubolon, 2017).

2.2 Tax to Book Ratio

The tax to book ratio is defined as a comparison of taxable income to accounting profit, and further details about the tax ratio are provided in the notes of a company's financial statements (Fathony Hadimukti & Kiswara, 2012). This ratio, known as the Perceived Tax Ratio, compares

taxable income to accounting profit, with explanations available in the notes of a company's financial statements.

2.3 Fiscal Reconcilaitaion

Fiscal reconciliation involves modifying business earnings that vary from financial regulations to arrive at net income/profit that aligns with taxation rules. The discrepancies between **bookkeeping** and **monetary** can be **gathered** into **lasting contrasts** and **timing contrasts** (Siti Resmi, 2019). **Timing contrasts** are **brief contrasts** due to **contrasts within the timing of wage and cost acknowledgment** between **charge controls** and SAK. **Fixed/permanent contrasts** are **contrasts that happen since assess directions calculate monetary benefit in an unexpected way** from calculating **benefit agreeing** to SAK without any **rectification** at a **afterward date**.

2.4 Positive Fiscal Reconciliation

The difference is included as a positive correction if the income according to the fiscal is greater than according to the commercial or an income is recognized according to the fiscal but not recognized according to the commercial. Apart from that, the costs/expenses according to fiscal are smaller than according to commercial (Siti Resmi, 2019).

2.5 Negative Fiscal Reconciliation

According (Siti Resmi, 2019), the difference is included as a negative fiscal correction if the income according to the fiscal is smaller than according to the commercial or an income is not recognized according to the fiscal, but is recognized according to the commercial. Apart from that, the costs/expenses according to fiscal are greater than according to commercial. Then, if an income has been subject to final income tax.

2.6 Leverage

Leverage is a measure that shows how much a company uses debt for financing, so a higher leverage ratio means the company relies more on debt (Heru Harmadi Sudibyo 2022).

The leverage ratio can be formulated as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total debt}}{\text{Total Equity}}$$

Debt to equity ratio is a part of the solvency ratio, and it can be an indicator of the company's financial health. The reason is, the debt to equity ratio will show how financially independent the company is from loans.

Thus, this ratio can help in decision making by the company's stakeholders regarding debt matters.

3 Company Performance

Company performance can be understood as a review to gauge how well a company executes its operations in line with financial rules correctly and appropriately (Fahmi Irham, 2018). Company performance refers to the company's capability, which is its ability to manage and oversee the resources it possesses (IAI, 2012). Company performance may also be seen as the company's financial situation, evaluated and described using financial analysis

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tools, allowing insight into the good and poor financial states that represent work performance over a specific time frame (Syafriada Hani et al., 2021).

4 Profitability

Profitability is an important measure of financial performance that shows an organization's ability to generate profits from its operations. The latest definition from experts defines profitability as the ability to generate more revenue than costs, as measured through various financial ratios. Understanding and properly managing profitability is critical to business sustainability and growth. According to Gitman and Zutter profitability is a measure of a company's ability to generate profits that can be used to increase shareholder wealth. It reflects management's effectiveness in using resources to generate revenues that are greater than the costs incurred.

III. RESEARCH METHOD

This research was conducted using quantitative methods. . The goal of this study is to evaluate and analyze whether there is an effect of deferred tax and tax to book ratio on the financial performance with debt policy of food and beverage sector companies listed on the IDX, so this study is causal explanatory. The author performed this study on food and beverage sector companies listed on the Indonesia Stock Exchange (BEI), which is (<https://www.idx.co.id>). for the period 2020-2023.

IV. RESULT AND DISCUSSION

This research was examined using simple statistical analysis and panel data regression analysis. Simple statistical analysis is used to review research variables including average, standard deviation, highest, and lowest. At the same time, panel data regression analysis is used to find the effect of independent variables on dependent variables.

4. Path Analysis

In accordance with the research objectives, namely to test the effect of Deferred Tax Ratio and Tax to Book Ratio on Debt Policy, a quantitative analysis relevant to the research objectives was conducted using path analysis. The structural relationship between the two variables can be formulated into a structural equation. The structural form in this study is as follows:

$$Z = \rho_{zx1}X1 + \rho_{zx2}X2 + \epsilon_1$$

Where:

- Z = Debt Policy Rasio Pajak Tangguhan
- X1 = Deferred Tax Ratio
- X2 = Tax to Book Ratio
- ϵ_1 = epsilon sub structure 1

Based on the results of calculations and data processing using SPSS 25.0, the path coefficients of the Deferred Tax

Ratio and Tax to Book Ratio on Debt Policy are obtained as shown in the table below.

Table 4. 1 Koefisien Jalur Sub Struktur 1

Variable	Path Coeffisien	t _{hitung}	p-value	R-Square	1-R-Square
X1 → Z	-0,103	-1,122	0,264	0,021	0,979
X2 → Z	-0,115	-1,248	0,215		

Source: SPSS Output Appendix

From table 4.1, the total influence of the Deferred Tax Ratio and Tax to Book Ratio variables on Debt Policy is 0.021 or 2.1%, while the remaining 97.9% is the influence of other factors outside the independent variables. The following is the path equation.

$$Z = -0,103X1 - 0,115X2 + 0,979$$

Based on the equation above, it is known that the path coefficient of the Deferred Tax Ratio variable to Debt Policy is -0.103 indicating that there is a negative relationship, which means that the higher the Deferred Tax Ratio, the lower the Debt Policy.

The path coefficient of the Tax to Book Ratio variable to Debt Policy is -0.115 indicating that there is a negative relationship, which means that the higher the Tax to Book Ratio, the lower the Debt Policy.

4.1 Deferred Tax Ratio, Tax to Book Ratio, and Debt Policy to Profitability

4.1.3.1 Normality Test

Based on the results of the data normality test calculation, the following output results of the normality test were obtained:

Table 4.2 Normality Test Results.

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual	
N			120	
Normal Parameters ^{a,b}			Mean	.0000000
			Std. Deviation	.20146836
Most Differences	Extreme	Absolute	.190	
		Positive	.164	
		Negative	-.190	
Test Statistic			.190	
Asymp. Sig. (2-tailed)			.000 ^c	

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Based on table 4.2, the significance value of the normality test using the Kolmogorov-Smirnov method is 0.000. Since the p-value is less than alpha (0.000 < 0.05), it can be

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concluded that the residual data is not normally distributed. Because the number of observations exceeds 30, this aligns with the central limit theorem, which indicates that if n is greater than 30, the data tends to be normally distributed (Mclave, 2015). Therefore, further testing can proceed.

Path Analysis

In accordance with the research objectives, namely to test the effect of the Deferred Tax Ratio, Tax to Book Ratio, and Debt Policy on Profitability, a quantitative analysis was carried out that was relevant to the research objectives, namely by using path analysis. The structural relationship between the two variables can be formulated into a structural equation. The structural form in this study is as follows: $Y = \rho_{YX1}X1 + \rho_{YX2}X2 + \rho_{YZ}Z + \epsilon_2$

where:

- Y = Profitability
- X1 = Deferred Tax Ratio
- X2 = Tax to Book Ratio
- Z = Debt Policy
- ϵ_2 = epsilon sub structure 2

Based on the results of calculations and data processing using SPSS 25.0, the path coefficients of the Deferred Tax Ratio, Tax to Book Ratio, and Debt Policy on Profitability are obtained, as shown in the table below.

Table 4.3. Sub Structure Path Coefficient 2

Variable	Path Coefficient	t _{count}	p-value	R-Square	1- R-Square
X1 → Y	-0,481	-5,950	0,000	0,258	0,742
X2 → Y	0,105	1,302	0,195		
Z → Y	-0,114	-1,405	0,163		

Source: SPSS Output Appendix

From table 4.3, the total influence of the Deferred Tax Ratio, Tax to Book Ratio, and Debt Policy variables on Profitability is 0.258 or 25.8%, while the remaining 74.2% is the influence of other factors outside the independent variables. The following is the path equation.

$$Y = -0.481X1 + 0.105X2 - 0.114Z + 0.742$$

Based on the equation above, it is clear that the path coefficient of the Deferred Tax Ratio to Profitability variable is -0.481, showing a negative relationship, meaning that as the Deferred Tax Ratio increases, Profitability decreases.

The path coefficient of the Tax to Book Ratio variable to Profitability is 0.105, demonstrating a positive relationship, meaning that as the Tax to Book Ratio increases, Profitability also increases.

The path coefficient of the Debt Policy variable to Profitability is -0.114, indicating a negative relationship, meaning that as the Debt Policy increases, Profitability decreases.

4.2 The Effect of Deferred Tax Ratio, Tax to Book Ratio, and Debt Policy on Profitability

The path diagram of the decomposition model is as follows:

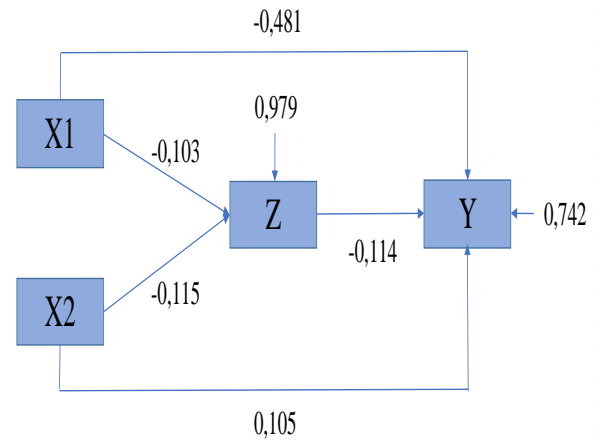


Figure 4.1 Path Diagram of the Influence of Deferred Tax Ratio, Tax to Book Ratio, and Debt Policy on Profitability

4.2.1 Hypothesis Testing

4.2.1.1 Effect of Deferred Tax Ratio on Debt Policy

The assumption being examined is the impact of Deferred Tax Ratio on Debt Policy, thus partial testing is performed with these hypotheses.

H0: $\rho_{Zx1} = 0$; there is no meaningful impact of Deferred Tax Ratio on Debt Policy.

H1: $\rho_{Zx1} \neq 0$; there is a meaningful impact of Deferred Tax Ratio on Debt Policy.

Table 4.5 Test Results of the Effect of Deferred Tax Ratio on Debt Policy

Path Coefficient	t _{count}	p-value	H ₀	H ₁
-0,103	-1,122	0,264	Diterima	Ditolak

Source: SPSS Output Appendix

Based on the test outcomes in the table above, it can be observed that the t-value is -1.122 and the p-value is 0.264. Since the p-value (0.264) > 0.05, it is determined that H0 is accepted and H1 is rejected. This indicates that there is no significant impact of the Deferred Tax Ratio on Debt Policy.

4.2.1.2 Effect of Tax to Book Ratio on Debt Policy

The hypothesis to be tested is the effect of Tax to Book Ratio on Debt Policy, so partial testing is carried out with the following hypotheses.

H0: $\rho_{Zx2} = 0$; there is no significant effect of Tax to Book Ratio on Debt Policy.

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H1: $\rho Zx2 \neq 0$; there is a significant effect of Tax to Book Ratio on Debt Policy.

Table 4.4 Results of Testing the Effect of Tax to Book Ratio on Debt Policy

Path Coeffisien	t _{count}	p-value	H ₀	H ₁
-0,115	-1,248	0,215	Diterima	Ditolak

Source: SPSS Output Appendix

Based on the test results in the table above, it can be seen that the t-value is -1.248 and the p-value is 0.215. Because the p-value (0.215) > 0.05, it is concluded that H₀ is accepted and H₁ is rejected. This means that there is no significant effect of the Tax to Book Ratio on Debt Policy.

4.2.1.3 Effect of Deferred Tax Ratio on Profitability

The hypothesis to be tested is the effect of the Deferred Tax Ratio on Profitability, so a partial test is carried out with the following hypothesis.

H₀: $\rho Yx1 = 0$; there is no significant effect of the Deferred Tax Ratio on Profitability.

H₁: $\rho Yx1 \neq 0$; there is a significant effect of the Deferred Tax Ratio on Profitability.

Table 4.5 Test Results of the Effect of the Deferred Tax Ratio on Profitability

Path Coeffisien	t _{count}	p-value	H ₀	H ₁
-0,481	-5,950	0,000	Ditolak	Diterima

Source: SPSS Output Appendix

Based on the test results in the table above, it can be seen that the t-value is -5.950 and the p-value is 0.000. Because the p-value (0.000) < 0.05, it is concluded that H₀ is rejected and H₁ is accepted. This means that there is a significant effect of the Deferred Tax Ratio on Profitability.

4.2.1.4 Effect of Tax to Book Ratio on Profitability

The hypothesis to be tested is the effect of Tax to Book Ratio on Profitability, so partial testing is carried out with the following hypotheses.

H₀: $\rho Yx2 = 0$; there is no significant effect of Tax to Book Ratio on Profitability.

H₁: $\rho Yx2 \neq 0$; there is a significant effect of Tax to Book Ratio on Profitability.

Table 4.5 Results of Testing the Effect of Tax to Book Ratio on Profitability

Path Coeffisien	t _{count}	p-value	H ₀	H ₁
0,105	1,302	0,195	Accepted	Rejected

Source: SPSS Output Appendix

Based on the test results in the table above, it can be seen that the t-value is 1.302 and the p-value is 0.195. Because the p-value (0.195) > 0.05, it is concluded that H₀ is accepted and H₁ is rejected. This means that there is no significant effect of Tax to Book Ratio on Profitability.

4.2.1.5 Effect of Debt Policy on Profitability

The hypothesis to be tested is the effect of Debt Policy on Profitability, so partial testing is carried out with the following hypotheses.

H₀: $\rho YZ = 0$; there is no significant effect of Debt Policy on Profitability.

H₁: $\rho YZ \neq 0$; there is a significant effect of Debt Policy on Profitability.

Table 4.9 Test Results of the Effect of Debt Policy on Profitability

Path Coeffisien	t _{count}	p-value	H ₀	H ₁
-0,481	-1,405	0,163	Diterima	Ditolak

Source: SPSS Output Attachment

Based on the test results in the table above, the t-value can be seen as -1.405 and the p-value is 0.163. Because the p-value (0.163) > 0.05, it is concluded that H₀ is accepted and H₁ is rejected. This means that there is no significant effect of Debt Policy on Profitability.

4.2.1.6 Effect of Deferred Tax Ratio on Profitability through Debt Policy

The hypothesis under examination is the influence of the Deferred Tax Ratio on Profitability via Debt Policy, thus the subsequent hypothesis test is performed.

H₀: $\rho YZX1 = 0$; there is no meaningful influence of the Deferred Tax Ratio on Profitability via Debt Policy.

H₁: $\rho YZX1 \neq 0$; there is a meaningful influence of the Deferred Tax Ratio on Profitability via Debt Policy.

Utilizing the Sobel test formula as demonstrated:

$$z = \frac{ab}{\sqrt{(b^2SEa^2) + (a^2SEb^2)}}$$

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The following details of the values were obtained:

A	=	-1,842
B	=	-0,145
a ²	=	3,393
b ²	=	0,021
Sea	=	1,642
Seb	=	0,103
SEa ²	=	2,696
SEb ²	=	0,011
Ab	=	0,267
b ² SEa ²	=	0,057
a ² SEb ²	n=	0,036
b ² SEa ² + a ² SEb ²	=	0,093
Akar (b ² SEa ² + a ² SEb ²)	=	0,304
Z	=	0,877

Table 4. 2 Result Sobel Test

Zcount	t _{table} (5%)	Conclusion
0,877	1,96	No Significant Impact

Based on the test results, the Z score value is 0.877 as compared to the t-table which is 1.96 so the Z score is less than the t-table or 0.877.

4.2.1.7 Effect of Tax to Book Ratio on Profitability through Debt Policy

As the hypothesis to be tested is the impact of deferred tax rate on profitability due to debt policy, the following hypothesis test is carried out: H0: ρYZX1 = 0; There is no significant impact of tax/book ratio on profitability due to debt policy.

H1: ρYZX1 ≠ 0; tax rate has a significant effect on profitability through debt policy.

We use the Sobel test formula as follows:

$$z = \frac{ab}{\sqrt{(b^2SEa^2) + (a^2SEb^2)}}$$

The following details of the values were obtained:

A	=	-0,019
B	=	-0,145
a ²	=	0,000361
b ²	=	0,021
Sea	=	0,016
Seb	=	0,103

SEa ²	=	0,000256
SEb ²	=	0,011
Ab	=	0,003
b ² SEa ²	=	0,000005
a ² SEb ²	=	0,000004
b ² SEa ² + a ² SEb ²	=	0,000009
Akar (b ² SEa ² + a ² SEb ²)	=	0,003
Z	=	0,908

Table 4. 3 Result Sobel Test

Zcount	t _{table} (5%)	Conclusion
0,908	1,96	No Significant Impact

Based on the test results, the z-count value is 0.908 compared to the t-table of 1.96, so the z-count is smaller than the t-table or 0.98 < 1.96 so that H0 is accepted and H1 is rejected, meaning that there is no significant influence of the Tax to Book Ratio on Profitability through Debt Policy.

V. CONCLUSION AND SUGGESTIONS

The analysis concludes that the Deferred Tax Ratio does not significantly influence Profitability through Debt Policy based on the provided z-value. This finding implies that any potential mediation effect of Debt Policy on the relationship between Deferred Tax Ratio and Profitability is not statistically significant.

The analysis concludes that the Tax to Book Ratio does not significantly influence Profitability through Debt Policy based on the provided z-value. This finding implies that Debt Policy does not serve as a meaningful mediator in the relationship between the Tax to Book Ratio and Profitability.

Companies should be cautious in assuming that changes in the Tax to Book Ratio will impact profitability through adjustments in debt management. Investors may want to focus on direct relationships and other financial metrics rather than relying on potential indirect pathways when evaluating profitability.

VI. ACKNOWLEDGEMENTS

Numerous related parties are included in this research activity. Our most profound appreciation to Widyatama College, particularly to the pioneers who have concurred to coordinate within the tridharma of higher instruction for investigate movement reserves in 2023/2024, which alludes to the Inquire about Work Usage Assention Letter number 011/SPC3/LP2M-UTAMA/II/2024 on February 29th, 2024

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