TAX01
INFLUENCE OF BOOK TAX GAP TOWARDS EARNINGS PERSISTENCE AND FIRM VALUE FOR THE PERIOD OF 1999 – 2007

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Field of Research : Taxation
ABSTRACT

The purpose of this research is to prove whether Book Tax Gap (BTG) performed by companies listed in Indonesian Stock Exchange (excluding finance companies) during the period of 1999-2007 has influence towards earnings persistence and firm value. The analysis of BTG influence towards earnings persistence uses three models and the analysis of BTG influence towards firm value uses also three proxies of firm value.

The first model of earnings persistence is confirmed that only companies with large negative BTG have lower earnings persistence compared to companies with small BTG. However, for companies with large positive BTG, the influence of BTG is not proven. The result of the second and the third analysis of earnings persistence show that BTG do not have influence towards pre tax book income and net profit changes.

In analyzing BTG influence towards firm value, this research provides evidence that BTG has influence towards future performance which was measured by future cash flow. Nevertheless, this research still cannot find the evidence that BTG is related with stock return.

Keywords:
I. Introduction

Book tax gap (BTG) is defined as the differences between accounting income and taxable income. The differences arise from the different standard used in accounting and tax, which have different purposes, in calculating income. The result is the difference between the amount of tax actually paid and the amount recognized in financial statement.

Generally, the differences arise between accounting and taxable income can be divided into temporary and permanent difference. Temporary differences arise as a result of timing difference, and permanent differences arise as a result of the standard used to recognize income. These differences will affect not only the actual amount of tax paid, but also several accounting accounts such as tax expense, asset and liabilities. Therefore the book tax gap is considered to a potential tool in assessing firm value for investors, as an important user of financial statement.

Many researches about BTG have been done, in Indonesia and abroad. The results of these previous researches showed that BTG has relevant values (Joos et al, 2000; Hanlon, 2005; Tang, 2008; Jackson, 2009; Wijayanti, 2006; Wirya andari and Yulianti, 2009; Persada, 2009; Nainggolan, 2010). Hanlon (2005) found that BTG influences earnings persistence, accrual value, and the future cash flow. Whereas Jackson (2009) stated that since financial accounting give more flexibility in reporting compared to tax, then the larger BTG showed lower earnings quality.
Jonas and Blanchet (2000) in Persada (2009) stated that earnings persistence is often used as a proxy of earnings quality since it has predictive value element. Considering that earnings persistence has relevant value, then the information of BTG which influences earnings persistence can also help investor in deciding earnings quality and firm value.

This research tries to evaluate whether BTG of companies listed in Indonesian Stock Exchange influences earnings persistence, similar to the findings of Wijayanti, 2006; Wiryandari and Yulianti, 2009 and also Persada, 2009. Moreover, this research will also try to prove whether BTG influences firm values, which are proxies by future net income and operating cash flow and also stock return.

The difference of this research from the previous is that this research uses data with longer period, which is from 1999 until 2007, for all companies listed in Indonesia Stock exchange except finance companies. In 1999, accounting standard of deferred tax had been issued and companies in Indonesia started to implement it (even though the mandatory implementation is 2001). The length of period used in this research is expected can capture phenomenon of BTG in relating to earnings persistence and firm value of companies listed in Indonesian Stock Exchange.

II. Previous Researches and Hypotheses Development

The differences between accounting and taxable income (BTG) indicates of earnings persistence, accrual value, and next year cash flow. A company having large BTG
tends to have small future earnings persistence. A company having a positive BTG (accounting income is larger than taxable income) will give negative expectation of future earnings for investors (Hanlon, 2005). Joos et al. (2000) proved that a company with a large temporary BTG, positive and negative, has a low earnings quality.

The research regarding BTG and earnings persistence in Indonesia had been done, such as Wijayanti (2006), Wiryandari and Yulianti (2009) and Persada (2009). Wijayanti (2006) found that BTG significantly has negative effect towards earnings persistence for the next one period and a company with large (negative) positive BTG has lower earnings persistence caused by accrual component. This result was similar to the finding of Wiryandari and Yulianti (2009). While Persada (2009) found that BTG, temporary and permanent, has significant influence towards earnings persistence measured by the earnings growth.

With reference to the research outcomes of Joos et al, (2000) and Wijayanti (2006), the research hypotheses are:

**H1a**: A company with large positive BTG has lower earnings persistence than a company with small BTG.

**H1b**: A company with large negative BTG has lower earnings persistence than a company with small BTG.

Jackson (2009) stated that since earnings persistence is expected to be future earnings, so there are two elements which able to represent the earnings persistence, changes of Pre Tax Book Income (PTBI) and Net Income (NI). Therefore, this research
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will also use Pre Tax Book Income and Net Income changes as done by Persada (2009), as
the proxy of earnings persistence. And the hypotheses are:

H2 : BTG has influence towards Pre Tax Book Income changes.

H3 : BTG has influence towards Net Profit changes.

Palepu, Healy, Bernard (2000) in Yulianti (2005) said that the larger company’s
BTG then the investor has to be more careful in using the company’s financial statement
the larger management incentive to do earnings management will make larger BTG.

Refer to the above, the researches in relation to BTG are usually also related to firm
value. Tanusdjaja (2006) in Nainggolan (2010) performed a research about the influence of
defered tax asset (DTA) and deferred tax liability (DTL) towards stock price (price level).
The finding of Tanusdjaja’s research showed that DTA has positive influence while DTL
does not have significant influence towards stock price. Tang (2008) said that the relevant
value of book tax difference (BTD) in assessing future income can be seen from normal
BTD (NBTD) and abnormal BTD (ABTD), on which NBTD and ABTD has negative
correlation with future income. Nainggolan (2010) replicated Tang’s research (2008) and
found that there is negative (positive) influence of ABTD (NBTD) towards earnings
response coefficient (ERC).

Based on the above researches, hypothesis proposed is:

H4 : BTG has negative influence towards firm value
III. Research Methodology

III.1. Model and Operational Definition of Research Variable

Three regression models developed to analyze earnings persistence are as follows:

Model 1:

\[ \text{PTB}_{t+1} = \alpha + \beta_1 \text{LPBTG}_t + \beta_2 \text{LNBTG}_t + \beta_3 \text{PTBI}_t + \beta_4 \text{LPBTG}_t \times \text{PTBI}_t + \beta_5 \text{LNBTG}_t \times \text{PTBI}_t + \varepsilon \]  

Model 2:

\[ \Delta \text{NI} = \alpha + \beta_1 \text{BTG}_t + \beta_2 \text{SIZE}_t + \beta_3 \text{ROA}_t + \varepsilon \]  

Model 3:

\[ \Delta \text{PTBI} = \alpha + \beta_1 \text{BTG}_t + \beta_2 \text{SIZE}_t + \beta_3 \text{ROA}_t + \varepsilon \]  

PTB<sub>t+1</sub> : pre tax book income for period t+1/total asset, as proxy of first earnings persistence  
LPBTG : large positive book tax gap  
LNBTG : large negative book tax gap  
PTB<sub>t</sub> : pre tax book income for period t/total asset  
\( \Delta \text{NI} \) : net income changes (net income for period t+1 deducted by net income for period t)/total asset, as proxy of second earnings persistence  
\( \Delta \text{PTBI} \) : pre tax book income changes (pre tax book income for period t+1 deducted by pre tax book income for period t)/total asset, as proxy of third earnings persistence  
BTG : book tax gap (pre tax income – taxable Income)/total asset  
SIZE : size of company, using ln of total asset  
ROA : return on asset changes (net income/total asset) = ROA for period t+1 deducted by ROA for period t

This first model adheres to the model of Wijayanti (2006). Samples of the firms were divided into three groups:
1. Large positive book tax gap (LPBTG) is differences between accounting income and taxable income, by which accounting income is larger than taxable income. LPBTG is obtained by sorting BTG per year, then 20% of the highest rank from the samples representing LPBTG group is given code 1, and the others are given code 0.

2. Large negative book tax gap (LNBTG) is differences between accounting income and taxable income, by which accounting income is lower than taxable income. LNBTG is obtained by sorting BTG per year, then 20% of the lowest rank from the samples representing LNBTG group is given code 1, and the others are given code 0.

3. Small book tax gap is the rest subsample after determining LPBTG and LNBTG. If a company has large positive (negative) BTG, it is hypothesized that it will have lower earnings persistence compared to a company with small book tax gap, then $\beta_4 < 0$ and $\beta_5 < 0$.

The second and the third model of this research replicated the research of Persada (2009), except BTG in this research is not separated into permanent and temporary differences as done by Persada (2009). Moreover, this research only using company's size and ROA as control variable.

Furthermore, the model to analyze the influence of BTG towards firm value is as follow:

$$\text{Value} = \alpha + \beta_1 \text{BTG} + \beta_2 \text{TACC} + \beta_3 \text{SKP} + \beta_4 \text{DISC} + \beta_5 \text{SIZE} + \beta_6 \text{CAPI} + \beta_7 \text{INVI} + \beta_8 \text{CFO} + \beta_9 \text{LEV} + \beta_{10} \text{AF} + \beta_{11} \text{IND} + \epsilon \quad (4)$$
Value: firm value measured by three proxies:
- net income of next period / total asset
- operating cash flow of next period / total asset
- cumulative abnormal return, 30 days after 31 March

TACC: earning management measured by total accrual / total asset
SKP: earning management with dummy variables, 1 for companies having SKP and 0 for the other.
DISC: income tax disclosure index, taken from research of Martani et al. (2010)
LEV: leverage measured by long term liability / total asset
CAPI: capital intensive measured by total fixed asset / total asset
INVI: inventory intensive measured by total inventory / total asset
AF: affiliation/consolidation, dummy variable 1 for company having affiliation/consolidation and 0 for others
Ind: dummy variable 1 for manufacture companies and 0 for others
CFO: operating cash flow / total asset

III.2. Samples

All companies listed in Indonesian Stock Exchange for the period of 1999-2007 are used as research samples, except companies in finance industry. The 1999 is the starting point since PSAK No. 46 was issued in this year so that this research is able to see how the application improvement of PSAK No. 46 from the commencement until the most recent year. This research is limited until 2007 as this research is using 2008 income data. Accordingly, data used in this research is until the last data available (2008 data).

This research uses data from total population, except incomplete and ineligible data because some reasons since the purpose of this research is explorative research and the regression analysis has considerate industry element as control variable.
IV. Result and Analysis

IV.1. The Influence of Book Tax Gap towards Earnings Persistence

As discussed before that there are three models of earnings persistence used in this research. Prior regression test, we do classic assumption test whether the data are free from autocorrelation problem, heteroskedasticity and multicolinearity. Durbin Watson score of the three models (table 1) come near to number 2 which mean that there is no autocorrelation problem. Independent variables in these three models do not have multicolinearity problem showed by score of VIF fewer than 10. These models also do not have heteroskedasticity problem because data is processed using white heteroskedasticity tool in eviews 7 software.

Based on score of F stat, it can be seen that three models are appropriate and can be used to perform regression test. The score of adjusted R square is 32%, 91,7% and 68,7% for model 1, model 2 and model 3.

The first model of earnings persistence replicates the research of Wijayanti (2006). However, this research uses total data of companies available during the year of 1999 – 2008, except companies in finance industry. Furthermore, this research also uses companies data having loss and gain, as suggested by Wijayanti (2006) and done by Persada (2009).

The first regression model (table 1) shows that companies having large negative BTG have lower earnings persistence compared to companies with small BTG (with 90% level of confidence), while companies having large positive BTG do not have lower
earnings persistence based on this research. Consequently, hypothesis H1b is proven, but H1a is unproven. This result is different from Wijayanti (2006) and from Wiryandari and Yulianti (2009) which found that companies with large positive BTG had lower earnings persistence compared to small BTG companies.¹

The second and third models of earnings persistence replicate the model of Persada (2009), except BTG in this research is not separated into permanent and temporary difference as done by Persada (2009). In addition, this research is only using “company size” and “ROA” as control variable. The research’s outcomes from the second and third models (table 1) are not confirmed that BTG influences earnings persistence so hypothesis H2 and H3 are not proven. This result is different from Persada (2009) which confirmed that BTG separated into permanent and temporary differences influences earnings persistence.

Moreover, company size does not influence significantly both in model 2 and model 3. This result does not comply with Persada (2009) that found size influence net income changes positively. But this result is support Manzon and Plesko (2002) in Persada (2009) finding that size was not proven has influence towards pre tax book income changes. Whilst for ROA changes as control variable for short term and long term income, this research finds the positive and significant influence of this variable towards earnings persistence. This result is parallel to Persada (2009) and Lev and Nissim (2004).

¹ Researchers also test the first model by using manufacture companies’ data only. It finds that there is no significant independent variable influencing next period pre tax book income. Hence companies having larger positive (negative) BTG are not proven to have lower earnings persistence compared to companies with small BTG. As a result, BTG does not have influence towards earnings persistence.
The researcher afterwards tests the second and the third model by using only manufacture companies’ data. The result (table 2 and table 3) prove that BTG influences earnings persistence so hypothesis H2 and H3 are proven for manufacture companies with level of confidence 95% and 90%. Direction of BTG influence towards earnings persistence is positive. This may be caused by BTG variable of sample companies mostly consist of permanent differences with positive value (BTG value in average is positive). Similar to Jackson (2009), permanent BTG was expected to have negative correlation with tax expense because theoretically permanent BTG would make lower tax expense so that income growth would be higher. This result supports Lev and Nissim (2004) which predicts that permanent BTG had positive correlation with the income growth, both net income and pre tax book income.

IV.2. Influence of Book Tax Gap towards Firm Value

Proxies of firm value used in this research are three, i.e., 1) next period net income (NIt+1), 2) next period operating cash flow (CFOt+1) and 3) cumulative abnormal return 30 days after 31 March (CAR). Total data processed in model 4 is 977 (for NIt+1), 1001 (for CFOt+1) and 788 (for CAR).

Similar to the previous analyses, the researchers firstly perform classic assumption test of autocorrelation, heteroskedasticity and multicolinearity. The score of Durbin Watson of the three models come close to number 2, meaning that there is no autocorrelation problem. Independent variables in these models also do not have problem

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2 Formerly, the analysis is done by entering current period net income as one of control variable. Nevertheless, there is multicolinearity problem. Afterward, variable of current period net income is removed from the model in order to be free from multicolinearity problem.
in multicolinearity. As previous models, there is also no heteroskedasticity problem in model 4 because all data processed by using white heteroskedasticity tool in software eviews 7.

Table 4 shows result of the three models of firm value. From the significance of score F, it is seen that the three models are good models since the significant score is under 5%, even though the score of adjusted R square is small. The score of adjusted R square which is small shows that there are many other variables, beyond the independent variables used, that may influence dependent variables.

Table 4 shows that BTG has positive influence towards next period net income and operating cash flow, but it is only significant for operating cash flow\(^3\). This result does not comply with hypothesis H4 which states that BTG has negative influences towards firm value. But this result provides the same direction as the result of Persada (2009) that temporary differences give positive significant influence towards net income. The average BTG value of companies’ samples is negative, by which mostly are temporary differences. Hence, the positive BTG direction may be caused by BTG components of company samples mostly are temporary differences with negative value. So this condition will make future deductible temporary differences and followed by lower future income tax.

Meanwhile, for model with dependent variable CAR, this result is consistent with Nainggolan (2010) that does not find significant influence of BTG towards CAR. But even though it is not significant, the negative direction of BTG consistent with Tang (2008) who

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\(^3\) Researchers also test model 4 by using only manufacture companies’ data. The result is that BTG has positive and significant influence towards next period net income (with 90% level of confidence) and operating cash flow (with 95% level of confidence).
found negative correlation between book tax differences with return in China stock exchange.

This research tries to put in some new variables predicted having influence towards BTG and later firm value, they are tax disclosure index, earning management (proxied by total accrual and underpaid tax assessment letter/SKPKB) and affiliation/consolidation. The result of this research fails to prove that tax disclosure index and the existence of affiliation/consolidation have influences towards three proxies of firm value. This may be caused by tax disclosure index only represents a small part of disclosure index of P3LKE Bapepam-LK so that it less reflects level of disclosure in general.

Variables of TACC and SKP, as proxies of earnings management, are proven to have positive significant influence towards next period net income and operating cash flow. Positive coefficient of TACC means that the larger earnings management done by company will increase next period firm value. This result shows that earnings management done by company tends to be the efficient than opportunistic earnings management, which is different from Fitriasari (2007), since it can give a predictive value to financial statement users about future earnings and cash flow.

The second proxy of earnings management, whether companies having SKPKB or not, the result of this research shows that companies having SKPKB possess larger next period net income and operating cash flow. This outcome may be caused by companies having SKPKB will act more careful in performing earnings management so that the BTG will be lower and the next it will create larger firm value.
This research also enters other independent variables that previous researches found have influence towards BTG, such as size (Derashid and Zhang, 2003; Richardson and Lanis, 2007), leverage (Stickney and McGee, 1982; Gupta and Newberry, 1997; Derashid and Zhang, 2003; Richardson and Lanis, 2007), capital intensive and inventory intensive (Stickney and McGee, 1982; Gupta and Newberry, 1997; Derashid and Zhang, 2003; Richardson and Lanis, 2007; Soepriyanto, 2008), and industry type (Derashid and Zhang, 2003). The result related to control variables is mixed. The company size have positive significant influenced to the next year net income (support Persada (2009)) but has negative significant influenced towards CAR. Current period operating cash flow has positive significant influence towards next period net income (parallel to Sloan (1996), Hanlon (2005), and Jakson (2009)) and operating cash flow. While the type of manufacture companies only has significant positive influence towards CAR.

Variable of capital intensive (CI) only have negative significant influences towards next period net income whereas inventory intense (InvI) only influences next period operating cash flow with negative direction. This shows that companies performing more capital intensive will influence negatively to the next period net income, while companies performing more inventory intensive will influence negatively towards next period operating cash flow.
V. Conclusion and Limitation

The purpose of this research is to prove that BTG performed by companies listed in Indonesian Stock Exchange (excluding finance companies) during the period of 1999-2007 has influence towards earnings persistence and firm value. The test of BTG influence toward earnings persistence uses three models and the test of BTG influence toward firm value also uses three proxies of firm value.

The first model of earnings persistence confirms that only companies with large negative BTG has lower earnings persistence compared to companies with small BTG however it is not proven for companies with large positive BTG. This result does not support the research’s finding of Wijayanti (2006) and Wirandari with Yulianti (2009).

The results of the second and third models of earnings persistence show that BTG does not have influence towards pre tax book income and net income changes. Although, if samples used are only manufacture companies, it is confirmed that BTG positively influences pre tax book income and net income changes. This positive direction may be caused by BTG components of company samples mostly are permanent temporary differences with positive value. These positive permanent differences will make lower tax expense so that it will produce higher income.

For the regression analysis of correlation BTG with firm value, the result shows that BTG only positively influences next period operating cash flow. This positive direction is possibly caused by mostly BTG components of company samples are temporary
differences with negative value. So, this will cause future deductible temporary differences and as a result it will make lower future income tax.

This research has some limitation. First, earnings persistence model does not include variable of pre tax operating cash flow and pre tax accrual income which are proven have influence towards earnings persistence. Second, BTG used in this research is not separated into temporary and permanent differences like Persada (2009). Therefore, it is suggested for the next research to input variable of pre tax operating cash flow and pre tax accrual income in earnings persistence model and also to separate the value of BTG into temporary and permanent differences, so that the result of BTG influence towards earnings persistence and firm value can be more assured. Furthermore, considering this research finding in the second and third models of earnings persistence that BTG has influence towards earnings persistence for manufacture companies, so for the next research, it is recommended to perform analysis for each industry compared to analysis of companies in a whole.

For model of BTG influence towards firm value, the result of this research does not comply with the hypothesis. This may be caused by proxy of firm value that is nor so accurate. Therefore, it is suggested for the next research to find other proxies of firm value, such as earnings response coefficient/ERC as used by Nainggolan (2010).
References


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APPENDIX

Table 1. Result of Regression Model of Earnings persistence

\[
PTBI_{(t+1)} = b_0 + b_1PTBI_{(t)} + b_2LPBTG_{(t)} + b_3LNBTG_{(t)} + b_4LPBTG_{(t)} \times PTBI_{(t)} + b_5LNBTG_{(t)} \times PTBI_{(t)} + e
\]

\[
\Delta NI = b_0 + b_1BTG_{(t)} + b_2ROA_{(t)} + b_3SIZE_{(t)} + e
\]

\[
\Delta PTBI = b_0 + b_1BTG_{(t)} + b_2ROA_{(t)} + b_3SIZE_{(t)} + e
\]

<table>
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<tr>
<th>Variable</th>
<th>Model 1</th>
<th></th>
<th>VIF</th>
<th>Model 2</th>
<th></th>
<th>VIF</th>
<th>Model 3</th>
<th></th>
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<td>(Constant)</td>
<td>-0.002</td>
<td>0.762</td>
<td>1.16</td>
<td>-0.009</td>
<td>0.501</td>
<td>6.536</td>
<td>0.707</td>
<td>96.536</td>
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<tr>
<td>PTBI</td>
<td>0.809</td>
<td>*** 2.007</td>
<td>2.007</td>
<td>0.018</td>
<td>0.166</td>
<td>1.315</td>
<td>2.007</td>
<td>1.162</td>
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<tr>
<td>LPBTG</td>
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<td>0.166</td>
<td>1.315</td>
<td>-0.006</td>
<td>0.548</td>
<td>1.126</td>
<td>-0.006</td>
<td>1.315</td>
</tr>
<tr>
<td>LNBTG</td>
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<td>0.548</td>
<td>1.126</td>
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<td>0.136</td>
<td>1.683</td>
<td>-0.226</td>
<td>1.683</td>
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<td>LPBTG*PTBI</td>
<td>-0.226</td>
<td>0.136</td>
<td>1.683</td>
<td>-0.286</td>
<td>0.085</td>
<td>* 1.619</td>
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<td>0.005179</td>
<td>0.741</td>
<td>1.004</td>
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<td>ROA</td>
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<td>*** 1.001</td>
<td>1.001</td>
<td>0.812440</td>
<td>0.000</td>
<td>*** 1.001</td>
<td>0.8584</td>
<td>*** 1.001</td>
</tr>
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<td>SIZE</td>
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<td>1.003</td>
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<td>0.997</td>
<td>1.003</td>
<td>0.0008</td>
<td>0.246</td>
</tr>
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</table>
| F Model         | 95.146  |            | 3688.987| 732.000
| Significants F  | 0.000   |            | 0.000|          | 0.000      | 0.000| 0.000   | 0.000      |
| Adj. R Square   | 0.320   | 0.917      | 1.874| 0.687   |            |       | 0.320   | 0.917      |
| Durbin Watson   | 1.976   | 2.090      |       | 1.874   |            |       | 1.976   | 2.090      |


* significant 10%
*** significant 1%

Table 2. Result of Regression Model 2: Earnings persistence of Manufacture Company

Dependent Variable: DNI
Method: Least Squares
Included observations: 548 after adjustments
White heteroskedasticity-consistent standard errors & covariance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
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<td>C</td>
<td>69.59967</td>
<td>140.4755</td>
<td>0.495458</td>
<td>0.6205</td>
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</table>
Table 3. Result of Regression Model 3: Earnings persistence of Manufacture Company

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>ROA</td>
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<td>0.069459</td>
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<td>0.0000</td>
</tr>
<tr>
<td>SIZE</td>
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<td>0.001771</td>
<td>-1.171808</td>
<td>0.2418</td>
</tr>
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</table>

R-squared: 0.928335
Adjusted R-squared: 0.927940
F-statistic: 2348.950
Durbin-Watson stat: 2.051611
Prob(F-statistic): 0.000000

Table 4. Result of Regression Model 4: BTG Influence toward Company Value

\[
\begin{align*}
\text{NI}(t+1) &= b_0 + b_1 \text{BTG} + b_2 \text{DISC} + b_3 \text{EM1} + b_4 \text{EM2} + b_5 \text{SIZE} + b_6 \text{LEV} + b_7 \text{AF} + b_8 \text{InvI} + b_9 \text{CI} + b_{10} \text{CFO} + b_{11} \text{IND} + \epsilon \\
\text{CFO}(t+1) &= b_0 + b_1 \text{BTG} + b_2 \text{DISC} + b_3 \text{EM1} + b_4 \text{EM2} + b_5 \text{SIZE} + b_6 \text{LEV} + b_7 \text{AF} + b_8 \text{InvI} + b_9 \text{CI} + b_{10} \text{CFO} + b_{11} \text{IND} + \epsilon \\
\text{CAR} &= b_0 + b_1 \text{BTG} + b_2 \text{DISC} + b_3 \text{EM1} + b_4 \text{EM2} + b_5 \text{SIZE} + b_6 \text{LEV} + b_7 \text{AF} + b_8 \text{InvI} + b_9 \text{CI} + b_{10} \text{CFO} + b_{11} \text{IND} + \epsilon
\end{align*}
\]

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### The 3rd Accounting & The 2nd Doctoral Colloquium

**Bridging the Gap between Theory, Research and Practice:**

**IFRS Convergence and Application**

Faculty of Economics Universitas Indonesia

Bali-Indonesia, 27 - 28 Oktober 2010

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F Model 27.198  26.899  1.887
Significanti F  0.000  0.000  0.038
Adj. R Square 0.228  0.222  0.012
Durbin Watson 1.800  1.926  1.920

NI(t+1) = next period net income devided by total asset, CFO(t+1) = next period operating cash flow devided by total asset, CAR= cumulative abnormal return, BTG = book tax gap, DISC = tax disclosure index, TACC = total accrual, SKP = proxy of earnings management, 1 company having tax assessment letter (SKP) and 0 the others, SIZE = company size, LEV = leverage, AF = dummy variable, 1 company having affiliation or consolidation and 0 the others, InvI = inventory intensive, CapI = capital intensive, CFO = current period operating cash flow, IND = industry type, 1 for manufacture companies and 0 the others

* significant 10%  ** significant 5%  *** significant 1%