



## The Influence of Deferred Taxes and Tax to Book Ratio on Company Financial Performance

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### Abstract

The reason for conducting this research is to understand relationship the deferred tax variables and tax to book ratio influence a company's financial performance. The independent variables in the research conducted this time are deferred tax and tax to book ratio, then the fixed variable in the current research is financial performance. This research applies a quantitative approach, multiple linear regression is used as a statistical test, and to analyze the data the classical assumption test is used. By using manufacturing companies operating in the food and beverage sector that have been listed on the Indonesia Stock Exchange during 2020–2022 as the research population and sample. A total of 17 companies were used as purposive samples, which means the number of samples used was 51 observation data because. This research was conducted using the SPSS Version 25 program. This research was conducted using the SPSS Version 25 program. The obtained final results indicate that the coefficient value of deferred tax is 54.652 and that its significant value is  $0.014 < 0.05$ , while the coefficient value of the tax to book ratio is 3.866 and its significant value is  $0.000 < 0.05$ . It is deduced that the variable of the tax to book ratio has a significant positive effect on financial performance.

**Keywords:** Deferred Tax, Tax to Book Ratio, and Financial Performance

### 1. Introduction

It shows how well the company manages available finances for the attainment of set business goals. Financial performance is the determination of specific metrics that can measure the success of a company in generating profits (Artaningrum, 2020). A financial performance analysis will help companies to not only assess the various strengths and weaknesses in financial aspects but also comprehend growth trends and identify areas for improvement. It is also important to evaluate financial performance, not only for management in formulating strategic decisions, but also for the investors and other stakeholders to understand the financial health and future prospects of the company.

Evaluation of the financial performance of an organization is necessary whereby the investor considers many aspects of making any type of investment. The financial statements serve as a source of data applied in measuring the performances of business. In evaluating the financial performance, some common tools used to perform the measurement are profitability ratios. A profitability ratio to be employed by a company includes a net profit margin. The more the sales within a business, the more the profits a company will get.

These two elements that may impact a firm's financial performance include deferred taxes and the tax-to-book ratio. Deferred income taxes are the recognition of payable taxes that exist now or in the future, referring to the amount (Sipayung & Ismail, 2021). The definition related to the tax ratio can be found in the financial statements of a company, according to (Ainurrochman, 2023). According to (Putri, 2020), it can be stated that in the case of increasing differences between the commercial and fiscal profits of a company, the quality of the profit will, in turn, be low. The quality of the profits can be reflected in the company's tax-to-book ratio.

The manufacturing sector is important for any country's industry due to the fact that companies in this particular sector are higher in number as compared to other sectors, which in turn makes it an essential factor for economic development. A manufacturing company is a business entity within the industry that independently produces goods and sells them. Based on the explanation given by PMI Indonesia, throughout 2022, the manufacturing industry in Indonesia was still able to obtain high achievement levels. By the end of 2022, the index of the manufacturing PMI achieved 50.9 compared with the attainment in the previous month of 50.3, as reported by S&P Global. Indonesia's

manufacturing PMI index had kept showing an uptrend for one year and four months, starting from September 2021. The positive growth evidences that since the pandemic struck, Indonesia's manufacturing industry has grown and recovered. Yet the anticipated recession threat has echoed economic turmoil globally (Perindustrian, 2023).

This sector is among those driving the progress of Indonesia's economy. Because food and beverages are basic human needs, companies in the production of food and beverage sub-sector products are particularly attractive. Based on BPS data, in 2022, the food and beverage sector will pride itself on being the largest non-oil and gas processing industry in Indonesia (Katadata, 2022). If this happens with the manufacturing industry, it means the increase of state revenue is due to its good response to this development. One of the factors that enable companies to grow significantly is when they improve in terms of revenue and performance of their products.

Accordingly, related to the problems found, one of the food and beverage manufacturing companies, PT experienced a decline in profit consecutively. Sentra Food Indonesia TBK, whose annual report recorded a net profit decline from 2020 to 2022. In the year 2021, the company gave a loss of IDR 14 billion, which was pretty less compared to the loss in 2020 at IDR 17 billion. The company hopes to achieve better than the prior year during 2022, but in fact, during 2022, the company suffered a big loss of IDR 22 billion. Considering these problems, the company must optimize financial performance to better manage profits and avoid further losses.

This research is motivated by food and beverage companies listed on the IDX, which have gained continuously declining profits during the 2020-2022 period. The motivation for this triggers the researcher to conduct research with the title: "The Influence of Deferred Taxes and Tax-to-Book Ratio on Company Financial Performance (Study on Food and Beverage Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period of 2020-2022)."

## Literature Review

### Agency Theory

Agency relationships, as Jensen, define by a contract made by one or more principals (owners) who employ others (agents) and delegate decision-making authority. As part of the company owners, investors own a part of the company ownership and give the authority to the managers (agents) to manage the assets of the company. Economical growth and welfare are expected to be experienced by the investor due to delegation of authority. Agency theory mentions that an individual is motivated by his or her predominant interest and well-being. Agency theory describes how corporate

information transparency affects the level of financial performance. Management will attempt to maximize the performance of their company in order to provide a good image to the owners. In maximizing financial performance, management will seek to conduct proper tax management. Also, the management will transparently present the financial reports, present the deferred taxes in financial statements to assure investors that the business is carrying out its activities within the law.

### Performance Financial Performance

Performance is an outcome of a company either profit-oriented or non-profit-oriented over a period of time. Performance gives useful insights to business organizations to refine decisions and provides employees with a realistic perception of their actual performance. Financial performance, which represents the growth of a company and its ability to develop. Through the financial performance itself, it is able to be seen just how successful a company is (Putra, 2023). It can be considered the result of various decisions taken. Financial performance is considered good business performance that can provide profits. Good corporate performance can affect investment growth as well as ownership structure (Sipayung & Ismail, 2021).

### Measuring Financial Performance

Performance measurement is viewed as the process of monitoring different activities in the firm's value proposition during the accounting period, in order to establish how well the company or segment is doing. Such results from the measurement provide the feedback, which would be useful in implementing the plan and revealing a stage at which the business demands changes in organization and operational management. Businesses can measure the extent to which their objectives have been achieved through company performance measurement. Therefore, company management can determine whether the company is on the right track or otherwise.

The profitability of a company simply means the power of a company to generate income within a certain period. The profitability ratios are used as tests for a firm performance because they depict the efficiency of a company in employing its assets and sales to generate profits (Putra, 2023). One way of testing profitability is by employing the use of the formula for the determination of NPM.

### Deferred Taxes

Deferred tax is an accounting account that represents the amount of tax produced from the difference in approaches towards the calculation of profit for tax and accounting purposes. The differences in income recognition between taxation provisions and applicable accounting standards, which will cause differences in

book income and taxable profit, give rise to deferred tax expenses. Book tax differences are a way into earnings management, and these types of differences are deemed to inflate deferred tax expenses in turn (Hani et al., 2021). Therefore, the valuation of deferred tax assets will enable firms to determine their ability to pay their interest and debts. Thus, deferred tax assets will obtain sufficient fiscal benefits, which in turn allow firms to use them as their tax savings.

### Tax to Book Ratio

This is evidenced by (Putra, 2023) when he explained that the tax ratio is an indicator to assess book tax differences by comparing accounting profits with taxable profits. In this regard, it is important to mention that accounting profit, on the one hand, relies on financial standards, whereas taxable profit is based on a tax system. The Tax to Book Ratio may be also influential for business, enabling investors to perform and assess different types of risks by considering aspects related to compliance with tax laws. With the occurrence of such incidents due to compliance risks, investors or financial analysts can make moves that soften the risk of such an incident. It is according to (Sihombing & Hutabarat, 2023).

## 2. Methods

This research targets food and beverage manufacturing companies. Data used in this research are of quantitative data, which is obtained from financial reports from 2020 to 2022; this can be assessed on the website of Indonesia Stock Exchange. A sample of 22 companies was used over a period of 3 years; hence, the total sample used is 66. Data and information on the financial statement of the companies were collected from publicly accessible media. The multiple linear regression analysis has been adopted in this research, while SPSS 25 has been used to process and analyze the data.

## 3. Result and Discussion

After the data was analyzed, it turned out that it did not meet the requirements to use the multiple linear regression model. Therefore, the outlier removal process was carried out, resulting in 51 observation data points. Outlier data refers to cases where data points significantly differ from the rest. These extreme values can originate from a single variable or a combination of variables. There are four reasons why outlier data may appear: incorrect data entry, errors in determining missing values in a computer program, failure to recognize missing values in the sample population, and lastly, a sample population being taken where the distribution of variables is not normal.

**Table 1.**  
**Descriptive Statistic Results**

Descriptive Statistics					
Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Pajak Tangguhan	51	-.01239	.01771	.0000688	.00501593
Tax To Book Ratio	51	.13682	.95064	.7651061	.10031416
Kinerja Perusahaan	51	.00010	.29693	.1110431	.08350031

Through the descriptive statistical testing results from table 1, it is explained:

1. The deferred tax variable (X1) in food and beverage companies from 2020–2022 obtained a mean value of 0.0000688 and a standard deviation of 0.00501593. Since the deferred tax variable has a greater spread than the mean value, the conclusion is that the data in this variable has poor deviation.
2. The tax-to-book ratio variable (X2) in food and beverage manufacturing companies from 2020–2022 obtained a mean value of 0.7651061 and a standard deviation of 0.10031416. Therefore, the standard deviation of the tax-to-book ratio variable is smaller than the mean value. The conclusion is that the data in the tax-to-book ratio variable has good deviation, as it has a small spread.
3. The financial performance variable (Y) of food and beverage manufacturing companies from 2020–2022 obtained a mean value of 0.1110431 and a standard deviation of 0.08350031. Since the standard deviation of the financial performance variable is smaller than the average value, the conclusion is that the data in the financial performance variable has good deviation, as it has a small spread.

The normality test determines whether the accumulated data aligns with the predicted normal distribution. The following tests are used to perform the normality test:

### Kolmogorov-Smirnov Normality Test

The results From Table 2, show that the Asymp. Sig. (2-tailed) value is 0.200, indicating that the data is normally distributed because Asymp. Sig. (2-tailed)  $0.200 > 0.05$ . The conclusion is that the residuals analyzed are normally distributed.

**Table 2.**  
**Normality Test Results**  
 One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		51
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.73103689
Most Extreme Differences	Absolute	.106
	Positive	.079
	Negative	-.106
Test Statistic		.106
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

### Multicollinearity Test

From Table 3, the purpose of this test is to identify whether the independent variables are correlated. The Variance Inflation Factor (VIF) and Condition Index (CI) are commonly used to evaluate multicollinearity. The results of the multicollinearity test show no multicollinearity because the tolerance value of each variable is > 0.10 and the VIF value for each variable is < 10.

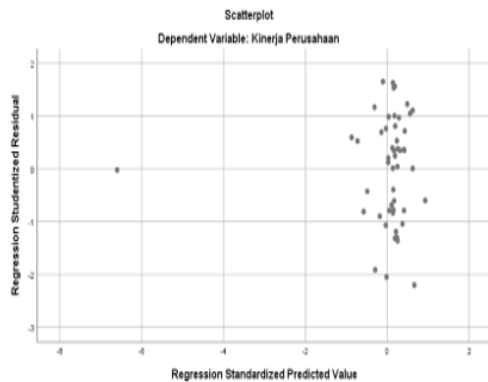
**Table 3.**  
**Multicollinearity Test Results**

Model		Collinearity Statistics	
		Tolerance	VIF
1	Pajak Tangguhan	1.000	1.000
	Tax To Book Ratio	1.000	1.000

a. Dependent Variable: Kinerja Perusahaan

### Heteroscedasticity Test

The heteroscedasticity test result from Fig. 1 is conducted to determine if there is inconsistency in the regression model regarding the variance of residuals across observations. The results show no symptoms of heteroscedasticity in this regression model, as the points are scattered randomly above and below 0 on the Y-axis.



**Figure 1. Scatterplot Test**

### Autocorrelation Test

The autocorrelation test is used when the research involves time-series data, where sequential observations over a certain period are interconnected. The results of the autocorrelation test indicate that the regression model does not exhibit symptoms of autocorrelation, as the Asymp. Sig. (2-tailed) value is 0.673 > 0.05.

### Multiple Linear Regression Analysis Results

**Table 4**  
**Multiple Linear Regression Analysis Results**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
		1	(Constant)	-2.446		
	Pajak Tangguhan	54.652	21.347	.217	2.560	.014
	Tax To Book Ratio	3.866	.422	.777	9.150	.000

a. Dependent Variable: Kinerja Perusahaan

From Table 4, the multiple linear regression model equation is as follows:

$$Y = -2,446 + 54,652 X_1 + 3,866 X_2 + e$$

Dimana:

Y = Financial performance

X<sub>1</sub> = Deferred tax

X<sub>2</sub> = Tax to book ratio

Multiple Linear Regression Equation Analysis: Here is the explanation of the multiple linear regression equation:

a. The constant value in the regression equation is -2.446, indicating that the financial performance would be -2.446 if the tax to book ratio and deferred tax are both zero (0).

b. The regression coefficient for the deferred tax variable is 54.652, which indicates that if the deferred tax increases, the financial performance will increase by 54.652, assuming the tax to book ratio remains constant.

c. The regression coefficient for the tax to book ratio variable is 3.866, showing that if the tax to book ratio increases, the financial performance will rise by 3.866, assuming the deferred tax variable is constant.

### Goodness of Fit Test (F Test)

According to (Ghozali, 2016), the Goodness of Fit test evaluates the quality of the regression function to statistically predict real values. The test results showed from Table 5, an F significance value (Fsig) of 0.000 < 0.05. The conclusion is that deferred tax and the tax to book ratio simultaneously have a significant effect on the financial performance of manufacturing companies. The regression model fits the observed data well and is suitable for use as an analytical tool to assess how deferred tax and the tax to book ratio impact financial performance.

**Table 5.**  
**Simultaneous Test Results**  
**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.416	2	25.208	45.282	.000 <sup>b</sup>
	Residual	26.721	48	.557		
	Total	77.136	50			

a. Dependent Variable: Kinerja Perusahaan

b. Predictors: (Constant), Tax To Book Ratio, Pajak Tangguhan

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

The coefficient of determination from Table 6, measures how well a model explains the variability of the dependent variable. A higher R<sup>2</sup> value indicates that the independent variables better explain the dependent variable, while a lower R<sup>2</sup> indicates a lesser ability to explain it.

**Table 6**  
**Coefficient of Determination Test (R<sup>2</sup>) Results**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.808 <sup>a</sup>	.654	.639	.74611140

a. Predictors: (Constant), Tax To Book Ratio, Pajak Tangguhan

b. Dependent Variable: Kinerja Perusahaan

From the results, the R<sup>2</sup> value is 0.654, and the analysis is as follows:

$$KD = R^2 \times 100\%$$

$$KD = 0.654 \times 100\%$$

$$KD = 65.4\%$$

Thus, the R<sup>2</sup> value of 0.654 indicates that deferred tax and the tax to book ratio can explain 65.4% of the financial performance of manufacturing companies, Meanwhile, the other variables which are not included in the research explain the remaining 34.6%.

### Discussion

Based on the hypothesis test results, from Table 4:

The deferred tax variable has a coefficient of 54.652 and a significance value of 0.014, which is less than the alpha value of 0.05. Therefore, the null hypothesis (Ho) is rejected, and the alternative hypothesis (H1) is accepted. This means that the variable deferred tax during the period of 2020-2022 has a positive significant effect on the financial performance of manufacturing companies.

For testing the second hypothesis, the variable tax to book ratio obtained the coefficient 3.866 and significant value of 0.000 below the alpha value 0.05. Hence, the null hypothesis (Ho) is rejected, and the alternative hypothesis (H2) is accepted, indicating that the tax to book ratio had a significant positive impact on the

financial performance of manufacturing companies during the 2020–2022 period.

### The Effect of Deferred Tax on Financial Performance

The results of the first hypothesis test concerning the effect of deferred tax on financial performance reveal a coefficient of 54.652 and a significance value of 0.014 ( $p < 0.05$ ). This indicates that deferred tax has a positive impact on the company's financial performance. Specifically, higher deferred tax burdens are associated with improved financial performance, as better tax planning enhances the alignment between accounting records and tax benefits.

According to agency theory, management aims to ensure that the company's performance appears favorable to the owners. Additionally, agency theory helps to determine if there are any conflicts of interest between managers and principals when the company makes changes, such as adjustments to deferred tax liabilities (Margaretha Tambunan, 2019).

### The Effect of Tax to Book Ratio on Financial Performance

The second hypothesis test shows that the tax to book ratio has a coefficient of 3.866 and a significance value of 0.000 ( $p < 0.05$ ). This implies that the tax to book ratio significantly and positively influences the financial performance of the manufacturing companies in the food and beverage subsector for the period under study. This variable influences business performance by determining and calculating the company's tax rate.

In relation to agency theory, when a company faces compliance risks, investors will evaluate and take appropriate actions to mitigate these risks associated with tax regulations. A smaller discrepancy between accounting profits and taxable profits indicates better company performance.

### 4. Conclusion

From the analysis and discussion made above, it can be said that the agency theory is helpful in measuring the impact of deferred tax and tax-to-book ratio on the performance of a company. The highlights of the findings are as follows:

Agency theory is important to the influences of the dependent variable from both independent variables, as through the agency theory, there are two parties in a company. When a company faces compliance risks, investors will evaluate and take action to address these risks related to tax regulations. Therefore, companies

should consider long-term tax planning to optimize taxes over the coming years and ensure that financial statements are transparent and honest, providing clear information about deferred tax in financial notes. This approach helps investors understand tax regulations and complete tax disclosures in annual reports, potentially increasing their interest in investing in well-managed companies. The t-test results also indicate that deferred tax has the strongest effect on company performance, with a coefficient of 54.652.

The dependent variable can be explained by the independent variables by 65.4%, while the remaining 34.6% is influenced by other variables.

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