



The Effect of Temporary Book-Tax Differences, Permanent Book-Tax Differences, and Profitability on Tax Avoidance

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Article Info :

Received:

27-07-2026

Revised:

07-08-2026

Accepted:

15-08-2026

Abstract

This study aims to examine the effects of temporary book-tax differences, permanent book-tax differences, and profitability on tax avoidance among banking companies listed on the Indonesia Stock Exchange during 2022–2024. A quantitative approach was employed using panel data regression and purposive sampling, resulting in 111 firm-year observations from 37 banking companies. Tax avoidance was measured using the Effective Tax Rate (ETR), in which a lower ETR indicates a higher level of tax avoidance. The panel model selection tests, consisting of the Chow, Hausman, and Lagrange Multiplier tests, identified the Random Effects Model as the most appropriate estimation model. The results show that temporary book-tax differences have no significant effect on tax avoidance, indicating that temporary differences do not systematically explain tax avoidance behavior in the banking sector. In contrast, permanent book-tax differences have a significant negative effect on tax avoidance, indicating that greater permanent differences are associated with higher ETR and consequently lower tax avoidance. Profitability has a significant positive effect on tax avoidance, suggesting that more profitable banking companies tend to have greater incentives and capacity to undertake tax planning that reduces their effective tax burden. The findings demonstrate that tax avoidance is not necessarily determined by the magnitude of differences between accounting and taxable income, but depends on the nature of those differences and the financial characteristics of the company. These findings contribute to understanding tax avoidance behavior in the regulated banking sector.

Keywords: Banking Sector, Permanent Book-Tax Differences, Profitability, Tax Avoidance, Temporary Book-Tax Differences.



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INTRODUCTION

Taxation constitutes a fundamental source of government revenue and remains strategically important for financing public expenditure, infrastructure development, and the provision of public services, making the effectiveness of corporate tax collection an important issue in contemporary economic governance. In Indonesia, the substantial contribution of tax revenue to the state budget demonstrates that the fiscal capacity of the government remains closely connected to the ability of the tax system to secure corporate and individual tax obligations (Direktorat Jenderal Pajak, 2024). This fiscal dependence creates a persistent tension between the interests of governments, which seek to maximize tax revenue, and those of corporations, which generally perceive taxes as costs that reduce after-tax earnings and potentially constrain shareholder wealth. From the corporate perspective, the incentive to manage tax liabilities becomes stronger when firms seek to preserve profitability, maintain liquidity, and maximize the value delivered to shareholders. The issue becomes increasingly significant because corporate tax avoidance can occur through sophisticated tax-planning arrangements that exploit differences between accounting rules and tax regulations without necessarily constituting an explicit violation of tax law (Duhoon & Singh, 2023). The international policy environment has consequently moved toward narrowing opportunities for aggressive tax planning, including through the implementation of a global minimum tax framework intended to reduce profit shifting and excessive disparities in effective corporate taxation (Direktorat Jenderal Pajak, 2025).

Corporate tax avoidance has therefore evolved from a conventional compliance issue into a broader question of fiscal sustainability, corporate governance, and the quality of financial reporting, particularly when managerial decisions simultaneously influence accounting income and taxable

income. Evidence from Indonesia indicates that tax non-compliance remains a substantive concern, with a World Bank survey reported by DDTCNews finding that approximately one in four surveyed corporate taxpayers did not fully meet their tax obligations (Wildan, 2024). Such behavior is not necessarily driven by a single managerial motive because tax avoidance can emerge from the interaction between profitability, financial reporting choices, ownership structures, and opportunities created by differences between commercial and fiscal accounting. Within this setting, book-tax differences (BTD) have attracted considerable attention because they represent observable discrepancies between accounting income and taxable income and may provide information about firms' tax-planning behavior. Prior research has documented a positive relationship between BTD and tax avoidance, suggesting that larger discrepancies between book and taxable income can be associated with stronger incentives or opportunities for reducing tax burdens (Mustika & Nugrahanto, 2022). Similar evidence indicates that BTD may contain information about the extent to which firms exploit differences between financial accounting and taxation, although its interpretation depends on the economic source and nature of the discrepancy (Blaylock et al., 2012). The analytical relevance of BTD consequently lies not merely in its magnitude but in whether its underlying components reflect temporary accounting-timing differences or permanent differences arising from items treated differently under accounting and tax regulations.

The banking industry provides a particularly relevant context for examining this issue because banks operate under intensive regulatory supervision while simultaneously managing substantial financial assets, complex transactions, and highly structured accounting and taxation requirements. The specific accounting framework applied to conventional commercial banks reflects the distinctive nature of banking activities and the need for accounting information to accommodate extensive financial intermediation and regulatory requirements (Otoritas Jasa Keuangan, 2021). Regulatory intensity, however, does not eliminate tax-planning incentives because banks must continuously balance profitability, liquidity, capital adequacy, and tax obligations when making financial decisions. Empirical evidence from Indonesian financial institutions even indicates that financial institutions can exhibit tax-aggressive behavior, demonstrating that regulatory oversight does not necessarily remove incentives to minimize corporate tax liabilities (Efendi et al., 2022). In the banking sector, tax avoidance may consequently be reflected through fiscal reconciliation and differences between commercial and taxable income rather than through easily observable reductions in reported accounting profit. These circumstances make the decomposition of BTD into temporary and permanent components particularly important because the two components represent fundamentally different mechanisms through which accounting income and taxable income can diverge.

Temporary BTD arise primarily from differences in the timing of income or expense recognition between accounting standards and tax regulations, generating deferred tax assets or liabilities that may reverse in subsequent reporting periods. Under the accounting framework for income taxes, these differences are associated with discrepancies between the carrying amount of assets or liabilities and their corresponding tax bases, meaning that their effects are expected to reverse over time (Ikatan Akuntan Indonesia, 2023). From an agency perspective, the timing dimension of temporary differences may create managerial discretion in determining when particular expenses or revenues are recognized, potentially affecting the tax burden reported in a given period. Previous evidence has shown that deferred-tax-related factors can be associated with tax avoidance, indicating that temporary differences may contain information about managerial strategies for managing taxable income (Anggraini, 2020). Permanent BTD, in contrast, originate from accounting items that are recognized commercially but are permanently treated differently for tax purposes, including non-deductible expenses and certain categories of non-taxable or final-taxed income. Unlike temporary differences, permanent differences do not reverse in subsequent periods, which means that their effect on the relationship between accounting profit and taxable income has a structurally different implication for corporate tax burdens. The distinction between these two components is therefore essential because treating aggregate BTD as a homogeneous measure may obscure the different economic mechanisms through which temporary and permanent differences are associated with tax avoidance.

The existing literature provides important evidence concerning BTD and tax avoidance, yet its findings remain insufficient to establish a consistent explanation of how each BTD component relates to tax avoidance in the banking industry. Studies examining aggregate BTD generally report a significant relationship with tax avoidance, while research on temporary and permanent differences has

more frequently examined outcomes such as earnings persistence or profit growth rather than tax avoidance itself (Shabika et al., 2023). Research by Darma and Hastuti (2025), for example, separates temporary and permanent BTD but focuses on profit growth in financial-sector companies, leaving unanswered whether these two components operate differently when tax avoidance becomes the dependent variable. Similar limitations can be observed in research that distinguishes permanent and temporary BTD in explaining earnings persistence, because evidence concerning the informational content of these differences does not automatically establish their behavioral implications for corporate tax planning (Rofiani et al., 2020). The literature on profitability also presents competing explanations, with some studies suggesting that higher profitability increases tax avoidance incentives because greater profits generate larger tax liabilities, whereas other studies associate stronger profitability with more effective tax management and lower tax avoidance. These conflicting findings imply that profitability may not have a universal relationship with tax avoidance and that sector-specific institutional characteristics may shape managerial responses to tax obligations. The banking sector consequently represents an important empirical setting for reassessing whether profitability strengthens tax avoidance incentives and whether its relationship becomes more meaningful when examined simultaneously with the temporary and permanent components of BTD.

The unresolved relationship between BTD components, profitability, and tax avoidance carries both theoretical and practical significance because tax avoidance decisions affect not only corporate after-tax performance but also government revenue, financial transparency, and the credibility of the corporate tax system. From a theoretical perspective, examining temporary and permanent BTD separately can provide a more precise explanation of how differences between accounting and taxation interact with managerial incentives under conditions of information asymmetry and conflicting interests. From a practical perspective, identifying which forms of BTD and profitability are associated with tax avoidance may assist tax authorities in developing more targeted risk-detection mechanisms, particularly within highly regulated financial institutions. The study therefore positions itself within the intersection of corporate taxation, financial reporting, and managerial decision-making by extending previous research that has predominantly examined aggregate BTD or applied component-level BTD measures to outcomes other than tax avoidance. Specifically, this research investigates temporary BTD, permanent BTD, and profitability as explanatory factors of tax avoidance among banking companies, thereby addressing the empirical gap concerning the simultaneous examination of these variables within a sector characterized by strong regulatory oversight and substantial financial intermediation. Tax avoidance is measured using the Effective Tax Rate (ETR), in which a lower effective tax burden indicates stronger tax-avoidance tendencies, allowing the empirical analysis to capture the extent to which firms' reported tax burdens deviate from their pre-tax earnings. The study aims to determine the effects of temporary BTD, permanent BTD, and profitability on corporate tax avoidance and to contribute theoretically by clarifying the distinct roles of accounting-tax discrepancies and profitability in tax-planning behavior while contributing methodologically through a component-based examination of BTD rather than treating book-tax differences as a single homogeneous construct.

RESEARCH METHODS

This study is an empirical study employing a quantitative research design to examine the effect of temporary book-tax differences, permanent book-tax differences, and profitability on tax avoidance among banking companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The population comprises all banking companies listed on the IDX during the observation period, while the sample is selected using purposive sampling based on the criteria that the companies are listed throughout the observation period, provide complete annual financial statements in Indonesian Rupiah, and do not report losses, resulting in 37 companies and 111 firm-year observations. The study uses secondary data obtained from annual financial statements and annual reports published through the official IDX website and the respective companies' official websites, with data collected through non-participant observation of publicly available corporate documents. Tax avoidance is the dependent variable and is measured using the Effective Tax Rate (ETR), where a lower ETR indicates a higher level of tax avoidance (Puspitasari et al., 2021).

ETR = Income Tax Expense / Profit Before Tax

Temporary book-tax differences are measured using deferred tax expense relative to total assets, while permanent book-tax differences are measured using the total permanent differences relative to total assets (Wulantari, 2025).

$$\begin{aligned}\text{Temporary BTB} &= \text{Deferred Tax Expense} / \text{Total Assets} \\ \text{Permanent BTB} &= \text{Total Permanent Differences} / \text{Total Assets}\end{aligned}$$

Profitability is measured using Return on Assets (ROA), which reflects the company's ability to generate earnings from its available assets (Chandra, 2024).

$$\text{ROA} = \text{Net Income After Tax} / \text{Total Assets}$$

The data are analyzed using panel-data regression, which combines cross-sectional observations across banking companies with time-series observations over the 2022–2024 period, using EViews 12 Student Lite as the statistical software. The appropriate panel-data estimation model is determined through the Chow test, Hausman test, and Lagrange Multiplier test to select among the Common Effect Model, Fixed Effect Model, and Random Effect Model according to the characteristics of the observed data (Basuki, 2021). Classical assumption testing includes normality, multicollinearity, heteroscedasticity, and autocorrelation tests to assess whether the regression model satisfies the required statistical assumptions. Hypothesis testing is conducted using the t-test to examine the partial effect of each independent variable on tax avoidance, the F-test to assess the simultaneous effect of the independent variables, and the coefficient of determination (R^2) to evaluate the explanatory power of the regression model. Panel-data regression is employed because its integration of cross-sectional and time-series dimensions allows the analysis to account for differences among firms as well as changes across observation periods (Wibowo, 2025).

$$Y_{it} = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + \varepsilon_{it}$$

In this model, Y_{it} represents tax avoidance, α represents the constant, β represents the regression coefficient, X_1 represents temporary book-tax differences, X_2 represents permanent book-tax differences, X_3 represents profitability, and ε_{it} represents the error term.

Hypothesis Development

H1: Temporary book-tax differences have a positive effect on tax avoidance

Temporary book-tax differences arise from differences in the timing of revenue and expense recognition between accounting standards and tax regulations, which may create deferred tax assets or liabilities that reverse in subsequent periods (Ikatan Akuntan Indonesia, 2023). Differences in recognition timing may provide managerial flexibility to manage taxable income and current tax liabilities, making larger temporary differences potentially associated with stronger tax-avoidance behavior (Anggraini, 2020). This relationship is consistent with the agency perspective, in which managers may use available accounting and tax-reporting discretion to pursue their own interests while reducing the firm's tax burden.

H2: Permanent book-tax differences have a negative effect on tax avoidance

Permanent book-tax differences arise from accounting income and expenses that receive permanently different treatment under tax regulations and do not reverse in subsequent periods (Ikatan Akuntan Indonesia, 2023). When permanent differences arise from expenses that are not tax deductible, taxable income may increase relative to accounting income, potentially resulting in a higher effective tax burden. Hence, larger permanent book-tax differences are expected to be associated with lower tax-avoidance tendencies, particularly when they reflect positive fiscal adjustments.

H3: Profitability has a positive effect on tax avoidance

Profitability reflects the firm's ability to generate earnings from its assets, with higher ROA generally indicating greater profitability and a larger potential corporate income tax liability. Higher

profitability may strengthen managerial incentives to reduce the tax burden because the potential tax savings from tax-planning strategies become greater as taxable income increases (Chandra, 2024). Empirical evidence also supports a positive relationship between profitability and tax avoidance, indicating that profitable firms may have stronger incentives to manage their tax obligations (Rahmani, 2025).

RESULTS AND DISCUSSION

Descriptive Statistics and Characteristics of the Research Data

The descriptive statistics provide an initial overview of the characteristics and distribution of the variables examined in 111 firm-year observations from 37 banking companies listed on the Indonesia Stock Exchange during 2022–2024. The variables consist of temporary book-tax differences (X1), permanent book-tax differences (X2), profitability (X3), and tax avoidance (Y), with tax avoidance measured using the Effective Tax Rate (ETR). The descriptive analysis includes the mean, median, maximum, minimum, and standard deviation to identify the central tendency and dispersion of each research variable. These statistical measures are useful for identifying variations in accounting, fiscal, and profitability characteristics across banking firms during the observation period. Differences in financial and tax-related indicators can reflect variations in firm characteristics, accounting treatment, regulatory exposure, and managerial decisions (Bougie & Sekaran, 2020). The descriptive analysis therefore provides an empirical basis for understanding the initial characteristics of the dataset before proceeding to panel regression estimation.

The temporary book-tax differences variable has a mean of 0.000075 and a median of −0.000030, while the permanent book-tax differences variable records a mean of 0.000451 and a median of 0.000150. The relatively small mean values of both variables indicate that the average differences between accounting and fiscal treatments are limited in relation to total assets. However, the standard deviations of temporary and permanent book-tax differences reach 0.002375 and 0.001652, respectively, which are higher than their corresponding mean values. This indicates considerable variation in book-tax differences across the sampled banking companies. Profitability records a mean of 0.013891 with a median of 0.011060, indicating that the average return generated from total assets was approximately 1.39%. Meanwhile, tax avoidance, proxied by ETR, has a mean of 0.273098 and a median of 0.220780, indicating an average effective tax burden of approximately 27.31%.

Table 1. Descriptive Statistical Test Results

Statistic	X1	X2	X3	Y
Mean	0.000075	0.000451	0.013891	0.273098
Median	-0.000030	0.000150	0.011060	0.220780
Maximum	0.008360	0.008520	0.084090	0.901360
Minimum	-0.010480	-0.002790	-0.034490	0.080410
Std. Dev.	0.002375	0.001652	0.014624	0.179584
Observation	111	111	111	111

Source: EViews 12 Output (2026)

As shown in Table 1, temporary book-tax differences range from −0.010480 to 0.008360, demonstrating that the timing differences between accounting and tax recognition can occur in both directions across the observations. The negative minimum value indicates observations in which the temporary fiscal adjustment reduces the difference relative to accounting treatment, while the positive maximum indicates the opposite pattern. This variation is consistent with the nature of temporary differences, which arise from differences in the timing of recognition between accounting and taxation and are expected to reverse in subsequent periods (Ikatan Akuntan Indonesia, 2023). The permanent book-tax differences similarly range from −0.002790 to 0.008520, indicating differences in the composition of accounting items that receive permanent fiscal treatment. Unlike temporary differences, permanent differences do not reverse in subsequent periods because their tax treatment remains different from the accounting treatment (Rofiani et al., 2020). The relatively high dispersion compared

with the mean for both BTD measures indicates that fiscal reconciliation characteristics differ considerably among the banking companies in the sample.

The profitability variable presents a minimum value of -0.034490 and a maximum value of 0.084090 , demonstrating substantial differences in the ability of banks to generate earnings from their assets. Although the average ROA is positive, the negative minimum indicates that some firm-year observations experienced negative asset returns during the observation period. The standard deviation of 0.014624 is slightly higher than the mean of 0.013891 , suggesting meaningful variation in profitability among the sampled firms. Such variation is relevant because profitability can influence the magnitude of corporate tax obligations and managerial incentives to manage tax costs (Chandra, 2024). The tax avoidance variable also shows a relatively broad range, with ETR values between 0.080410 and 0.901360 . Because a lower ETR represents a lower effective tax burden, observations at the lower end of the distribution indicate relatively stronger tax avoidance, whereas higher ETR values indicate a comparatively greater effective tax burden (Puspitasari et al., 2021).

The standard deviation of ETR is 0.179584 , which is lower than its mean of 0.273098 , suggesting that the distribution of effective tax rates is comparatively more concentrated around its average than the distributions of the BTD variables and profitability. Nevertheless, the difference between the minimum and maximum ETR values indicates that meaningful variation in effective tax burdens remains present across the banking observations. This variation is important because financial institutions operate within a highly regulated environment but may still exhibit differences in tax aggressiveness and tax management practices (Efendi et al., 2022). The coexistence of relatively low and high ETR observations indicates that regulatory constraints do not necessarily produce identical tax outcomes across banking firms. Differences in profitability, fiscal reconciliation, and the composition of accounting and tax items may contribute to these variations. The descriptive pattern therefore supports the need for further econometric analysis to determine whether temporary BTD, permanent BTD, and profitability statistically explain differences in tax avoidance.

Panel Data Model Selection and Classical Assumption Testing

The panel-data model selection was conducted to identify the estimation model that best represents the relationship between temporary book-tax differences, permanent book-tax differences, profitability, and tax avoidance. The selection process involved the Chow test, Hausman test, and Lagrange Multiplier test to determine the suitability of the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). The Chow test generated a probability value below 0.05 , indicating that the Fixed Effect Model was preferable to the Common Effect Model. This finding suggests that differences in the characteristics of individual banking companies need to be considered in the panel estimation. The Hausman test subsequently produced a probability value above 0.05 , indicating that the Random Effect Model was more appropriate than the Fixed Effect Model. The results of the model-selection tests are presented in Table 2.

The Lagrange Multiplier test generated a probability value below 0.05 , confirming that the Random Effect Model was preferable to the Common Effect Model. As indicated in Table 2, the sequential results of the three specification tests lead to the selection of the Random Effect Model as the final estimation approach. The REM treats unobserved individual effects across banking companies as random components rather than estimating a separate fixed intercept for each company. This model is appropriate when individual effects are assumed to be unrelated to the explanatory variables incorporated into the regression model (Basuki, 2021). The use of REM also allows the cross-sectional and time-series dimensions of the 111 firm-year observations to be retained in the estimation. The selected model subsequently serves as the basis for examining the statistical relationships between the independent variables and tax avoidance.

Table 2. Panel Data Model Selection Test Results

Test	Probability	Decision
Chow Test	< 0.05	Fixed Effect Model
Hausman Test	> 0.05	Random Effect Model
Lagrange Multiplier Test	< 0.05	Random Effect Model

Source: EViews 12 Output (2026)

Following the selection of the Random Effect Model, classical assumption tests were conducted to evaluate the statistical properties of the regression model before hypothesis testing. The normality test produced a Jarque-Bera probability below 0.05, which formally indicates that the residuals do not follow a normal distribution under the conventional significance criterion. However, the analysis uses 111 observations, so the Central Limit Theorem provides a basis for considering the sampling distribution of the estimators sufficiently reliable for inferential analysis (Pranadipta & Natsir, 2023). The normality result is therefore interpreted in conjunction with the relatively large number of observations rather than as an isolated criterion for rejecting the regression model. This consideration is particularly relevant for panel-data analysis, where the reliability of coefficient estimation can benefit from sufficiently large observations across firms and periods. The remaining diagnostic tests were then examined to identify potential multicollinearity, heteroscedasticity, and autocorrelation.

The multicollinearity test shows that the Variance Inflation Factor (VIF) values for temporary BTD, permanent BTD, and profitability are below 10. This result indicates that the independent variables do not exhibit severe linear dependence that could substantially distort the estimated regression coefficients. The absence of problematic multicollinearity enables the effects of each explanatory variable to be interpreted more distinctly within the regression model. The heteroscedasticity test based on the residual graph also indicates that the residual observations remain within the -500 to 500 range, suggesting that the model does not display an identifiable heteroscedasticity problem under the applied criterion. The Durbin-Watson statistic of 1.410525 further indicates that the model does not exhibit autocorrelation based on the criterion used in this study. Collectively, these diagnostic results indicate that the principal regression assumptions assessed in the analysis are sufficiently satisfied.

The diagnostic findings are important for establishing the reliability of the subsequent coefficient interpretation because the explanatory variables represent different dimensions of corporate taxation and financial performance. Temporary BTD captures timing differences between accounting and fiscal recognition, whereas permanent BTD reflects differences that do not reverse in subsequent periods (Ikatan Akuntan Indonesia, 2023). Profitability represents the capacity of banking firms to generate earnings from their assets, which may influence the incentives and capacity for tax management. The absence of multicollinearity indicates that these three dimensions can be incorporated simultaneously without excessive linear overlap among the explanatory variables. The absence of heteroscedasticity and autocorrelation also supports the use of the estimated panel model for subsequent statistical inference. This diagnostic stage therefore strengthens the empirical basis for evaluating the individual and simultaneous relationships between the explanatory variables and tax avoidance.

The overall model-selection and diagnostic results establish the Random Effect Model as the appropriate framework for the subsequent regression analysis. The Chow, Hausman, and Lagrange Multiplier tests collectively indicate that the model should account for random firm-specific effects rather than relying on a common effect specification. The classical assumption tests further indicate no problematic multicollinearity, heteroscedasticity, or autocorrelation under the criteria applied in this study. Although the Jarque-Bera probability is below 0.05, the use of 111 observations provides an asymptotic basis for continuing the inferential analysis (Pranadipta & Natsir, 2023). The resulting model is therefore used to assess the magnitude, direction, and statistical significance of temporary BTD, permanent BTD, and profitability in relation to tax avoidance. The coefficient estimates and corresponding hypothesis-testing results are presented in the next section.

Panel Regression Results and Overall Model Significance

The panel regression analysis was conducted using the Random Effect Model selected through the specification tests presented in the previous section. The analysis examines the effects of temporary book-tax differences, permanent book-tax differences, and profitability on tax avoidance measured by the Effective Tax Rate (ETR). The regression estimation provides information on the direction and magnitude of each explanatory variable through its coefficient, while the probability value determines its statistical significance. The constant term represents the expected ETR when the explanatory variables are assumed to have a value of zero. The regression model is estimated using 111 firm-year observations from 37 banking companies during 2022–2024. The estimation results provide the basis for evaluating the three proposed hypotheses and the overall explanatory capacity of the model.

The results in Table 3 show that the constant coefficient is 0.296037 with a probability value of 0.0000, indicating that the intercept is statistically significant. Temporary book-tax differences have a coefficient of -5.481155 with a probability value of 0.4007, indicating a negative but statistically insignificant relationship with ETR. Permanent book-tax differences have a coefficient of 43.81322 and a probability value of 0.0001, indicating a positive and statistically significant relationship with ETR. Profitability has a coefficient of -3.044467 with a probability value of 0.0127, demonstrating a negative and statistically significant relationship with ETR. The coefficient directions indicate that temporary BTD and profitability are associated with lower ETR values, whereas permanent BTD is associated with higher ETR values. Since a lower ETR represents a higher level of tax avoidance, the direction of these coefficients must be interpreted inversely when discussing tax avoidance behavior (Puspitasari et al., 2021). The complete estimation results are presented in Table 3.

Table 3. Results of Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.296037	0.025994	11.38883	0.0000
X1	-5.481155	6.496993	-0.843645	0.4007
X2	43.81322	10.43114	4.200232	0.0001
X3	-3.044467	1.201164	-2.534597	0.0127
Weighted Statistics				
R-squared	0.195350	Mean dependent var	0.187485	
Adjusted R-squared	0.172789	S.D. dependent var	0.153093	
S.E. of regression	0.139240	Sum squared resid	2.074492	
F-statistic	8.658999	Durbin-Watson stat	1.410525	
Prob(F-statistic)	0.000034			

Source: EViews 12 Output (2026)

Based on the coefficients reported in Table 3, the estimated regression equation is expressed as

$$Y_{it} = 0.296037 - 5.481155X_1 + 43.81322X_2 - 3.044467X_3 + \varepsilon_{it}$$

The constant value of 0.296037 indicates that the predicted ETR is approximately 29.60% when temporary BTD, permanent BTD, and profitability are held at zero. The coefficient of temporary BTD indicates that an increase in temporary BTD is associated with a decrease in ETR by 5.481155 units, although this relationship does not reach statistical significance. The coefficient of permanent BTD indicates that an increase in permanent BTD is associated with an increase in ETR by 43.81322 units, and this relationship is statistically significant at the 5% level. The profitability coefficient indicates that an increase in ROA is associated with a decrease in ETR by 3.044467 units and is statistically significant. From an accounting perspective, the estimated coefficients demonstrate that different forms of book-tax differences do not necessarily produce identical tax outcomes. This distinction is important because the economic and fiscal implications of book-tax differences depend on whether the underlying differences are temporary or permanent (Blaylock et al., 2012).

The partial significance test indicates that temporary BTD does not have a statistically significant effect on tax avoidance because its probability value of 0.4007 exceeds the 0.05 significance level. This result means that the observed negative coefficient of temporary BTD cannot be interpreted as sufficient statistical evidence of a systematic relationship with tax avoidance among the sampled banking companies. Permanent BTD, in contrast, has a statistically significant positive effect on ETR because its probability value of 0.0001 is below 0.05. Because ETR and tax avoidance have an inverse relationship, the positive coefficient indicates that higher permanent BTD is associated with lower tax avoidance. Profitability also has a statistically significant negative effect on ETR, with a probability value of 0.0127, indicating that higher profitability is associated with higher tax avoidance when the dependent variable is interpreted conceptually as tax avoidance. The findings indicate that the three explanatory variables have different statistical roles in explaining variations in the effective tax burden of banking firms. Such differences reinforce the importance of distinguishing the components of book-tax differences when assessing corporate tax behavior (Mustika & Nugrahanto, 2022).

The simultaneous significance test produces an F-statistic of 8.658999 with a probability value of 0.000034, which is below the 0.05 significance level. This result indicates that temporary BTB, permanent BTB, and profitability jointly have a statistically significant relationship with tax avoidance as measured through ETR. The finding demonstrates that tax avoidance in banking cannot be assessed solely from one accounting or financial indicator because the effective tax burden reflects the combined influence of several firm-level characteristics. The model therefore provides empirical evidence that the explanatory variables considered in this study collectively contribute to explaining variations in ETR across the observed banking companies. The simultaneous significance is also relevant to the agency perspective because managerial decisions concerning accounting treatment, fiscal adjustments, and profitability can interact in shaping corporate tax outcomes. Corporate tax avoidance is generally influenced by multiple financial and non-financial determinants rather than by a single accounting measure (Duhoon & Singh, 2023). The significant F-test consequently supports the relevance of the proposed regression framework for examining tax avoidance in the banking sector.

The coefficient of determination provides additional information regarding the explanatory capacity of the estimated model. The R-squared value of 0.195350 indicates that approximately 19.54% of the variation in ETR can be explained jointly by temporary BTB, permanent BTB, and profitability. After adjustment for the number of explanatory variables, the Adjusted R-squared value is 0.172789, indicating that approximately 17.28% of the variation in the dependent variable is explained by the model. The remaining 82.72% is attributable to other factors that are not incorporated into the present specification, which may include leverage, firm size, capital intensity, corporate governance, ownership structure, transfer pricing, or other tax-planning characteristics. Previous research has likewise demonstrated that tax avoidance is influenced by a combination of financial, governance, and firm-specific factors (Fadhila & Andayani, 2022). The relatively modest explanatory power does not invalidate the significant relationships identified in the model but indicates that tax avoidance among banking companies is a multidimensional phenomenon. The regression results therefore provide a focused explanation of the contribution of BTB and profitability while leaving substantial room for additional variables in future empirical models.

Discussion of the Effects of Temporary BTB, Permanent BTB, and Profitability on Tax Avoidance

The empirical findings indicate that temporary book-tax differences, permanent book-tax differences, and profitability exhibit different relationships with tax avoidance among banking companies listed on the Indonesia Stock Exchange during 2022–2024. Temporary BTB has a negative coefficient of -5.481155 with a probability value of 0.4007, indicating that its effect on tax avoidance is statistically insignificant. Permanent BTB has a positive coefficient of 43.81322 with a probability value of 0.0001, indicating a significant relationship with the ETR and, because a higher ETR represents lower tax avoidance, a negative effect on tax avoidance. Profitability has a negative coefficient of -3.044467 with a probability value of 0.0127, indicating that higher profitability is associated with lower ETR and consequently higher tax avoidance. The different coefficient directions suggest that book-tax differences cannot be interpreted uniformly because temporary and permanent differences arise from different accounting and taxation mechanisms. This distinction is important because book-tax differences may reflect accounting rules, fiscal adjustments, managerial decisions, or combinations of these factors rather than tax avoidance alone (Jati & Murwaningsari, 2020; Duhoon & Singh, 2023).

The finding for temporary BTB shows that the hypothesis proposing a positive effect on tax avoidance is rejected because the probability value exceeds the 5% significance level. The negative coefficient implies that an increase in temporary BTB tends to reduce ETR, but the relationship is not sufficiently strong to establish a systematic effect on tax avoidance. This finding differs from studies reporting significant relationships between book-tax differences and tax avoidance, including Anggraini (2020) and Shabika et al. (2023), which may reflect differences in industry characteristics, measurement approaches, and the composition of book-tax differences. Temporary differences primarily arise because accounting recognition and tax recognition occur in different periods, so the resulting difference is expected to reverse in subsequent periods rather than permanently alter taxable income (Ikatan Akuntan Indonesia, 2023). In the banking sector, the interpretation is further complicated because accounting recognition of financial assets and credit-loss provisions is influenced by industry-specific accounting and regulatory requirements (Otoritas Jasa Keuangan, 2021). Iman (2020) also

demonstrates that temporary and permanent differences have distinct implications in banking-related fiscal calculations, reinforcing the need to distinguish the economic substance of each component. The insignificant result therefore suggests that temporary BTD during the observation period was more closely associated with timing differences and institutional reporting requirements than with deliberate tax avoidance strategies.

The absence of a significant temporary BTD effect can also be interpreted through agency theory, which assumes that managers may have incentives to make accounting and tax decisions that serve their interests when monitoring mechanisms are imperfect. However, such discretion may be constrained in the banking industry because financial institutions operate under extensive prudential, accounting, and supervisory requirements. Consequently, temporary differences generated by differences in recognition between financial accounting and taxation may not provide sufficient managerial discretion to produce measurable changes in tax avoidance. The result is consistent with the argument that large book-tax differences do not automatically indicate aggressive tax behavior because they may also contain information arising from legitimate differences between financial reporting and tax rules (Blaylock et al., 2012). Rofiani et al. (2020) further demonstrate that permanent and temporary book-tax differences represent distinct components of accounting information, meaning that their implications should not be generalized across different economic outcomes. Darma and Hastuti (2025) similarly indicate that book-tax differences have financial reporting implications within the financial sector, although their consequences depend on the specific characteristics of the differences. The insignificant coefficient in this study therefore provides evidence that temporary BTD alone is insufficient to explain tax avoidance behavior among the sampled banking firms. This finding also supports the broader view that tax avoidance is a multidimensional phenomenon influenced by financial, governance, ownership, and firm-specific factors rather than by a single accounting-tax variable (Duhoon & Singh, 2023; Napitupulu & Simanjuntak, 2021).

Permanent BTD produces a substantially different result, with a coefficient of 43.81322 and a probability value of 0.0001, indicating a statistically significant relationship with the ETR. Because the dependent variable is measured using ETR, the positive coefficient means that an increase in permanent BTD is associated with an increase in ETR and therefore a decrease in tax avoidance. The second hypothesis is consequently accepted because permanent BTD has a significant negative effect on tax avoidance. Permanent differences differ fundamentally from temporary differences because they do not reverse in future accounting periods and therefore permanently affect the relationship between accounting profit and taxable profit (Ikatan Akuntan Indonesia, 2023). The finding differs from Shabika et al. (2023) and Mustika and Nugrahanto (2022), which reported that book-tax differences could be associated with greater tax avoidance, suggesting that the direction of the relationship depends on the nature of the differences and the characteristics of the firms examined. In banking companies, permanent differences may be affected by fiscal adjustments and expenses that are recognized for accounting purposes but receive different treatment under tax regulations, limiting the interpretation of permanent BTD as an intentional avoidance mechanism. The result is therefore more appropriately interpreted as evidence that the permanent component of book-tax differences in the sampled banks was associated with a relatively higher effective tax burden rather than with aggressive tax reduction.

The significant negative effect of permanent BTD on tax avoidance can further be understood from the perspective of managerial discretion and fiscal compliance. When permanent differences originate from expenses that cannot be deducted for tax purposes or income that receives different fiscal treatment, accounting profit can diverge from taxable income without necessarily reflecting an intentional effort to avoid taxation. Such conditions can increase the effective tax burden and consequently produce a higher ETR, which corresponds to lower tax avoidance in the present measurement framework. This interpretation is relevant because tax avoidance represents a broad range of activities that reduce explicit tax burdens while remaining within the boundaries of applicable tax rules, and not every accounting-tax difference constitutes such behavior (OECD Watch, 2022). The regulatory environment also matters because Indonesian financial institutions face specific reporting and supervisory requirements that can influence the recognition and classification of accounting items (Otoritas Jasa Keuangan, 2021). The result is consistent with the need to distinguish legitimate tax differences from aggressive tax planning, particularly because financial institutions can exhibit tax behavior that differs from non-financial firms (Efendi et al., 2022). From an agency perspective, managers may seek to minimize taxes, but the opportunity to do so through permanent book-tax

differences can be restricted when the underlying differences are driven by mandatory fiscal adjustments. The positive ETR coefficient observed in this study consequently indicates that permanent BTD functioned more as an indicator of differences increasing the effective tax burden than as a direct mechanism for reducing taxes.

Profitability shows a negative and statistically significant coefficient of -3.044467 with a probability value of 0.0127 , indicating that profitability significantly affects tax avoidance. The negative coefficient means that more profitable banking companies tend to report lower ETR values, which correspond to higher levels of tax avoidance under the measurement applied in this study. The third hypothesis is therefore accepted because profitability has a positive effect on tax avoidance. This finding is consistent with Chandra (2024), Fadhila and Andayani (2022), Prasetyo and Arif (2022), and Rahmani (2025), who emphasize the relevance of profitability in explaining corporate tax avoidance. Similar evidence has also been documented in studies focusing on banking companies, where financial performance is related to corporate tax behavior (Astriani, 2023; Mallisa & Kusumawardhani, 2023). Sembiring and Sa'adah (2021) likewise identify profitability as an important factor associated with tax avoidance, although the magnitude and direction of the relationship can vary according to firm characteristics and research settings. The present result indicates that profitability represents a more consistent determinant of tax avoidance than temporary BTD within the observed banking sample.

The significant profitability effect can be explained by the greater tax exposure and greater tax-planning capacity associated with higher levels of corporate earnings. When taxable income increases, the potential tax burden also becomes more economically significant, creating stronger incentives for management to seek legitimate strategies for controlling the effective tax rate. From an agency perspective, managers may attempt to improve after-tax earnings and firm performance by managing the firm's tax burden within the boundaries of applicable regulations. Higher-profit firms may also possess greater organizational resources, specialized personnel, and financial capacity to implement more sophisticated tax planning, making profitability an important determinant of tax avoidance behavior. This interpretation is consistent with evidence that tax avoidance is influenced by corporate financial characteristics and managerial decisions rather than solely by differences between accounting and tax rules (Puspitasari et al., 2021; Maulidiah & Rachman, 2024). The finding also complements evidence from banking research showing that financial performance can influence tax avoidance decisions, while institutional ownership and other governance mechanisms may shape the extent of such behavior (Mallisa & Kusumawardhani, 2023; Manihuruk & Novita, 2023). At the broader policy level, the finding is relevant because taxation remains an important component of state revenue, while changes in the international tax environment increasingly place pressure on companies to balance tax planning with compliance (Direktorat Jenderal Pajak, 2024, 2025). Overall, the results indicate that profitability is a stronger empirical determinant of tax avoidance in the sampled banks than temporary BTD, while permanent BTD is associated with lower tax avoidance, highlighting the importance of considering firm financial conditions and the specific nature of book-tax differences when explaining corporate tax behavior.

CONCLUSION

Based on the research findings, it can be concluded that temporary book-tax differences, permanent book-tax differences, and profitability have different effects on tax avoidance among banking companies listed on the Indonesia Stock Exchange during 2022–2024. The study employed a quantitative approach using panel data regression on 111 observations from 37 companies, with the Chow, Hausman, and Lagrange Multiplier tests identifying the Random Effect Model as the most appropriate model. Temporary book-tax differences were found to have no significant effect on tax avoidance, meaning that H1 was not supported because temporary differences in banking companies primarily reflect timing differences in recognition and banking-specific regulatory characteristics rather than deliberate tax avoidance strategies. Permanent book-tax differences had a significant negative effect on tax avoidance, supporting H2, as an increase in permanent differences tends to increase the effective tax rate and reduce the level of tax avoidance. Profitability had a significant positive effect on tax avoidance, supporting H3, because companies with higher profitability face greater potential tax burdens and stronger incentives to undertake tax planning to improve after-tax earnings. Overall, the findings indicate that profitability is more effective in explaining tax avoidance behavior than temporary

book-tax differences, while permanent book-tax differences are instead associated with a higher effective tax burden.

This study has several limitations, including an Adjusted R-squared of 17.28%, indicating that most of the variation in tax avoidance is explained by factors outside the research model. In addition, the measurement of book-tax differences as independent variables may involve overlapping information because differences between accounting income and taxable income can arise from various firm characteristics and tax regulations. Future studies are encouraged to incorporate additional variables such as leverage, firm size, capital adequacy ratio, institutional ownership, and corporate governance characteristics to develop a more comprehensive model. These additional variables are important because banking companies have financial structures, regulatory requirements, and risk characteristics that differ substantially from those of non-financial companies. Future research could also extend the observation period and compare conventional and Islamic banking companies to provide broader insights into the determinants of tax avoidance. The findings are expected to contribute to the accounting and taxation literature and provide useful considerations for managers, investors, and regulators in understanding tax avoidance behavior in the banking sector.

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