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The Influence of Book-Tax Differences on Earnings Persistence: A Stakeholder Theory Perspective

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Abstract: This research investigates the effect of Book-Tax Differences on earnings quality by studying 35 companies within the consumer cyclical, consumer non-cyclical, and essential materials sectors. The study includes 105 data points gathered over three years, adhering to six predetermined selection criteria. The companies analysed were listed on the Indonesia Stock Exchange (IDX) between 2015 and 2022. The findings reveal that permanent book differences (PBD), operating cash flow (OCF), leverage (LEV), and managerial ownership (KM) have no significant influence on earnings quality. In contrast, temporary book differences (TBD) and audit quality (AQ) negatively affect earnings quality, while firm size (SIZE) has a positive impact. Stakeholder theory emphasises that businesses should account for the interests of all stakeholders, not just shareholders. Analysing Book-Tax Differences (BTD) is crucial, as it highlights potential inconsistencies between accounting income and taxable income, serving as indicators of financial reporting quality, including earnings persistence.
Keywords: Earnings Persistence; Temporary Book Differences; Permanent Book Differences.

Abstrak: Penelitian ini mengkaji pengaruh Perbedaan Buku Pajak terhadap kualitas laba dengan menganalisis 35 perusahaan dari sektor barang konsumen siklikal, barang konsumen non-siklikal, dan material dasar. Studi ini mencakup 105 data yang dikumpulkan selama tiga tahun dan memenuhi enam kriteria seleksi yang telah ditentukan. Perusahaan yang termasuk dalam sampel terdaftar di Bursa Efek Indonesia (BEI) antara tahun 2015 hingga 2022. Hasilnya menunjukkan bahwa perbedaan buku permanen (PBD), arus kas operasi (OCF), leverage (LEV), dan kepemilikan manajerial (KM) tidak memiliki pengaruh signifikan terhadap kualitas laba. Sebaliknya, perbedaan buku sementara (TBD) dan kualitas audit (AQ) berdampak negatif pada kualitas laba, sementara ukuran perusahaan (SIZE) memberikan pengaruh positif. Prespektif stakeholder teori menekankan bahwa perusahaan harus mempertimbangkan kepentingan semua pemangku kepentingan, bukan hanya pemegang saham. Analisis Book-Tax Differences (BTD) menjadi relevan karena BTD mencerminkan potensi perbedaan antara laba akuntansi dan laba kena pajak, yang dapat menjadi indikator kualitas laporan keuangan, termasuk earnings persistence.
Kata Kunci: Persistensi Laba; Perbedaan Buku Sementara; Perbedaan Buku Permanen.

INTRODUCTION

Stakeholders will assess the potential for future profits by examining accounting profit in financial statements, making high-quality profit information essential. Even if the profit earned is high, the profit reported in the financial statements must be good quality. The assessment of quality profit can be observed, among other things, through persistent profit, the absence of manipulation, and the avoidance of tax evasion. Earnings persistence refers to the tendency to generate stable profits and reflects the likelihood of sustained profits in the future over an extended period (Hui et al., 2016). It can also be considered a performance evaluation from the perspective of stakeholders. However, the expectations of stakeholders who rely on earnings persistence as a factor in decision-making are not always met.

Changes in tax regulations in Indonesia, particularly following the enactment of the 2021 Tax Regulation Harmonization Law (UU HPP), have impacted Book-Tax Differences (BTD). The UU HPP modifies several aspects of the taxation system, including adjustments to the General Tax Provisions and Procedures Law (UU KUP) and the Income Tax Law (PPh), which affect the reporting of taxable income. The government has also provided tax incentives to support specific sectors to boost tax revenue and stimulate economic growth. These policies focus on transparency, making permanent differences between book and taxable income more complex, thus affecting the quality of profits reported by companies. Earnings persistence is crucial for stakeholders to assess a company's future performance as reflected in the profits generated.

Book-tax differences (BTD), both permanent and temporary, are important phenomena in accounting and taxation that can provide insights into a company's profit quality. Temporary differences, which arise due to the timing differences in revenue and expense recognition between financial reporting and taxation, are often linked to accrual management and deferred tax recording as regulated by PSAK 46/IAS 12. In contrast, permanent differences reflect profit elements relevant only in financial reporting or taxation, often indicating aggressive tax planning strategies. Previous studies have shown that BTD can indicate earnings manipulation risk, as companies may exploit accounting flexibility to enhance profits without increasing taxable income. Moreover, BTD is often associated with tax avoidance practices that can affect investor perceptions of transparency and the credibility of financial reports. Therefore, analysing BTD, both permanent and temporary, is essential for evaluating profit quality from the perspective of regulatory compliance and financial reporting integrity.

From the stakeholder theory perspective, profit quality and BTD are relevant not only to specific stakeholders (such as management and tax authorities) but also to other parties, such as investors, employees, the public, and regulators. This paper examines the relationship between Book-Tax Differences (BTD) and profit quality. BTD represents the difference between income reported in financial statements (book income) and income reported for tax purposes. This discrepancy arises from differences in reporting regulations, where tax regulations focus on optimising state revenue through taxes while accounting regulations prioritise the transparency and reliability of financial statements. This research aims to determine whether BTD significantly influences profit quality, considering its role in earnings management and tax avoidance practices within the legal framework. The sample comprises secondary data in financial statements from companies in the non-cyclical, consumer cyclical, and essential materials sectors listed on the Indonesia Stock Exchange (IDX) from 2015 to 2022.

This research is highly relevant, especially in the context of the ever-changing market dynamics and the need to understand how the differences between accounting and tax practices can affect stakeholders' perceptions of a company's financial performance. Reliable indicators in assessing earnings quality or predicting long-term financial performance (Khasana & Jasman, 2019; Kholilah & Wulandari, 2023).

THEORETICAL REVIEW

Stakeholder Theory. Stakeholder theory arises from the understanding that companies hold responsibilities toward various stakeholders, assuming value creation is a crucial aspect of business activities (Freeman et al., 2010). This theory highlights the significance of businesses considering the interests of diverse groups connected to their operations, such as shareholders, employees, customers, suppliers, creditors, and the wider community. It also includes all individuals or entities impacted by the company's decisions and actions. Maintaining stakeholder support is crucial for ensuring the long-term sustainability of the company. Stakeholders have the right to access information regarding the impacts of organisational activities on them, such as pollution, sponsorships, or safety initiatives (Deegan, 2002).

Earnings quality, within the framework of stakeholder theory, relates to how the earnings reports produced by a company reflect its actual economic performance and provide reliable information to stakeholders. Stakeholders, particularly investors and creditors, consider earnings quality when making informed and rational decisions. Analysing the relationship between Book-Tax Differences (BTD) and earnings quality through the lens of stakeholder theory involves evaluating the interests of various parties, such as investors, governments, creditors, and the community. Large BTDs can indicate earnings manipulation or tax avoidance, which may harm stakeholders like investors (earnings reliability), governments (tax revenue), and creditors (credit risk). This theory helps explain conflicts of interest among stakeholders, such as pressure to report high earnings for investors versus the desire to minimise taxes, which can undermine earnings quality. From this perspective, earnings quality represents trustworthy earnings that reflect the company's accountability to all interested parties. Stakeholders' viewpoints on BTD may diverge. Investors could interpret BTD as an unfavourable indicator of earnings quality, whereas management might employ BTD as a tool to align profit expectations. Management must discern how stakeholders perceive BTD and earnings persistence to navigate communication and adeptly manage anticipations linked to financial performance.

Earnings Persistence. According to (Merkusiwati & Damayanthi, 2020), earnings persistence refers to a company's ability to sustain its performance over the long term, making past earnings a valuable indicator for predicting future profits. Earnings persistence is characterised by profits that tend to remain stable and indicate sustainable profits over a long period (Hui et al., 2016). Tax regulations in Indonesia require fiscal profit to be calculated based on the accounting method used to determine accounting profit, namely the accrual method. As a result, companies are not required to maintain dual bookkeeping for these two reporting purposes. At the end of each year, companies must conduct fiscal reconciliation to determine the amount of fiscal profit by adjusting accounting profit to tax regulations (Uswatul K, A., & Jasman, 2019). (Li, 2019) stated that earnings manipulation affects the persistence and informativeness of current earnings, potentially resulting in either more or less persistent earnings and influencing the informativeness of current earnings regarding future cash flows.

Temporary Book Differences Dan Earnings Persistence. (Jacobus et al., 2023) Explain that temporary book differences represent the timing discrepancies between recognising certain income and expenses under accounting standards versus tax regulations. This concept is critical in accounting and taxation as it influences how companies report their profits to stakeholders and tax authorities. Temporary book differences can be categorised into two types: positive timing differences and negative timing differences, as highlighted by (Gunarto et al., 2019).

Positive timing differences occur when income is recognised earlier in financial statements than under tax regulations. For instance, a company may recognise revenue from product sales upon shipment, but under tax rules, such revenue is recognised only upon receipt of payment. Conversely, negative timing differences arise when expenses are recognised earlier in financial statements than under tax regulations. For example, a company may record depreciation expenses earlier in its financial statements, but under tax rules, such expenses are recognised in future periods, creating a negative timing difference.

(Rofiani et al., 2020) explain that positive corrections to temporary book differences increase taxable income. This means that when companies recognise income earlier, taxable income also increases, subsequently affecting the company's tax obligations. Research by (Ariyani & Wulandari, 2018) indicates that temporary book differences positively impact earnings persistence, reflecting a decline in earnings quality. Earnings persistence refers to the ability of earnings to sustain over time. An increase in temporary book differences can introduce uncertainty about the quality of reported earnings. For instance, if a company frequently recognises income inconsistently with tax regulations, it can erode investor confidence in its financial statements. Further analysis shows that companies with low earnings persistence exhibit more significant earnings fluctuations, influencing investment decisions and stakeholders' risk assessments. However, studies by (Abdullaev & Park, 2019), (Khasana & Jasman, 2019), and (Uswatul K, A., & Jasman, 2019) suggest a contrasting perspective, indicating that temporary book differences negatively impact earnings persistence. Significant timing discrepancies between income and expense recognition can result in unstable reported earnings. For example, if a company consistently recognises income early without matching relevant expenses, reported earnings may appear inflated in the short term but eventually decline in subsequent periods when unmatched expenses materialise. This creates inaccurate earnings portrayals, potentially harming the company in the long run.

Meanwhile, (Putri, 2022) and (Gunarto et al., 2019) reveal that temporary book differences do not significantly impact earnings persistence. These findings suggest that timing differences in income and expense recognition do not necessarily affect reported earnings quality in specific contexts. Further financial data analysis indicates that some companies manage temporary book differences effectively, ensuring earnings stability. For instance, firms with robust accounting systems and sound earnings management policies may mitigate the effects of temporary book differences, maintaining high earnings persistence despite timing discrepancies.

In conclusion, temporary book differences are crucial in recognising a company's income and expenses, affecting taxable income and the quality of reported earnings. Positive and negative timing differences affect tax liabilities and investors' perceptions of earnings persistence. Although research outcomes vary, it is essential to understand that effective management of temporary book differences can help companies maintain earnings stability and reduce uncertainty associated with their financial statements. Therefore, companies must implement sound and transparent accounting practices to ensure that temporary book differences do not compromise their earnings quality in the eyes of stakeholders. Based on the explanation above, the hypothesis can be formulated as follows:

H1: Temporary Book Differences affect earnings persistence.

Permanent Book Differences Dan Earnings Persistence. Permanent book differences occur when there are discrepancies in recognition of income and expenses between financial accounting standards (commercial) and applicable tax regulations (fiscal), and these differences are permanent, meaning they will not reverse in the future. According to (Rofiani et al., 2020), permanent book differences can lead to two types of fiscal corrections: positive and negative corrections. Negative fiscal corrections occur when income recognised in commercial financial statements must be adjusted for tax purposes. This can be due to the income not being subject to tax or already being subject to final income tax (PPh final). The effect of this negative correction is a reduction in taxable income, ultimately lowering the income tax the company has to pay.

Conversely, corrections to permanent expense differences can result in positive fiscal corrections. This correction occurs when expenses recognised in the commercial financial statements cannot be recognised for tax purposes based on tax regulations. As a result, taxable income will increase, leading to a higher income tax liability. Therefore, discrepancies in the recognition of income and expenses between commercial accounting and fiscal accounting can directly affect a company's tax obligations by decreasing or increasing the amount of tax payable.

Regarding earnings persistence, the study by (Ariyani & Wulandari, 2018), (Gunarto et al., 2019), and (Rahesti & Hasibuan, 2021) indicate the opposite, stating that permanent book differences negatively impact earnings persistence. When reported earnings no longer reflect the actual economic performance, the ability of earnings to persist over the long term decreases. Negative fiscal corrections, which reduce taxable income, and positive fiscal corrections, which increase taxable income, can lead to greater volatility in reported earnings, making them harder to predict in the future.

This instability in earnings can reduce the quality of reported earnings and make financial statements less reliable as a reflection of the company’s financial condition. Nevertheless, other studies by (Khasana & Jasman, 2019) and (Kholilah & Wulandari, 2023) reveal that permanent book differences do not significantly impact earnings persistence. These findings suggest that the impact of permanent differences between commercial and tax accounting can vary depending on the context and characteristics of the company. Therefore, careful management is necessary to ensure that these permanent differences do not harm the quality of reported earnings and do not create uncertainty for stakeholders. Based on the explanation above, the hypothesis can be formulated as follows:

H2: Permanent Book Differences affect earnings persistence.

The research model for examining the relationship between Book-Tax Differences (BTD) and earnings persistence is based on stakeholder theory and relevant literature, as shown in **Figure 1.**

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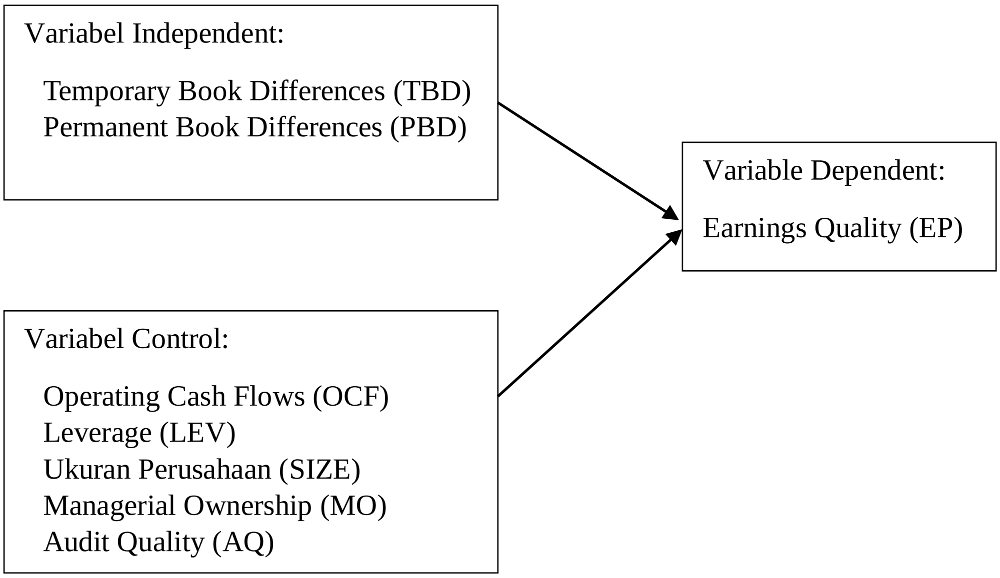

Figure 1. Research Model

METHODS

The object of this research consists of all manufacturing companies within the sub-sectors of Consumer Non-Cyclicals, Consumer Cyclicals, and Basic Materials, excluding financial companies, listed on the Indonesia Stock Exchange (BEI) from 2020 to 2022. The reason for selecting these sectors is based on the characteristics of each industry. The cyclical industries often utilise accounting estimates (e.g., depreciation of assets or allowance for doubtful accounts), which can increase Book-Tax Differences (BTD), and frequently experience fluctuating earnings, leading to varying effective tax rates. As a result, these companies are more likely to exploit the differences between book and taxable income. In contrast, non-cyclical sectors typically exhibit more consistent tax rates due to stable income, leading to potentially lower management of taxes and BTD. The Basic Materials sector is considered to have more complex accounting characteristics, especially regarding revenue and expense recognition, such as enormous production costs, the use of long-term fixed assets, and fluctuations in raw material prices. The differences in recognition between commercial accounting standards and tax regulations can affect the quality of reported earnings. The sample in this research was collected using the purposive sampling method, which established the following criteria:

Table 1. Sample Selection

No.	Criteria	Number of Companies	Number of Data
1.	Corporations operating within the Consumer Non-Cyclicals, Consumer Cyclicals, and Basic Materials sectors that are officially listed on the Indonesia Stock Exchange (IDX) throughout the 2015 to 2022 timeframe.	202	447

2.	Corporations within the aforementioned sectors that have not issued financial statements conclude with a fiscal year-end date of December 31 during the 2015 to 2022 period.	(17)	(51)
3.	Companies in the Consumer Non-Cyclicals, Consumer Cyclicals, and Basic Materials industries that failed to present their financial reports denominated in Indonesian Rupiah over the 2015 to 2022 interval.	(36)	(108)
4.	Companies in the designated sectors recorded negative post-tax profits during the 2015 to 2022 timeframe.	(92)	(276)
5.	Companies within the Consumer Non-Cyclicals, Consumer Cyclicals, and Basic Materials categories omitted comprehensive disclosures regarding positive operating cash flows during the 2020 to 2022 period.	(16)	(48)
6.	Companies in the aforementioned sectors did not provide complete details on fiscal adjustments within the 2020 to 2022 timeframe.	(6)	(18)
	Total Sample	**35**	**105**

Source: Research Sample Criteria

Earnings Quality. Earnings quality is proxied by earnings persistence, measured using a regression model.

$$E_{it} = \beta_o + \beta_1 E_{it-1} + \varepsilon_{it} \quad (1)$$

E_{it} refers to the company's earnings for the current year, while E_{it-1} represents the company's earnings for the previous year. β_0 denotes the constant, and β_1 reflects earnings persistence, indicating the extent to which the previous year's earnings influence the current year's earnings. Lastly, ε_{it} represents the error term.

Temporary Book Differences. The calculation of Temporary Book Differences in this study uses a ratio scale of measurement based on the calculations made by (Uswatul K, A. & Jasman, 2019).

$$\text{TBD} = \frac{\textit{Total Temporary Differences}}{\text{Total assets}} \quad (2)$$

TBD refers to temporary Book Difference, the proportion of temporary differences between financial and tax reporting, standardised by dividing the temporary differences by total assets.

Permanent Book Differences. This study measures Permanent Book Differences using a ratio scale, following the methodology established by (Ariyani & Wulandari, 2018).

$$\text{PBD} = \frac{\text{Total Permanent Book Differences}}{\text{Total assets}} \quad (3)$$

PBD refers to Permanent Book Differences, calculated as the ratio of Total Permanent Differences divided by Total Assets.

Operating cash flow is assessed using a ratio-based scale, following the approach outlined by (Humayah & Martini, 2021).

$$OCF = \frac{\text{Total operating cash flow}}{\text{total assets}} \quad (4)$$

OCF is Operating Cash Flow, a ratio calculated by dividing the total operating cash flow by total assets.

Leverage. Leverage is determined by contrasting total liabilities with overall asset value, following the methodology employed by (Arisandi & Astika, 2019).

$$LEV = \frac{\text{Total debt}}{\text{Total assets}} \quad (5)$$

LEV refers to Leverage, a ratio scale measured by dividing total debt by total assets**.** **Company Size.** This study measures company size using a ratio-based scale, following the computations previously undertaken by (Arisandi & Astika, 2019).

$$SIZE = Ln\ (\text{Total Assets}) \quad (6)$$

SIZE refers to the size of a company, calculated using the natural logarithm of total assets.

Managerial Ownership. The calculation of managerial ownership in this study is performed using a scale that measures the percentage of management's stock holdings relative to the total outstanding shares based on the methodology previously applied by (Nurdiniah & Yanti, 2021):

$$MO = \frac{\textit{The number of management's shares}}{\textit{total outstanding shares}} \times 100 \text{ per cent} \quad (7)$$

MO refers to Managerial Ownership, a ratio scale calculated by dividing the number of management's shares by the total outstanding shares.

Audit Quality. This study's assessment of audit quality employs a dummy variable, assigning a value of 1 to firms audited by Big Four firms and a value of 0 to those audited by non-Big Four firms (Putri, 2022).

Data Analysis Method. The data analysis method in this research is processed using the E-views software with the following equation:

$$EP_{it} = \alpha + \beta_1 TBD_{it} + \beta_2 PBD_{it} + \beta_3 OCF_{it} + \beta_4 LEV_{it} + \beta_5 SIZE_{it} + \beta_6 MO_{it} + \beta_7 AQ_{it} + e_{it} \quad (8)$$

EP is Earnings Persistence, α is Constant, β_1 - β_9 are Coefficients, TBD is Temporary Book Differences, PBD is Permanent Book Differences, OCF is Operating Cash Flow, MO is Managerial Ownership, LEV is Leverage, AQ is Audit Quality, SIZE is Company Size, e_{it} is error.

RESULTS

The results of the descriptive statistical analysis are presented in **Table 2**.

Table 2. Descriptive Statistics Results

Variable	N	Minimum	Maximum	Mean	Standard Deviation
EP	105	-3.384	2.607	0.394	0.718
TBD	105	-0.295	0.231	-0.002	-0.043
PBD	105	-0.081	0.327	-0.002	0.003
OCF	105	0.001	1.896	0.148	0.199
LEV	105	0.000	1.694	0.412	0.235
SIZE	105	26.483	32.826	29.449	1.432
MO	105	0.000	0.545	0.059	0.125
AQ	105	0	1	0.530	0.501

Source: Data Processing Results

Table 2 shows the descriptive statistics; it can be observed that the minimum earnings persistence value is negative (-3.384). This indicates that, although the earnings consistently continue from one period to the next, the amount gradually declines. As a result, while earnings remain, their magnitude diminishes over time. If earnings are persistent but tend to decline, the company can still generate consistent earnings; however, the amount of earnings produced decreases from period to period. This could be a sign of internal or external challenges affecting business performance, which, if not addressed, could threaten the company's financial health. The decline in earnings may occur due to an imbalance between continuously decreasing revenues and rising costs.

Table 3. Frequency Test Results for Audit Quality

		Number	Percentage
PAF non-big four	0	49	46.700
PAF big four	1	56	53.300
Total		**105**	**100**

Source: Data Processing Results

Table 3 shows that 46.700 per cent of the companies in the sample utilise audit services provided by Big 4 Public Accounting Firms (PAF). Non-Big 4 PAFs audit the remaining 53.300 per cent. This proportion reflects a tendency for companies to select auditors based on scale, reputation, or audit requirements that align with their business characteristics. Companies that engage Big 4 PAFs typically operate on a larger scale or are in sectors requiring higher trust from external parties, such as investors and creditors. Conversely, Non-Big 4 PAFs are often chosen by companies with more minor operational scales or those operating in less complex environments. This indicates a segmentation in auditor selection preferences, which may be influenced by various factors, including audit costs, compliance needs, and the auditor's reputation in enhancing the credibility of financial statements.

Table 4. Results of t-Test

Variable	B	*Sig.*
(Constant)	-3.679	0.142
TBD	-0.892	0.048**
PBD	-0.190	0.921
OCF	0.631	0.125

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LEV	-0.661	0.229
SIZE	0.315	0.074*
KM	-0.109	0.857
AQ	-0.405	0.034**

* sig. α = 10 percent; ** sig. α = 5 percent; *** sig. α = 1 percent
Source: Data Processing Results

The t-test results in **Table 3** show that temporary book differences (TBD) have a significance value of 0.048, which is smaller than the alpha level of 0.050. This results in the acceptance of H1, concluding that temporary book differences (TBD) hurt earnings persistence. The findings indicate that the greater the temporary differences between accounting earnings and taxable income, the lower the ability of earnings to sustain or continue in the future. Earnings fluctuations influenced by TBD can lead to uncertainty in profit projections, driven by unexpected changes in earnings components arising from temporary differences, thus making profit forecasts less reliable. This uncertainty may also affect the company's strategic decisions, including financial planning and investments, as unstable earnings predictions can obscure the potential outlook for future financial performance (Abdullaev & Park, 2019; Khasana & Jasman, 2019; and Uswatul K, A. & Jasman, 2019). From the stakeholder theory perspective, these findings highlight negative impacts on stakeholders, particularly investors and creditors, who expect stable and predictable earnings. Significant temporary differences indicate potential uncertainty from earnings management strategies or non-transparent tax practices, undermining stakeholder confidence. Earnings volatility driven by TBD amplifies uncertainty in future earnings forecasts, which may negatively influence investment and lending decisions. In conclusion, companies with high levels of TBD are more likely to fail to meet stakeholder expectations for sustainable earnings quality, ultimately reducing earnings persistence and weakening relationships with various stakeholders.

Permanent book differences (PBD) exhibit a significance value of 0.921, greater than the alpha level of 0.050, leading to rejecting H2. This indicates no significant effect of permanent book differences (PBD) on earnings persistence. This outcome may occur because the accounting accrual process does not influence permanent differences and does not have long-term effects on financial statements (Kholilah & Wulandari, 2023). Additionally, permanent differences are consistent and easily predictable, meaning they do not disrupt perceptions of earnings quality. Thus, earnings quality tends to be influenced by temporary differences, which have the potential to create uncertainty and impact the reliability of earnings over time. This result means stakeholders, such as investors and creditors, are unaffected by the permanent differences between accounting earnings and taxable income. Since PBDs are consistent and easily predicted, they do not create significant uncertainty and, therefore, do not affect perceptions of earnings quality. In contrast, stakeholders are more likely to focus on temporary differences, which introduce uncertainty and reduce the long-term reliability of earnings, directly influencing decision-making.

Permanent differences, which do not have long-term effects, do not significantly affect the relationship between the company and its stakeholders due to their stable and transparent nature. Consequently, PBD does not disrupt stakeholders' *perceptions of the quality of earnings.*

Operating cash flow (OCF) has a significance value of 0.125, exceeding the threshold of α (0.050), thereby leading to the rejection of H3. This indicates that OCF has no significant effect on earnings persistence. This outcome may stem from the reliance on external financing when a company's cash outflows surpass its inflows. Since businesses have alternative funding options beyond operational cash flows, the magnitude of OCF does not directly influence their activities or performance (Olivia & Viriany, 2021). Within the framework of stakeholder theory, these findings suggest that stakeholders, such as investors and creditors, do not heavily prioritise OCF size when assessing earnings quality. Instead, they focus on other factors more pertinent to a company's long-term performance, such as strategic management and operational efficiency, rather than solely depending on operational cash flows. Consequently, even if OCF does not significantly impact earnings quality, businesses can still meet stakeholder expectations through holistic resource and strategy management, which is not entirely reliant on operational cash flows.

Leverage (LEV) has a significance value of 0.229, exceeding α (0.050), leading to the rejection of H4 and indicating no significant effect of LEV on earnings persistence. This may be attributed to using debt for funding expansion or business growth. Since such endeavours often require substantial capital and extended time horizons, the returns from invested capital may not be realised in the short term (Arisandi & Astika, 2019). From a stakeholder theory perspective, although companies use leverage to finance expansions, the benefits of such investments may not be immediately reflected in short-term earnings. As a result, stakeholders may not perceive a strong correlation between debt levels and the stability of long-term earnings.

Firm size (SIZE) has a significance value of 0.074, exceeding α (0.100), which supports the acceptance of H5 and indicates a positive effect of SIZE on earnings persistence. Larger companies tend to possess more significant resources, more robust internal control systems, and better access to financial markets, enabling them to stabilise and consistently manage earnings. In this context, stakeholders, particularly investors and creditors, are more inclined to trust that larger firms can generate sustainable earnings and reduce uncertainty in their financial reports. Moreover, large firms are often subject to greater regulatory scrutiny, encouraging adherence to accounting standards, reducing tax avoidance practices, and enhancing transparency in financial reporting. These factors collectively contribute to improved earnings quality. Therefore, from a stakeholder theory perspective, these findings imply that larger firms are better positioned to meet stakeholder expectations regarding earnings stability and transparency, thereby achieving more remarkable earnings persistence.

Managerial ownership (MO) has a significance value of 0.857, exceeding α (0.050), leading to rejecting H6 and suggesting no significant effect of MO on earnings persistence. The average managerial ownership value (0.059), closer to the minimum value (0.000), indicates that managerial ownership in the study sample is relatively low. This aligns with stakeholder theory, wherein managers who lack substantial ownership stakes in the company may be less incentivised to enhance sustainable earnings quality in the long term, potentially creating uncertainty for stakeholders in assessing earnings stability and reliability. Despite their role in operational decision-making, the limited ownership stakes suggest reduced personal commitment to the persistence of company earnings.

Audit quality (AQ), with a coefficient of -0.405 and a significance value of 0.034 (below α = 0.050), leads to the acceptance of H7, indicating a negative effect of AQ on earnings persistence. This implies that higher audit quality reduces earnings persistence. This result highlights that auditors aim to evaluate the alignment of a company's financial statements with financial accounting standards (Palupi, 2022). High-quality audits may decrease earnings persistence by detecting income that should not be recognised, thus curbing practices like earnings manipulation or earnings management that undermine long-term earnings stability. This perspective suggests that high-quality auditors are stricter in assessing accruals and recognising revenues and expenses, thereby limiting the reporting of unsustainable short-term earnings. From the standpoint of stakeholder theory, although higher audit quality may reduce earnings persistence, it benefits stakeholders over the long term by ensuring that reported earnings more accurately reflect the company's actual performance, reducing uncertainty and bolstering trust in the company. Investors and creditors, who rely on dependable financial reports for investment and credit decisions, value high audit quality despite its potential negative impact on short-term earnings projections.

DISCUSSION

The research findings indicating that temporary book-tax differences (TBD) hurt earnings persistence can be further understood by considering investors' perspectives as key stakeholders in investment decision-making. In this context, it is important to elaborate on what temporary book-tax differences mean and how they interact with a company's financial statements. Temporary book-tax differences refer to the timing differences between the recognition of income and expenses in the accounting books and the recognition of the same for tax purposes. These differences can create significant uncertainty regarding the reliability of the company's reported earnings.

This uncertainty arises because investors view these differences as an indication of potential earnings manipulation or management's application of aggressive accounting strategies. For example, investors may question its accuracy if a company reports high profits in its financial statements but has significant TBD. They may believe management is attempting to "embellish" the financial statements to attract investor attention, which could ultimately lead to unwise investment decisions. This aligns with the research conducted by (Abdullaev & Park, 2019), which shows that investors often perceive temporary book-tax differences as a negative signal regarding the quality of earnings. Furthermore, TBD's negative impact on investor perception stops at uncertainty and extends to its effect on the company's future performance projections.

When investors feel that reported earnings are unreliable, they tend to lower their expectations for future profit growth. For instance, if a company shows high TBD for several consecutive periods, investors may begin to question the company's ability to sustain stable earnings. This can lead to decreased investment interest, affecting the company's stock price. Additionally, (Khasana & Jasman, 2019) explain that a high level of temporary differences between financial statements and tax reports is often associated with earnings instability. This instability creates significant challenges, particularly for stakeholders such as investors and creditors, as fluctuating earnings are often perceived as an indication of higher risks to the sustainability of business operations.

In this context, earnings instability can also lead to uncertainties that undermine stakeholders' trust in the transparency and credibility of the company's financial information. When a company consistently recognises revenue prematurely without matching the associated expenses, reported earnings may appear favourable in the short term. However, this mismatch is temporary, as unrecognised expenses will emerge in subsequent periods, leading to a significant decline in earnings. This results in earnings figures that do not accurately reflect the company's financial condition, potentially influencing stakeholders' perceptions of the company's stability. From the stakeholder theory perspective, this phenomenon highlights the negative impact on the relationship between the company and its key stakeholders.

Investors, creditors, and other parties who rely on financial information for strategic decision-making may feel disadvantaged by inaccurate earnings representation. Earnings instability weakens their trust and risks reducing the financial support critical to the company's sustainability and growth. Furthermore, this situation could harm the company's reputation among the public and affect relationships with non-financial stakeholders, such as employees and local communities. Therefore, companies with high levels of temporary differences must carefully manage their accounting policies to ensure that financial statements reflect the actual state of the business. Doing so helps strengthen stakeholder trust and supports long-term sustainability.

The finding that company size positively influences earnings persistence is relevant to various stakeholders, including regulators, creditors, and the broader business community. Company size is often considered a key indicator of its ability to survive and grow in a competitive market. Larger companies tend to have better access to resources, whether financial, human, or technological. This access enhances their operational capacity and strengthens more effective internal control systems. With a strong control system, companies can minimise the risk of accounting errors and fraud, increasing the reliability of their financial statements. As one of the key stakeholders, Regulators are highly concerned with companies' stability and compliance with applicable regulations. Large companies with abundant resources are typically more capable of meeting stringent regulatory requirements. They tend to have well-organised compliance departments, which ensure that all operational aspects and financial statements adhere to established standards.

This signals to regulators that the company has financial stability and a commitment to operate with ethics and responsibility. For instance, when a large company undergoes an audit, it can demonstrate better and more transparent records than smaller companies, which may lack the same systems. Conversely, creditors also view company size as an indicator of the ability to maintain stable cash flows. In this context, large companies are often considered more capable of managing debt and meeting their financial obligations. Creditors tend to conduct more in-depth risk analyses on large companies, which often show that these companies have a lower risk of default. This is due to better income diversification and attracting more significant investments. For example, large companies operating in multiple sectors or geographic regions are more likely to mitigate the negative impact of market fluctuations than small companies, which may rely heavily on one product or market. A company's size significantly impacts potential investors' investment decisions, typically measured by total assets. The larger the total assets, the larger the scale of the company. Companies with substantial assets are more stable and better equipped to generate profits than those with smaller assets. Larger companies are often associated with higher expectations for profit growth. This significant profit growth can influence earnings persistence and the company's sustainability in attracting investor interest (Dang, H. N et al., 2024 Saptono et al., 2024).

However, it also has the potential to raise suspicions about possible profit manipulation practices. Trust is crucial in business, where investment and lending decisions often depend on a company's reputation and stability. When stakeholders believe a company has a solid foundation, they are more likely to establish long-term relationships through investments, loans, or strategic partnerships. From the stakeholder theory perspective, it is essential to understand that every company's decision affects the owners or management and the entire ecosystem involved. This theory emphasises that companies are responsible for addressing the interests of all parties involved, including employees, customers, suppliers, and the broader community. In this context, large companies with high earnings persistence benefit shareholders, create more stable job opportunities, enhance customer trust, and contribute positively to the local economy.

The finding that company size positively influences earnings persistence has broad implications for various stakeholders. With better access to resources, more muscular internal control systems, and high compliance with regulations, large companies create stability that sends positive signals to regulators, creditors, and the business community. Existing research shows that company size can improve operational stability, strengthening stakeholders' trust in decision-making. Therefore, it is important for companies to consistently consider these factors in their business strategies to maintain mutually beneficial relationships with all stakeholders.

The negative impact of audit quality on earnings sustainability provides important insights for auditors, management, and shareholders (Palupi, 2022). High audit quality improves the transparency of financial statements and frequently identifies aggressive accounting practices or necessitates more conservative adjustments. Consequently, this can diminish perceptions of short-term earnings stability. For example, auditors may recommend more conservative adjustments if a company uses overly optimistic accounting methods to report earnings. Although these adjustments aim to reflect a more accurate economic reality, they can reduce reported earnings, which could ultimately affect shareholders' investment decisions. For auditors, this situation presents an opportunity to improve the quality of financial reporting.

By conducting more rigorous and in-depth audits, auditors can assist the company in identifying areas where accounting practices can be improved. However, a significant challenge for management lies in effectively explaining the detected reduction in earnings to shareholders. Within the framework of stakeholder theory, it is essential to recognise how management decisions can impact various parties with an interest. Management must communicate that, although there may be a short-term decline in earnings, enhancing financial reporting quality will provide more significant long-term advantages. At the same time, they must also acknowledge that stringent audits can create perceptions of instability due to fluctuations in short-term earnings.

This highlights a trade-off that needs to be considered. On the one hand, rigorous audits can enhance the integrity of financial statements, but on the other hand, they can raise doubts among shareholders about the company's earnings stability. For instance, a company in the technology industry may experience significant earnings fluctuations due to market uncertainty. If auditors find that the company has reported higher earnings than what was the case, the necessary adjustments could result in a sharp decline in reported earnings. Although this step is essential to ensure the accuracy of financial statements, shareholders may react negatively to this decline, which could lead to a drop in stock prices and reduced investor confidence.

From a stakeholder theory perspective, the relationship between auditors, management, and shareholders is crucial. Auditors are responsible for ensuring that financial statements reflect the company's actual state, while management provides clear and transparent information to shareholders. A mismatch between the two can create uncertainty and distrust among stakeholders. Therefore, management must build effective communication with shareholders, explaining that the steps taken to improve audit quality and financial reporting are in the company's long-term interest. The negative impact of audit quality on earnings sustainability presents challenges and opportunities for auditors, management, and shareholders. While stringent audits can uncover aggressive accounting practices and result in a short-term decline in earnings, these steps are crucial for improving the transparency and accuracy of financial statements. Management must be able to communicate the importance of these steps to shareholders. Hence, they understand that despite short-term earnings fluctuations, these measures will lead to more excellent stability and growth in the future. Thus, strong and trusting relationships among all stakeholders will be key to achieving long-term sustainability and success for the company.

Managerial ownership should enhance transparency and managerial accountability to stakeholders. However, suppose managers do not entirely focus on the interests of all stakeholders (e.g., long-term shareholders vs. short-term shareholders). In that case, it can reduce the company's ability to maintain earnings persistence. Stakeholder theory emphasises that managers should make decisions that balance the interests of shareholders, creditors, employees, and others.

The research findings indicate that permanent book-tax differences (PBD) do not significantly affect earnings persistence and have various implications for stakeholder groups. PBD refers to the differences between permanent revenue and expense recognition between financial accounting statements and tax reports. Examples include non-deductible expenses, such as fines or certain legal costs, which will never be recognised as tax-deductible. Its lack of influence on earnings persistence suggests that PBD does not provide significant signals about future earnings stability, which can affect stakeholders' investment decisions and risk assessments. For investors and creditors, this finding is crucial. The fact that PBD does not significantly affect earnings persistence implies that these differences are unreliable in assessing earnings quality or predicting long-term financial performance (Khasana & Jasman, 2019; Kholilah & Wulandari, 2023).

PBD more often reflect structural differences in tax systems rather than indications of earnings manipulation. For example, companies operating in multiple countries may receive varying tax incentives, ultimately affecting PBD. Consequently, investors and creditors prioritise other indicators, such as operational cash flow and fundamental performance metrics, when assessing investment feasibility or credit risk. This underscores the need for caution when interpreting financial statements, as differences may influence tax policies. From the perspective of tax regulators, PBD is more relevant as a tool for tax compliance than a reflection of accounting earnings quality. (Saptono et al., 2024) highlight that PBD often results from variations in international tax policies, such as tax incentives, which do not necessarily directly impact the financial statements other stakeholders rely upon.

For instance, companies investing in countries with lower tax rates may report higher PBD, but this does not always indicate better financial performance. Therefore, consistent and transparent tax regulations are essential, without assuming that PBD directly affects earnings stability. For corporate management, the minimal influence of PBD on earnings persistence provides an opportunity to focus on other efforts to enhance earnings quality. Management can strengthen internal controls and improve cash flow management, which are more relevant to enhancing the company's financial performance. This approach also creates opportunities to adopt sustainable strategies to increase the company's attractiveness to investors.

Meanwhile, auditors can leverage these findings to improve stakeholder communication by explaining that PBD does not necessarily indicate earnings manipulation. Instead, PBD should be viewed as a reflection of differences in tax regulations across jurisdictions. Thus, a deeper analysis of the relationship between PBD and earnings persistence offers valuable insights for various stakeholders. Investors and creditors are reminded not to rely solely on PBD as a performance indicator but to consider other financial metrics. Tax regulators must recognise that PBD does not always reflect earnings quality, highlighting the need for more consistent policies. Management can use these insights to focus on innovation and strengthen internal operations, while auditors can enhance transparency in their communication. Understanding the distinction between PBD and earnings persistence comprehensively is crucial, as even though PBD does not directly influence earnings sustainability, its implications for various stakeholders are broad and complex. Through this approach, all parties can make more informed decisions to navigate the dynamic market environment effectively.

This research aims to empirically test the influence of Book Tax Differences, consisting of Temporary Book Differences and Permanent Book Differences, on earnings persistence in companies within the consumer cyclical, cyclical, and essential materials sectors listed on the Indonesia Stock Exchange (BEI) from 2020 to 2022. This research is highly relevant, especially in the context of the ever-changing market dynamics and the need to understand how the differences between accounting and tax practices can affect stakeholders' perceptions of a company's financial performance.

Meanwhile, the research findings show that Permanent Book Differences, Operating Cash Flow, Leverage, Firm Size, and Managerial Ownership do not significantly affect earnings persistence. The ineffectiveness of these variables in influencing earnings sustainability suggests that these factors may be less relevant in the context of specific stakeholders. For instance, high managerial ownership is often associated with better decision-making and improved company performance. However, if managerial ownership is not accompanied by adequate transparency and accountability, stakeholders may remain sceptical about the company's ability to sustain earnings in the future. Furthermore, while high leverage can increase a company's risk, managing debt effectively and generating positive cash flow should not hinder earnings persistence. However, in practice, stakeholders often prefer to see stable and predictable results rather than taking risks associated with complex capital structures.

Therefore, companies need to develop more effective strategies for managing stakeholder expectations related to leverage and cash flows. From the stakeholder theory perspective, companies need to understand the expectations and needs of key stakeholders. The negative influence of Temporary Book Differences on earnings persistence highlights the uncertainty in earnings that can reduce stakeholders' trust in the stability of a company's performance. Companies should proactively communicate their financial information and business strategies to stakeholders. For example, companies could hold regular meetings with investors and creditors to explain the factors affecting earnings and provide more explicit guidance on future performance projections. Companies should consider improving operational performance and cash flow to support earnings persistence.

While the study shows that operating cash flow does not have a significant effect, it is important to note that stakeholders often see strong cash flow as a better indicator of financial health. By improving operational efficiency and cash flow management, companies can strengthen their position in the eyes of stakeholders, which in turn can increase trust and support for the company. Within the framework of stakeholder theory, companies need to realise that uncertainty in earnings can reduce stakeholders' trust.

Therefore, they must develop more effective strategies for managing stakeholders' expectations and needs. By improving transparency, accountability, and operational performance, companies can create a more stable and predictable environment, ultimately supporting earnings sustainability and long-term growth.

Leverage can provide financial flexibility, but on the other hand, debt can also introduce risks that impact a company's financial stability. However, debt does not always directly and powerfully impact earnings persistence. Earnings persistence is influenced by internal factors such as operations, earnings management, and the quality of earnings. If leverage is only used to boost short-term profits, without considering its impact on long-term earnings sustainability, its effect on earnings persistence may be limited. Additionally, the impact of leverage on earnings persistence depends on how debt is utilised within the company's capital structure. If debt is only used for short-term purposes without a well-defined management strategy, leverage may not significantly impact earnings persistence.

CONCLUSION

The results of this study indicate that Temporary Book Differences (TBD) and audit quality hurt earnings persistence. This suggests that temporary differences between book and tax income can create uncertainty for investors and creditors. For example, suppose a company reports higher profits on its financial statements than those reported for tax purposes. In that case, this can raise doubts among stakeholders about the sustainability of those earnings. This uncertainty may lead to decreased investor confidence, affecting stock prices and the company's access to financing. In the long term, this could negatively impact the company's value and attractiveness in the capital market.

On the other hand, although high audit quality negatively affects earnings persistence, it assures the transparency and accuracy of financial statements. In stakeholder theory, good audit quality is the company's effort to meet stakeholders' expectations, especially investors and creditors. When financial statements are well-audited, stakeholders are likely to feel more confident in the information presented, even if there are indications that the reported earnings may not be fully sustainable. Companies need to consider improving the quality of their financial reporting while maintaining transparency with stakeholders.

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