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# THE EFFECT OF BOOK TAX DIFFERENCES AND TOTAL ASSET TURNOVER ON PROFIT GROWTH WITH COMPANY SIZE AS A MODERATING VARIABLE

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***Abstract***
*This research is entitled The Effect of Book Tax Differences and Total Asset Turnover on Profit Growth with Firm Size as a Moderating Variable. This research aims to empirically test and prove the influence of Book Tax Differences and Total Asset Turnover on Profit Growth moderated by Firm Size for Energy Sector companies listed on the Indonesia Stock Exchange in 2018-2022. This research was conducted using quantitative methods and the sampling technique used was purposive sampling. The population in this research is all energy sector companies listed on the Indonesia Stock Exchange during the 2018-2022 period. The number of companies used as research samples was 7 companies. The results of this research indicate that book tax differences and total asset turnover simultaneously have a significant effect on profit growth. Meanwhile, the result of research partially proves that only the book tax differences variable has an effect on profit growth. Firm size as a moderating variable is able to strengthen the influence of book tax differences on profit growth. However, firm size does not strengthen or weaken the influence of asset turnover on profit growth.*
***Keywords**: Book Tax Differences, Company Size, Profit Growth, Total Asset Turnover*

## INTRODUCTION

One of the goals of establishing a company is to obtain maximum profits (Petra et al., 2020). Profits can affect the survival of the company as well as the welfare of related parties. To find out whether the business that is built is growing, can be assessed through profit growth, Profit growth predictions will be very useful for external parties, especially potential investors who want to invest their capital, as well as for internal parties to evaluate.

Throughout 2022, almost all of MIND ID's subsidiaries in mining deposits recorded good financial performance. For instance, the revenue of PT Bukit Asam Tbk (PTBA) increased dramatically by 45.8% year over year. The increase in revenue is not only due to soaring commodity prices, but also because of the company's ability to take advantage of momentum. For example, when there is a global energy crisis, PTBA takes advantage of the momentum by exporting coal to Europe so that it can increase revenue. The significant increase in profit is not only due to soaring sales growth, but also due to operational efficiency. For instance, in ANTM, the gross profit margin ratio increased from 17% in 2021 to 18% in 2022. Meanwhile, operating profit margin was also pushed up from 7% to 9% in 2022, this happened due to ANTM's operational efficiency. As a result, net profit margin was also pushed up from 5% to 8% in 2022. Furthermore, PTBA, an established coal producer, had a significant increase in its net profit margin in 2022, rising from 27% to 29% (CNBC Indonesia, 2023)

The company's profit has the potential to increase or decrease every year. This increase or decrease is called profit growth (Yasmine and Dillak, 2021). Good company profit growth shows that the company has good financial management skills, which will ultimately increase the company's value. Therefore, profit is an important element that is the main focus for financial report users. Financial statements will be prepared in such a way as to convey the best financial condition. To get the attention of possible investors, the company will attempt to create large or attractive company profit. Companies can also make profits look down, with the aim of saving large tax payments.

Indonesia's tax ratio has been on a downward trend. Indonesia's tax ratio has continued to slope in the last 20 years. This decrease makes Indonesia's tax ratio one of the lowest tax ratios in the ASEAN. According to OECD records, the ASEAN country with the highest tax ratio in 2021 is Vietnam with a ratio of 22.7%, followed by the Philippines (17.8%), Thailand (16.5%), Singapore (12.8%), and Malaysia (11.4%) (CNBC Indonesia, 2023). The tax ratio has been sloping and tends to decline for the last 20 years, due to tax avoidance carried out by taxpayers, so that the tax revenue ratio tends to slope down. Most taxpayers are not willing to pay large taxes. While the benefits of the tax itself cannot be felt directly, taxpayers prefer to use their money for the survival of business entities rather than depositing it into the state treasury.

Tax avoidance can be done using methods that are permissible for certain parties to avoid paying taxes without violating the rule of law (Astuti et al., 2023). One way to avoid paying taxes is to take advantage of book tax differences. In calculating the company's profit, there is a difference in recognition in the calculation of profit according to accounting standard (book income) and profit according to tax regulation (taxable income) or often referred to as book tax differences (Pradhita et al., 2022). Book tax differences are the difference between profits calculated according to accounting standard and profits calculated according to tax regulation (Yulianto and Lindawati, 2022). These book tax differences can be used by companies for tax avoidance, namely by manipulating their fiscal profits. So that the basis for imposing taxes becomes smaller. The difference profit calculation that occurs every year due to book tax differences will have an impact on profit growth, because the company must readjust its accounting profit calculation in accordance with relevant tax regulations.

Another factor that affects profit growth is asset turnover. Companies with growing profits will have a lot of wealth to provide more opportunities to make a profit. According to Fahrudin and Dillak (2022), asset turnover shows the company's ability to manage all assets to generate sales. In general, it is said that the higher the asset turnover is better, because it is a sign that management can utilize each rupiah of assets to generate sales and increase profit growth.

In addition, a company’s size can also affect profit growth. The size of the company can determine whether a company performs well or not in managing its wealth to generate profits (Mubarok, 2017). The size of a company can be measured using the total assets owned by the company (Habibah and Margie, 2023). Companies with a large number of assets can be classified as having a big company size and can be predicted to have high profit growth. On the other hand, companies with a small amount of assets will face a lot of uncertainty because companies with small sizes will react more quickly to sudden changes (Efendi et al., 2022).

Based on previous research conducted by (Yulianto and Lindawati, 2022), it shows that book tax differences and asset turnover have a simultaneous impact on profit growth. The results of the research by Fahrudin and Dillak (2022) also stated that asset turnover and company size have a significant effect on profit growth. And in line with research conducted by Habibah dan Margie (2023) stated that book tax differences and firm size have a simultaneous impact on profit growth. Furthermore, Mubarok (2017) research provides evidence that the relationship between variable book tax difference and profit growth might be strengthened by the size of the company. However, in contrast to the results of the study revealed by Tamba and Sembiring (2018) that simultaneously or partially asset turnover does not have a significant effect on profit growth. Hapsari et al. (2017) also stated that partially book tax differences have no effect on profit growth, while company size has a negative and significant influence on profit growth.

Seeing the importance of the company's profit growth rate and the many other factors that can affect it, in this study the company size is used by the researcher as a moderation variable that will strengthen or weaken the relationship between the independent variable, namely book tax differences and asset turnover on the dependent variable, namely, profit growth. In addition, with the existence of previous research and differences in several research results, the researcher conducted this research with the aim of proving and empirically testing the influence of book tax differences and asset turnover on profit growth using company size as a moderation variable.

## LITERATURE REVIEW

### Signalling Theory

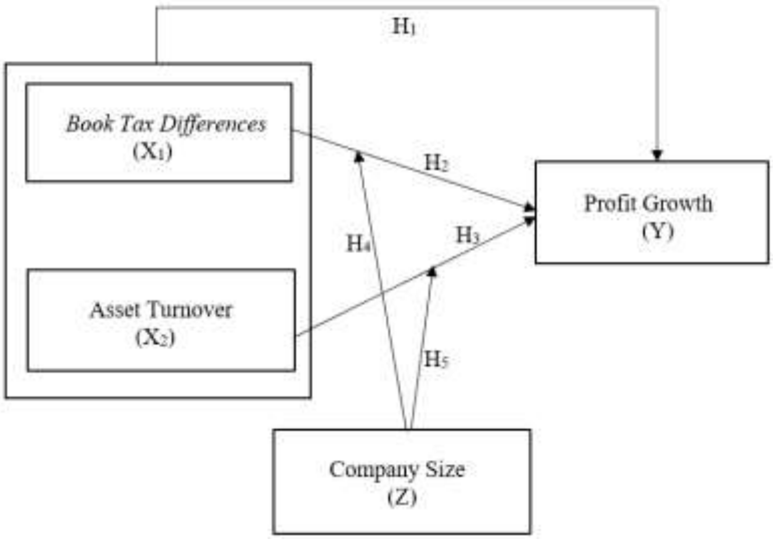
The signalling theory was first proposed by Spence (1973) which explained that the sender (owner of information) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). According to Brigham and Houston (2019) signal theory is an action carried out by company management that provides clues to investors about how the company views the company's future prospects. Where the company will provide signals in the form of information in the form of financial statements that can influence investor decisions Martini and Siddi (2021). The relationship between signal theory and profit growth is that this profit growth information can be a good signal for parties outside the company, because showing high profit growth means showing good company performance. Profit growth will affect investors' decisions, because profit is an indicator to find out whether the company's performance is increasing or decreasing Martini and Siddi (2021).

### Agency Theory

Agency theory as proposed by Jensen and Meckling (1976) is a theory that states that the separation between the owner (principal) and the management (agent) of a company can cause agency problems. Agency theory assumes that all individuals act in their own interests *(Jensen & Meckling, 1976)*. Related to the growth of company profits, agency theory has a very close influence on all performance in the company. One of the parameters of the company's performance assessment is profit growth (Yulianto and Lindawati, 2022). Information about profit growth is needed to measure the achievement of goals from principals and management. The principal does not know how the management manages and earns profits and predicts profits every year, some information that is not known by the principal is deliberately hidden or not presented actually for the benefit of management, especially when it comes to measuring management performance. Therefore, this agency theory relates to the agent's motivation to adopt policies that encourage increased profits as a means to maximize his interests and obtain more additional capital and loans.

### Conceptual Framework

**Figure 1. 1 Conceptual Framework**




**Source**: Author Processed Data (2024)

### Hypothesis

According to Sugiyono (2022:99) a hypothesis is a provisional answer to the formulation of a research problem, therefore the formulation of a research problem is usually prepared in the form of a question sentence. Based on the framework of thinking and theoretical foundations, the research hypothesis is as follows:

$H_1$: It is suspected that there is an influence of Book Tax Differences ($X_1$) and Asset Turnover ($X_2$) on Profit Growth (Y).

$H_2$: It is suspected that there is an influence of Book Tax Differences ($X_1$) on Profit Growth (Y).

$H_3$: It is suspected that there is an effect of Asset Turnover ($X_2$) on Profit Growth (Y).

$H_4$: It is suspected that there is a relationship between Book Tax Differences ($X_1$) and Profit Growth (Y) and Company Size (Z) as a Moderation Variable.

$H_5$: It is suspected that there is a relationship between Asset Turnover ($X_2$) and Profit Growth (Y) and Company Size (Z) as a Moderation Variable.

## METHODS

This study uses a type of quantitative research method. This research is a quantitative research using secondary data obtained from the company's annual financial statements taken from the official website of the Indonesia Stock Exchange in www.idx.co.id and the official website of the company to be studied. The sampling technique used in this study is the purposive sampling technique. This technique selects samples from a population based on certain considerations (Sugiyono, 2022:133). The criteria for sampling set in this study by the researcher are as follows: (1) Energy Sector Companies that have been listed on the Indonesia Stock Exchange for the period 2018 – 2022 and are not delisted during that period. (2) Energy sektor companies that publishes a complete annual financial report during the research period. (3) The company did not suffer any losses during the research period.

The independent variables used in this study are Book Tax Differences and Asset Turnover, with the dependent variable being Profit Growth. And in this study, a moderation variable is also used, namely Company Size to strengthen the relationship between independent and dependent variables.

**Table 1. 1 Operasional Variabel Penelitian**

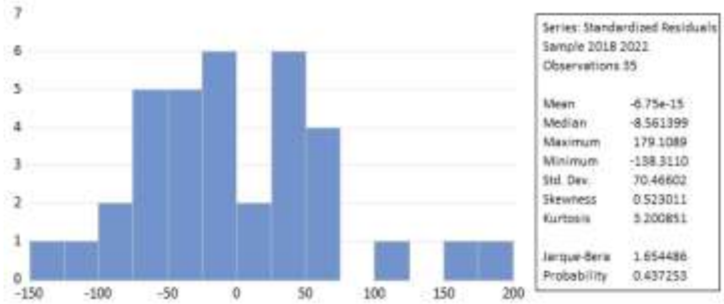
| No | Variable Name | Measurement | Scale |
|---|---|---|---|
| 1. | Profit Growth (Y) | $Y = \frac{y_t - y_{t-1}}{y_{t-1}}$ | Ratio |
| 2. | Book Tax Differences ($X_1$) | $BTD = \frac{Accounting\ profit - tax\ profit}{Total\ asset}$ | Ratio |
| 3. | Asset Turnover ($X_2$) | $Asset\ Turnover = \frac{Sales}{Total\ Asset}$ | Ratio |
| 4. | Ukuran Perusahaan (Z) | $Company\ Size = Ln(Total\ Asset)$ | Ratio |

The data analysis technique in this study uses descriptive statistical analysis and regression analysis with panel data. In this study there is a moderation variable, therefore this study also conducts moderation testing with MRA. Moderated Regression Analysis (MRA) is a part of multiple linear regression in which the terms interaction (from two or more independent variables) are incorporated into the regression equation (Astuti et al., 2023). In this study, data analysis will be assisted by Eviews software version 12.

## RESULTS AND DISCUSSION

### Normality Test

**Table 4. 1 Normality Test**




**Source:** Author Processed Data by E-Views 12 (2024)

Based on the results of the normality test above, it can be seen that the probability value is 0.437253 which is greater than the value of α (0.437253 > 0.05). Therefore, it was concluded that the data in the study were normally distributed. Then it can also be seen that the value of Jarque-Bera is 1.654486 and the value of the chi-square table (df = k-1 = 4-1 = 3) is 7.814728, because the value of Jarque-Bera < the value of chi-square, it can be concluded that the data is normally distributed.

### Multicolinierity Test

**Table 4. 2 Multicolinierity Test**

Variance Inflation Factors
Date: 06/10/24 Time: 19:31
Sample: 1 35
Included observations: 35

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|---|---|---|---|
| C | 507756.1 | 2016.329 | NA |
| BTD | 57.97499 | 1.222702 | 1.068654 |
| TATO | 0.173185 | 4.657653 | 1.360066 |
| SIZE | 0.054650 | 1936.594 | 1.282616 |

**Source:** Author Processed Data by E-Views 12 (2024)

Based on the results of the multicollinearity test above, it shows the Centered VIF value of all independent variables < 10. Therefore, it can be concluded that there are no symptoms of multicollinearity in this study.

### Heterokedasticity Test

**Table 4. 3 Heterokedasticity Test**

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

| | | | |
|---|---|---|---|
| F-statistic | 1.531982 | Prob. F(9,25) | 0.1911 |
| Obs*R-squared | 12.44138 | Prob. Chi-Square(9) | 0.1896 |
| Scaled explained SS | 12.15299 | Prob. Chi-Square(9) | 0.2048 |

**Source:** Author Processed Data by E-Views 12 (2024)

Based on the results of the heterokedasticity test in the table above, it can be seen that the Prob value can be seen. The Chi-Square of Obs*R-squared is 0.1896 which is greater than the significance level (0.1896 > 0.05). Therefore, it can be concluded that there is no heterokedability problem in the research regression model.

### Autocorrelation Test

**Table 4. 4 Autocorrelation Test**

| | | | |
|---|---|---|---|
| R-squared | 0.243840 | Mean dependent var | 34.87300 |
| Adjusted R-squared | 0.170663 | S.D. dependent var | 103.0897 |
| S.E. of regression | 93.88170 | Akaike info criterion | 12.02916 |
| Sum squared resid | 273227.0 | Schwarz criterion | 12.20691 |
| Log likelihood | -206.5103 | Hannan-Quinn criter. | 12.09052 |
| F-statistic | 3.332203 | Durbin-Watson stat | 2.047825 |
| Prob(F-statistic) | 0.032083 | | |

**Source:** Author Processed Data by E-Views 12 (2024)

Based on the results of the autocorrelation test above, it can be seen that the Durbin-Watson value in the regression model is 2.0478. From the research data, it is known that k = 2 and n = 35, the Durbin-Watson table shows the value of dU = 1.5838 and the value of 4-dU = 2.4162. Therefore, it can be concluded that the DW value is located between dU and 4-dU (1.5838 < 2.0478 < 2.4162) meaning that there is no autocorrelation symptom in the research data.

### Panel Data Regression Analysis

Panel data regression analysis is used to estimate or predict the value of dependent variables based on the values of independent variables.

**Table 4. 5 Panel Data Regression**

Dependent Variable: PL
Method: Panel Least Squares
Date: 06/10/24 Time: 19:14
Sample: 2018 2022
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -7300.705 | 1932.187 | -3.778467 | 0.0009 |
| BTD | 17.78689 | 7.611533 | 2.336834 | 0.0278 |
| TATO | 1.992834 | 0.983879 | 2.025486 | 0.0536 |
| SIZE | 2.405360 | 0.647960 | 3.712207 | 0.0010 |

**Source:** Author Processed Data by E-Views 12 (2024)

The constant has a coefficient of -7300.705, indicating that the book tax difference and asset turnover are considered 0 or constant, then the profit growth value is -7300.705. The variable coefficient of book tax differences ($X_1$) of 17.78689 shows that every time there is an increase in book tax differences by 1 unit, profit growth will increase by 17.78689 and vice versa assuming that other variables have a fixed value. The variable coefficient of asset turnover ($X_2$) of 1.992834 shows that every time there is an increase in asset turnover by 1 unit, then profit growth will increase by 1.992834 and vice versa assuming that other variables have a fixed value.

### Hypothesis Test

### Determination Coefficient Test

**Table 4. 6 Coeficient Determination Test**

| | | | |
|---|---|---|---|
| R-squared | 0.532772 | Mean dependent var | 34.87300 |
| Adjusted R-squared | 0.364570 | S.D. dependent var | 103.0897 |
| S.E. of regression | 82.17680 | Akaike info criterion | 11.89058 |
| Sum squared resid | 168825.7 | Schwarz criterion | 12.33496 |
| Log likelihood | -198.0851 | Hannan-Quinn criter. | 12.04398 |
| F-statistic | 3.167455 | Durbin-Watson stat | 2.974861 |
| Prob(F-statistic) | 0.010860 | | |

**Source:** Author Processed Data by E-Views 12 (2024)

Based on the regression model in the table above, it is known that the Adjusted R-squared value is 0.364570, meaning that as much as 36% of the variation in profit growth variables can be explained by the variables of book tax differences and asset turnover, while the remaining 64% can be explained by other variables outside this study.

### Simultaneous Test (F-Test)

**Tabel 4. 7 F-Test**

| | | | |
|---|---|---|---|
| R-squared | 0.532772 | Mean dependent var | 34.87300 |
| Adjusted R-squared | 0.364570 | S.D. dependent var | 103.0897 |
| S.E. of regression | 82.17680 | Akaike info criterion | 11.89058 |
| Sum squared resid | 168825.7 | Schwarz criterion | 12.33496 |
| Log likelihood | -198.0851 | Hannan-Quinn criter. | 12.04398 |
| F-statistic | 3.167455 | Durbin-Watson stat | 2.974861 |
| Prob(F-statistic) | 0.010860 | | |

**Source:** Author Processed Data by E-Views 12 (2024)

Based on the results of the test above, it can be seen that the Prob (F-statistic) value is 0.010860. Because the probability value is smaller than the α significance level (0.010860 < 0.05), it can be stated that the variable book tax differences and asset turnover together have an impact on profit growth.

### Partial Test (t-Test)

**Table 4. 8 t-Test**

Dependent Variable: PL
Method: Panel Least Squares
Date: 06/10/24 Time: 19:14
Sample: 2018 2022
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -7300.705 | 1932.187 | -3.778467 | 0.0009 |
| BTD | 17.78689 | 7.611533 | 2.336834 | 0.0278 |
| TATO | 1.992834 | 0.983879 | 2.025486 | 0.0536 |
| SIZE | 2.405360 | 0.647960 | 3.712207 | 0.0010 |

**Source:** Author Processed Data by E-Views 12 (2024)

Based on the table above, the t-test results of each independent variable can be explained as follows: (1) Book Tax Differences ($X_1$) shows a probability value of 0.0278. So it is known that the probability value is less than α (0.0278 < 0.05), thus it can be concluded that the variable of book tax differences has an effect on profit growth. (2) Asset turnover ($X_2$) shows a probability value of 0.0536. So it is known that the probability is greater than α (0.0536 > 0.05), thus it can be concluded that the asset turnover variable has no effect on profit growth.

### MRA Test

The MRA test is used to determine the role of company size in strengthening or weakening the influence of book tax differences and asset turnover on profit growth. The following are the results of the MRA test in this study:

**Table 4. 9 MRA Test**

Dependent Variable: PL
Method: Panel Least Squares
Date: 06/10/24 Time: 19:41
Sample: 2018 2022
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -8331.845 | 2773.524 | -3.004064 | 0.0063 |
| BTD | 1688.971 | 430.9689 | 3.919010 | 0.0007 |
| TATO | -26.79172 | 26.81728 | -0.999047 | 0.3282 |
| SIZE | 2.724901 | 0.939884 | 2.899189 | 0.0081 |
| BTD SIZE | -0.561149 | 0.144700 | -3.878021 | 0.0008 |
| TATO SIZE | 0.010138 | 0.009267 | 1.094022 | 0.2853 |

**Source**: Author Processed Data by E-Views 12 (2024)

Based on the regression model above, the conclusions obtained are as follows: (1) The constant coefficient of -8331.845 indicates that if the variables BTD, TATO, SIZE, BTD*SIZE and TATO*SIZE are considered 0 or constant, the Profit Growth value will decrease by 8331.845. (2) The coefficient of interaction between the BTD variable and the moderation variable SIZE is -0.561149, indicating that every time there is an increase in book tax differences moderated by the size of the company by 1 unit, profit growth will tend to decrease by 0.561149 and vice versa assuming that other variables have a fixed value. (3) The interaction between the TATO variable and the SIZE moderation variable has a coefficient of 0.010138, indicating that every time there is an increase in asset turnover moderated by the size of the company by 1 unit, profit growth will tend to increase by 0.010138 and vice versa assuming that other variables have a fixed value.

The results obtained from this study are explained as follows:

**The Effect of Book Tax Difference and Asset Turnover on Profit Growth**

The results of the study simultaneously show that book tax difference and asset turnover have an influence on profit growth. The difference in recognition of accounting profit with fiscal profit in tax statements has a significant influence on the growth of corporate profits. The largest the reported fiscal profit, the smaller the net profit will be obtained by the company. So that the existence of book tax differences can affect the company's profit growth and future profit predictions. Then the asset turnover variable can be a signal for related parties, especially investors. The better the asset turnover, the better the company will be in managing assets and generating sales. Sales numbers will rise in proportion to management's effective asset management. Increased sales will affect the company's profit growth. This supports research conducted by Yulianto and Lindawati (2022) who stated that book tax differences and asset turnover together affect profit growth.

**The Effect of Book Tax Differences on Profit Growth**

The results of this study prove that there is an influence of book tax differences on profit growth. This is in line with the research of Pradhita et al. (2022) which shows the influence of book tax differences on profit growth. If fiscal profits increase, the greater the tax burden that must be paid. The greater the tax burden that must be paid, the smaller the net profit received by the company. This is in line with the agency's theory, that there will be differences in interests related to profit growth. The company will carry out fiscal reconciliation to reduce the tax burden that must be paid, while the government wants to pay as much tax as possible. The existence of book tax differences will affect the profit growth rate for each period and future profit considerations to control the company's tax expense.

**The Effect of Asset Turnover on Profit Growth**

Based on this study, asset turnover cannot affect profit growth. Asset turnover shows the ability of management to manage all assets to generate sales. If the company's asset turnover is high, it means that the company is more effective in managing its assets in supporting sales and affecting profit growth. Based on signal theory, companies must provide financial information that is useful for external parties, one of which is information about asset turnover. The results of this study support the results of the research of Martini and Siddi (2021) which stated that asset turnover has no effect on profit growth. Companies that have a good asset turnover are not necessarily able to encourage profit growth, because there can be an increase in the burden that must be borne by the company so that profits do not always grow. However, this study is not in line with the research conducted by Fahrudin and Dillak (2022) which stated that asset turnover has a significant effect on profit growth.

**The Effect of Book Tax Differences on Profit Growth with Company Size as a Moderating Variable**

Based on the MRA test in this study, company size is a moderation variable that is able to strengthen the influence of book tax differences on profit growth, where the probability value of the interaction of book tax differences and company size has a significant effect on profit growth. The results of this study are in line with the research of (Mubarok, 2017) which states that company size can moderate the relationship between book tax differences variables and profit growth. This can happen because the size of a company can affect the high or low sales obtained. The bigger a company, the greater the sales that can be obtained and the greater the tax expense that will be incurred. The larger the company, the more tax evasion it will encourage management to do more tax avoidance.

**The Effect of Asset Turnover on Profit Growth with Company Size as a Moderating Variable**

Based on the MRA test, company size is a moderation variable that is able to strengthen the relationship between asset turnover and profit growth, where the value of the probability of asset turnover interaction and company size increasingly shows an insignificant value to profit growth. The results of this study are in line with research conducted by Wigati (2020) that the size of the company strengthens the relationship between asset turnover and profit growth. This study shows that asset turnover has no effect on profit growth, and is strengthened by the variable of company size moderation. According to Fahrudin and Dillak (2022), asset turnover shows the company's ability to manage all assets to generate sales. This study shows that the size of a company or the number of assets it owns, cannot be a guarantee that the company has good management skills to manage it and generate profits. The larger the size of the company, the less likely it is to signal a good asset turnover.

## CONCLUSION & SUGGESTION

### Conclusion

From the results of this study, it can be concluded that there is an impact of book tax differences on profit growth. As for the asset turnover variable, it does not show any impact on profit growth. This study also proves that book tax differences and asset turnover simultaneously affect profit growth. This study also uses moderation variables, namely company size. From the results of the study, the size of the company was able to moderate the relationship between book tax differences and profit growth, and also the relationship between asset turnover and profit growth.

### Suggestion

The results of this study are expected to be a reference or description for future researchers. Researchers are then advised to change the research object, for example by using the non-cyclical consumer sector or it can also be by adding a research period. It is also recommended to raise other variables that have a relationship with profit growth, this is because in this study the independent variable can only explain the dependent variable by 36%.

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