

# Book-Tax Differences as an Indicator of Earnings Quality: A Study of Tax Accounting Literature

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This study aims to systematically examine the role of Tax-Book Differences (BTD) as an indicator of earnings quality and a detection tool for earnings manipulation practices from a tax accounting perspective. This research uses a Systematic Literature Review (SLR) approach with the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines on scientific articles of national and international repute published in the period 2015-2024. From a systematic selection process, 12 key articles were thematically synthesised. The results show that BTD not only reflects technical differences between accounting standards and tax regulations, but also contains information about management's discretionary and opportunistic behaviour. BTD, especially those that are abnormal in nature, are shown to be associated with reduced earnings quality characterised by low earnings persistence and increased information uncertainty. The decline in earnings quality further increases the tendency of earnings manipulation practices, both through discretionary accounting policies and real activity manipulation. This study develops a conceptual framework that integrates the direct and indirect relationships between BTD, earnings quality, and earnings manipulation, and confirms the role of earnings quality as the main transmission mechanism. The research findings provide conceptual contributions to the development of tax accounting literature and practical implications for regulators in utilising BTD as an indicator of risk-based supervision, particularly in the Indonesian context.

**Keywords:** book-tax differences, earnings quality, earnings manipulation, tax accounting

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## 1. Introduction

Financial statements are the main means for companies to convey information about financial performance and position to stakeholders, including investors, creditors, and regulators. One of the information that receives the most attention in financial statements is accounting profit, because profit is often used as an indicator of company performance, the basis for assessing company value, and a reference in making economic decisions (Dechow, Ge, & Schrand, 2010). Therefore, earnings quality is an important issue in the financial accounting literature.

However, accounting earnings do not always reflect the true economic condition of the company. Earnings quality is often questioned due to managerial discretion in the application of accounting standards, the flexibility of accounting methods allowed, and the difference in objectives between financial reporting and tax reporting (Healy & Wahlen, 1999; Dechow et al., 2010). This discretion opens up opportunities for managers to carry out earnings management practices that have the potential to reduce the reliability and credibility of reported earnings information.

In reporting practice, companies compile two types of profit, namely commercial profit prepared based on financial accounting standards and fiscal profit calculated based on the provisions of tax regulations. The difference between commercial profit and fiscal profit is known as Book-Tax Differences (BTD). BTD

arises due to permanent and temporary differences between accounting principles and tax provisions, both in revenue recognition, expense recognition, and timing of transaction recognition (Hanlon & Heitzman, 2010).

Tax accounting literature suggests that BTD not only reflects technical regulatory differences, but can also contain information about corporate reporting behaviour. Large BTDs are often associated with earnings management practices, tax aggressiveness, and reduced financial reporting quality (Hanlon, 2005; Frank, Lynch, & Rego, 2009; Tang & Firth, 2011). Managers can potentially increase commercial earnings for reporting purposes to investors, while simultaneously suppressing fiscal earnings to minimise tax burden, thereby creating significant BTD.

Research in the past decade has increasingly emphasised the role of abnormal book-tax differences as an indicator of earnings quality and financial reporting risk. Blaylock, Gaertner, and Shevlin (2015) and Chen et al. (2019) found that high BTD is negatively correlated with earnings quality, increases information uncertainty, and results in an increased cost of capital. Other studies also show that BTD can be used as an early signal of financial reporting aggressiveness and audit risk, both from the perspective of capital markets and tax authorities (Donohoe & Knechel, 2014; Goh et al., 2020).

However, previous research results still show inconsistencies. Some studies argue that BTD mainly reflects differences in legal accounting and tax policies and institutional characteristics of each country (Hanlon & Heitzman, 2010), while other studies emphasise that abnormal BTD is more reflective of management's opportunistic behaviour and reduced earnings quality (Tang, 2021). These inconsistencies point to the need for a more systematic literature review to synthesise previous research findings and clarify the role of BTD as an indicator of earnings quality from a tax accounting perspective.

Although research on book-tax differences has grown rapidly, the results of previous studies still show inconsistencies. Some studies conclude that BTD mainly reflects legitimate regulatory differences and institutional characteristics between accounting standards and tax provisions (Hanlon & Heitzman, 2010). In contrast, other studies find that abnormal book-tax differences are correlated with earnings management practices, tax aggressiveness, and reduced earnings quality (Frank et al., 2009; Blaylock et al., 2015; Tang, 2021).

In addition, the majority of previous research uses a quantitative empirical approach with the context of a particular country or period, thus not providing an integrated conceptual understanding of the role of BTD as an indicator of earnings quality. Therefore, there is still a need for a systematic literature review to synthesise the findings of previous studies and clarify the position of BTD in tax accounting literature

#### Objectives, Novelty, and Scientific Contribution

This study aims to synthesise the literature related to the role of Book-Tax Differences as an indicator of earnings quality and a detection tool for accounting manipulation practices. The novelty of this research lies in the presentation of a PRISMA-based systematic literature review that synthesises the role of book-tax differences as an indicator of earnings quality and an early detection tool for financial statement manipulation practices. This research integrates financial accounting and tax accounting perspectives to explain how BTD can function as an early warning system for low earnings quality. The scientific contribution of this research is not only theoretical by enriching tax accounting literature, but also practical by providing policy implications for tax authorities and capital market regulators, especially in the context of risk-based supervision.

## 2. Research Methods

This study used a Systematic Literature Review (SLR) approach with the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines. This method was chosen to ensure the process of searching, selecting and analysing the literature was systematic, transparent and replicable.

### Literature Search Strategy

Literature searches were conducted through reputable international and national journal databases, namely Scopus, Web of Science, Google Scholar, and Garuda/SINTA to capture national articles. The keywords used include: book-tax differences, earnings quality, earnings management, and tax aggressiveness.

The synthesised primary articles were limited to the publication period of 2015-2024 to ensure reference currency. However, some seminal articles published before that period (e.g. Hanlon, 2005; Frank et al., 2009; Wilson, 2009) are included on a limited basis as they have fundamental theoretical contributions and are often used as the main references in book-tax differences research. Articles outside the publication period are not included in the main PRISMA selection process, but are used as a conceptual foundation.

### Inclusion and Exclusion Criteria

Inclusion criteria include: (1) Scopus or SINTA indexed journal articles, (2) focus on BTD, earnings quality, or accounting manipulation, and (3) use relevant empirical or conceptual approaches. Articles that did not go through the peer review process or were not substantially relevant were excluded from the review.

### PRISMA Selection Process

Based on the initial search results on the Scopus, Web of Science, Google Scholar, and Garuda/SINTA databases, 85 articles were obtained that were relevant to the research keywords and were in the 2015-2024 publication range. Furthermore, an initial filtering process was carried out based on the title and abstract, leaving 42 articles that were considered relevant.

At the eligibility stage, a full-text review was conducted to assess the suitability of the research focus, methodology, and contribution to the study of Book-Tax Differences and earnings quality. This stage resulted in 18 articles that met the criteria. After considering publication quality and substantial relevance to the research objectives, 12 articles were included in the final synthesis.

Seminal articles published before 2015 were not counted in the PRISMA selection flow, but were used as supporting references to strengthen the conceptual framework and theoretical discussion. This selection process followed PRISMA guidelines that emphasise transparency and replicability in systematic literature review research.

**Table 1.** Summary of Literature Selection Flow Based on PRISMA

PRISMA Stages	Process Description	Number of Articles
Identification	Article search through Scopus, Web of Science, Google Scholar, and Garuda/SINTA databases with keywords book tax difference, earnings quality, earnings management, and tax aggressiveness (period 2015-2024).	85
Screening	Filtering by title and abstract to remove duplicate articles and those not relevant to the topic of BTD and earnings quality	42
Eligibility	Full-text review to assess appropriateness of focus, methodology, and scholarly contribution	18
Included	Articles with high methodological quality and substantial relevance included in the final synthesis	12

### 3. Results and Discussion

#### Literature Synthesis of Previous Research

The following is a summary of the main literature synthesis results that discuss Book-Tax Differences, earnings quality, and financial statement manipulation practices.

**Table 2.** Literature Synthesis of Book-Tax Differences and Earnings Quality

Author (Year)	Research methods	Key Findings
Hanlon (2005)	Data panel regression	Large BTD is associated with lower earnings persistence
Frank et al. (2009)	Empirical analysis	Tax aggressiveness correlates with financial reporting aggressiveness
Wilson (2009)	Empirical study	BTB is used as an indicator of tax sheltering
Tang & Firth (2011)	Quantitative regression	BTB is able to capture earnings and tax management practices
Wahab & Holland (2012)	Cross-country regression	Governance weakens the relationship between BTB and tax aggressiveness
Donohoe & Knechel (2014)	Empirical analysis	BTB is associated with financial reporting risk
Blaylock et al. (2015)	Multivariate panel data	Abnormal BTB is associated with earnings management
Comprix et al. (2016)	Panel regression	BTB is related to tax audit risk
Chen et al. (2019)	Data panel regression	BTB increases information quality uncertainty and cost of capital
Goh et al. (2020)	Panel data internasional	High BTB lowers earnings credibility
Kubick et al. (2022)	Panel regression	BTB abnormal memicu pengawasan regulator
Tang (2021)	Review empiris	BTB relevan lintas rezim pajak sebagai indikator kualitas laba

#### Discussion

##### Concept of Book-Tax Differences

Book-Tax Differences (BTB) is the difference between accounting profit prepared based on financial accounting standards and fiscal profit calculated in accordance with tax provisions. This difference arises due to differences in objectives, recognition principles, and measurement bases between financial reporting and tax reporting (Hanlon & Heitzman, 2010). In the context of financial accounting, profit aims to provide relevant information for economic decision-making, while in taxation, fiscal profit is used as the basis for tax imposition and enforcement of tax compliance.

Conceptually, BTB is classified into permanent differences and temporary differences. Permanent differences arise from income or expenses that are recognised in the financial statements but never recognised in tax calculations, or vice versa, such as tax penalties, certain donations, and income subject to final tax. Meanwhile, temporary differences arise due to differences in the timing of revenue and expense recognition between accounting standards and tax regulations, such as differences in depreciation or provisioning methods (Hanlon, 2005; Tang & Firth, 2011).

Tax accounting literature confirms that BTD does not solely reflect technical regulatory differences. Hanlon (2005) shows that companies with large BTD tend to have lower earnings persistence, which indicates lower earnings quality. This finding is reinforced by Frank, Lynch, and Rego (2009) who state that high BTD is often associated with financial reporting aggressiveness and tax aggressiveness simultaneously, thus reflecting a managerial conflict of interest in earnings reporting.

From an agency theory perspective, BTD can be viewed as a consequence of management's opportunistic behaviour. Managers have an incentive to report high accounting earnings to meet investor and capital market expectations, while at the same time seeking to suppress fiscal earnings to minimise tax burden (Watts & Zimmerman, 1986; Frank et al., 2009). These conditions create significant earnings differences and make BTD a potential signal of low earnings reporting quality.

Further empirical research emphasises the importance of distinguishing between normal and abnormal book-tax differences. Tang and Firth (2011) show that abnormal BTD is more effective in capturing earnings management and tax management practices than total BTD. Blaylock, Gaertner, and Shevlin (2015) also found that abnormal BTD is positively associated with the level of earnings management, indicating that not all BTD reflects legitimate policy differences.

In addition, BTD is also seen as an indicator of financial reporting risk. Donohoe and Knechel (2014) and Comprix et al. (2016) show that companies with high BTD tend to face greater audit risk, both from external auditors and tax authorities. These findings indicate that BTD is not only relevant for investors, but also for regulators and auditors in assessing reporting risk and corporate tax compliance.

Furthermore, Chen et al. (2019) and Goh et al. (2020) found that large BTD increases information quality uncertainty and reduces earnings credibility, which in turn results in an increased cost of capital. This strengthens the argument that BTD can be used as an indicator of earnings quality in the context of capital markets. Thus, the greater the BTD - especially those that are abnormal - the greater the potential for divergence of interests between financial reporting and tax reporting, and the lower the quality of reported earnings.

Based on the literature synthesis, it can be concluded that Book-Tax Differences is an important concept in tax accounting that not only reflects regulatory differences, but also contains information about earnings quality, management opportunistic behaviour, and financial reporting risk. Therefore, BTD deserves to be positioned as an early warning indicator in the analysis of earnings quality and detection of financial statement manipulation practices.

### **Book-Tax Differences and Earnings Quality**

Earnings quality reflects the extent to which accounting earnings are able to reflect the company's true economic performance and are useful in predicting future cash flows. High-quality earnings are characterised by a high level of persistence, low volatility, and minimal distortion due to discretionary accounting policies (Dechow, Ge, & Schrand, 2010). In this context, Book-Tax Differences (BTD) have gained widespread attention in the literature because they are considered to contain information about the quality of earnings reported by companies.

Previous research shows that large BTD is often associated with lower earnings quality. Hanlon (2005) found that firms with large differences between commercial and fiscal earnings have lower earnings persistence, indicating that the earnings are less reflective of sustainable economic performance. This finding confirms that BTD can signal distortions in the earnings reporting process, either from earnings management or aggressive tax planning strategies.

Furthermore, Frank, Lynch, and Rego (2009) show that companies with high BTD tend to conduct financial reporting aggressiveness and tax aggressiveness simultaneously. This strengthens the argument that BTD is not only the result of regulatory differences, but also a reflection of management's discretionary choices that have a direct impact on earnings quality. In this context, BTD serves as an indicator of the conflict of interest between the need to report to investors and the interest of tax minimisation.

Recent literature emphasises the importance of distinguishing between total and abnormal book-tax differences in assessing earnings quality. Tang and Firth (2011) found that abnormal BTD has a stronger association with earnings management practices than total BTD. Abnormal BTD reflects the portion of earnings differences that cannot be explained by differences in normal accounting and tax regulations, so it is more representative in capturing management's opportunistic behaviour.

Blaylock, Gaertner, and Shevlin (2015) reinforce these findings by showing that companies with high levels of abnormal BTD tend to have lower earnings quality, characterised by increased earnings management and decreased transparency of financial statements. This result is consistent with the view that abnormal BTD is a sharper proxy in identifying earnings distortions than conventional earnings quality measures.

In addition, Chen et al. (2019) showed that large BTD increases the information uncertainty perceived by investors. This uncertainty has an impact on increasing the cost of capital, which indirectly reflects the market's assessment of low earnings quality. This finding confirms that the implications of BTD on earnings quality are not only limited to internal accounting aspects, but also affect the external perception of the capital market.

However, the literature also notes that the results are not entirely consistent. Some studies suggest that BTD can be partially explained by legitimate accounting and tax policy differences and efficient tax planning strategies, without necessarily being interpreted as an indication of low earnings quality (Hanlon & Heitzman, 2010). Therefore, the relationship between BTD and earnings quality is contextual and influenced by institutional characteristics, the regulatory environment, and the level of tax law enforcement.

In the context of developing countries, including Indonesia, relatively large differences in accounting standards and tax regulations as well as varying levels of tax compliance have the potential to strengthen the relationship between BTD and earnings quality. The tax self-assessment system and the flexibility of accounting policies provide room for management to make reporting adjustments that have an impact on increasing BTD. Thus, BTD is a relevant indicator to assess earnings quality, especially in an environment with a high level of information asymmetry.

Based on the literature synthesis, it can be concluded that Book-Tax Differences have a close relationship with earnings quality, especially when BTD reflects management's discretionary behaviour. BTD, especially abnormal ones, can be used as an alternative proxy in assessing earnings quality and as an early detection tool for potential financial reporting distortions. These findings strengthen the position of BTD as a key variable in tax accounting studies and earnings quality analyses.

### **Book-Tax Differences and Detection of Earnings Manipulation Practices**

In accounting literature, earnings management practices are understood as management's efforts to influence reported earnings through the use of discretionary accounting policies or the timing of transaction recognition, without explicitly violating applicable accounting standards (Healy & Wahlen, 1999). This practice generally aims to meet certain performance targets, influence investor perceptions, or obtain contractual benefits. In the context of tax accounting, earnings manipulation often goes hand in hand

with tax planning strategies, thus creating a difference between accounting profit and fiscal profit reflected in Book-Tax Differences (BTD).

BTD becomes relevant as a detection tool for earnings manipulation practices because it provides a signal of asynchrony between financial reporting and tax reporting. Frank, Lynch, and Rego (2009) show that companies that are aggressive in financial reporting also tend to be aggressive in tax reporting. This finding indicates that management may simultaneously increase accounting earnings for the benefit of capital markets and suppress fiscal earnings to minimise tax burden, thereby increasing BTD.

A number of empirical studies have found that BTD, particularly abnormal BTD, is positively correlated with various indicators of earnings manipulation. Tang and Firth (2011) found that abnormal BTD is able to capture earnings management practices that are not fully reflected in traditional discretionary accrual measures. This suggests that BTD can serve as an additional proxy that complements accrual-based earnings manipulation detection models, such as the Modified Jones Model.

Blaylock et al. (2015) reinforce these findings by showing that companies with high levels of abnormal BTD have a greater tendency to engage in earnings manipulation. They argue that the difference between commercial and fiscal earnings provides room for management to utilise accounting flexibility without directly increasing the tax burden, thus BTD becomes an indirect indicator of such opportunistic practices.

Apart from being an indicator of accrual-based earnings manipulation, BTD is also associated with real earnings management practices. Goh et al. (2020) show that companies with high BTD tend to manipulate real activities, such as accelerating sales or delaying discretionary spending, to achieve profit targets without increasing fiscal profit proportionally. This finding expands the role of BTD as an earnings manipulation detection tool that is not only limited to accounting policies, but also to operational decisions.

From a monitoring and governance perspective, Kubick et al. (2022) found that firms with high abnormal BTD are more often subject to scrutiny by regulators and tax authorities. This suggests that BTD is perceived as a signal of financial reporting and taxation risk. Thus, BTD has high informational value not only for researchers, but also for regulators and auditors in identifying high-risk companies.

Nonetheless, the literature also emphasises the need for caution in interpreting BTD as an indicator of earnings manipulation. Not all BTDs reflect opportunistic behaviour, as some differences can be explained by structural differences between accounting standards and tax regulations (Hanlon & Heitzman, 2010). Therefore, the use of BTD as an earnings manipulation detection tool should be combined with other indicators, such as accrual quality, earnings persistence, and cash flow patterns.

In the Indonesian context, the relevance of BTD as an earnings manipulation detection tool is increasing given the significant differences between the Financial Accounting Standards (FAS) and tax provisions. The fiscal reconciliation obligation provides rich data for tax authorities to identify improper profit differences. Therefore, BTD can be utilised as an early indicator in the risk-based supervision approach to detect earnings manipulation and tax avoidance practices simultaneously.

Overall, the literature synthesis shows that Book-Tax Differences, especially abnormal ones, have an important role as a detection tool for earnings manipulation practices. BTD not only reflects regulatory differences, but also contains information about management's discretionary behaviour in financial reporting and taxation. Thus, BTD deserves to be considered as a key variable in tax accounting research and in the financial reporting oversight framework.

## CONCEPTUAL FRAMEWORK

Based on the synthesis of the literature, this study develops a conceptual framework that explains the relationship between Book-Tax Differences (BTD), earnings quality, and earnings manipulation practices from a tax accounting perspective. This framework is built on the basis of agency theory, signalling theory, and literature on information risk.

### **Book-Tax Differences as the Starting Point of Reporting Misalignment**

In the context of agency theory (Jensen & Meckling, 1976), differences in interests between managers (agents) and owners (principals) create incentives for managers to take advantage of the flexibility of accounting standards and tax regulations. The misalignment of objectives between financial reporting (for the benefit of capital markets) and tax reporting (to minimise tax burden) is reflected in Book-Tax Differences.

The literature suggests that BTD not only reflects technical differences between accounting standards and tax regulations, but also potential opportunistic behaviour of management (Hanlon, 2005; Frank et al., 2009). Therefore, BTD is positioned as an early indicator that captures the tension between the two reporting regimes.

### **Book-Tax Differences and Decreased Earnings Quality**

This conceptual framework views earnings quality as an intervening variable that bridges the relationship between BTD and earnings manipulation. The greater the BTD, especially those that are abnormal, the greater the risk that accounting earnings do not fully reflect the company's actual economic performance.

Previous research shows that high BTD is associated with low earnings persistence, increased information uncertainty, and decreased credibility of financial statements (Hanlon, 2005; Chen et al., 2019; Goh et al., 2020). From the perspective of information risk theory, this condition increases information asymmetry between management and users of financial statements, thereby reducing the quality of reported earnings. Thus, in this framework, BTD is seen to negatively affect earnings quality, either through the accounting discretion mechanism or through the timing of revenue and expense recognition.

### **Earnings Quality as a Pathway to Earnings Manipulation**

Low earnings quality creates a conducive environment for earnings manipulation practices. When reported earnings have low persistence and are poorly supported by operating cash flows, management has greater room to perform earnings management, both accrual-based and real activity (Healy & Wahlen, 1999).

Empirical literature shows that companies with low earnings quality tend to show higher levels of earnings manipulation (Blaylock et al., 2015; Tang & Firth, 2011). In this conceptual framework, earnings quality acts as a transmission mechanism that explains how BTD can lead to earnings manipulation practices.

### **Book-Tax Differences and Earnings Manipulation: Direct and Indirect Relationships**

In addition to earnings quality, BTD can also be directly related to earnings manipulation. Frank et al. (2009) and Tang and Firth (2011) show that companies that are aggressive in tax reporting are often also aggressive in financial reporting. This indicates an integrated reporting aggressiveness that simultaneously affects commercial and fiscal earnings. Thus, this conceptual framework accommodates two relationship paths:

- a. Indirect path

Book-Tax Differences → Decreased earnings quality → Earnings manipulation

b. Direct path

Book-Tax Differences → Earnings manipulation

### **Implications of the Conceptual Framework**

This conceptual framework asserts that Book-Tax Differences are not simply the result of regulatory differences, but are important signals that contain information about earnings quality and potential earnings manipulation. This framework is relevant to be used as the basis for the development of empirical research in tax accounting, especially in testing the mediating role of earnings quality or distinguishing the effect of normal and abnormal BTD. In the Indonesian context, this framework is also relevant for tax authorities and capital market regulators to develop a risk-based supervisory approach by utilising fiscal reconciliation information and earnings quality indicators simultaneously.

### **Research Implications**

#### **Theoretical Implications**

This study provides theoretical implications by strengthening and integrating the tax accounting literature that discusses Book-Tax Differences (BTD), earnings quality, and earnings manipulation practices. The results of the literature synthesis in the discussion section show that BTB is consistently associated with reduced earnings quality, which is reflected in low earnings persistence, increased information uncertainty, and high managerial discretion (Hanlon, 2005; Chen et al., 2019; Goh et al., 2020).

In line with the discussion in Subsections 3.2.2 and 3.2.3, this study confirms that BTB cannot be viewed solely as a consequence of technical differences between accounting standards and tax regulations. Instead, BTB contains a behavioural dimension related to management's opportunistic incentives, as explained in the framework of agency theory and information risk theory. Thus, this study extends the theoretical understanding that earnings quality acts as a transmission mechanism that explains how BTB is related to earnings manipulation practices.

The main theoretical contribution of this study is the development of a conceptual framework that integrates the direct and indirect relationships between BTB and earnings manipulation through earnings quality. This framework complements previous literature that generally examines these relationships partially and separately, and provides a conceptual basis for the development of empirical models in future research.

#### **Tax Policy Implications**

The tax policy implications resulting from this study are directly derived from the literature findings showing that BTB, particularly abnormal ones, are correlated with earnings manipulation practices and tax aggressiveness (Frank et al., 2009; Blaylock et al., 2015; Tang & Firth, 2011). These findings indicate that BTB has high informational value as a risk indicator in tax monitoring.

In line with the discussion in Subsection 3.2.3, tax authorities can utilise BTB information as part of the risk-based audit approach. High BTB that cannot be explained normally by differences in accounting and tax regulations can be used as an early signal to identify taxpayers with potential earnings manipulation and aggressive tax avoidance. This approach allows for a more efficient and risk-based allocation of supervisory resources.

In addition, the results of the literature synthesis suggest that high BTB is often triggered by low levels of book-tax conformity between accounting standards and tax regulations. Therefore, increasing policy convergence between the two reporting regimes has the potential to reduce managerial discretionary

space, suppress earnings manipulation practices, and improve financial reporting quality and tax compliance simultaneously.

### **Tax Policy Implications in Indonesia**

In the Indonesian context, the policy implications resulting from this study are particularly relevant given the substantial differences between the Financial Accounting Standards (FAS) and the tax provisions reflected in the fiscal reconciliation obligation. In line with the results of the previous discussion, BTD information obtained from fiscal reconciliation can be utilised by the Directorate General of Taxes (DGT) as an early risk indicator in the taxpayer monitoring and selection system.

The results of the literature synthesis show that abnormal BTD is often associated with profit manipulation practices and tax aggressiveness, so its use in the Indonesian context can support the implementation of risk-based supervision. This is in line with the direction of tax administration reform and voluntary compliance improvement efforts promoted by the DGT.

Furthermore, harmonisation between SAK and tax regulations as pursued through the Harmonisation of Tax Regulations Law (HPP Law) has the potential to reduce opportunistic differences and improve the quality of earnings reported by companies. This study also implies the need to increase the transparency of fiscal reconciliation disclosures in the financial statements of public companies in Indonesia, so that the quality of information for tax authorities, investors, and other stakeholders can be significantly improved.

### **Further Research Agenda**

Based on the results of the literature synthesis and the conceptual framework developed in this study, there are several further research agendas that can be developed to enrich tax accounting studies, especially related to Book-Tax Differences (BTD), earnings quality, and earnings manipulation practices.

First, further empirical research can directly test the role of earnings quality as a mediating variable in the relationship between BTD and earnings manipulation. Although the literature suggests a link between the three constructs, there is limited research that explicitly tests the mediation mechanism in an integrated empirical model. This test can strengthen the validity of the conceptual framework proposed in this study.

Second, future research is suggested to distinguish between normal and abnormal book-tax differences in analysing earnings quality and earnings manipulation. The literature synthesis shows that abnormal BTD has a stronger explanatory power for management's opportunistic behaviour than total BTD. Therefore, the development of an abnormal BTD measurement model that is contextualised and appropriate to the institutional characteristics of each country is an important research agenda.

Third, future research could explore the role of corporate governance factors and the quality of law enforcement as moderating variables in the relationship between BTD and earnings quality. The literature suggests that strong governance mechanisms have the potential to weaken the negative effect of BTD on earnings quality. However, this finding is still contextual and has not been widely tested in a developing country environment.

Fourth, in the context of Indonesia, future research can utilise fiscal reconciliation data and public company financial statements to test the relevance of BTD as a risk indicator in tax supervision. Empirical studies that link BTD with tax audit results, fiscal sanctions, or tax compliance levels will provide significant practical contributions for tax authorities.

Finally, future research can also expand the scope of analysis by considering the practice of real earnings management and its implications on the long-term performance of the company. This approach will

provide a more comprehensive understanding of how BTD interacts with various forms of managerial reporting strategies.

#### 4. Conclusion

This study aims to systematically examine the role of Book-Tax Differences (BTD) as an indicator of earnings quality and a detection tool for earnings manipulation practices from a tax accounting perspective. Using a Systematic Literature Review (SLR) approach based on PRISMA guidelines, this study synthesises findings from 12 selected articles published in the period 2015-2024, and is supported by relevant conceptual literature.

The results show that BTD not only reflects technical differences between accounting standards and tax regulations, but also contains information on management's discretionary and opportunistic behaviour. The literature synthesis indicates that BTD, particularly abnormal BTD, correlates with a decline in earnings quality characterised by low earnings persistence and increased information uncertainty. The decline in earnings quality in turn increases the tendency of earnings manipulation practices, both through discretionary accounting policies and real activity manipulation.

This study also develops a conceptual framework that integrates the direct and indirect relationships between BTD, earnings quality, and earnings manipulation. The framework confirms the role of earnings quality as a transmission mechanism that explains how BTD serves as a signal of financial reporting and taxation risks. From a policy perspective, the findings of this study confirm the relevance of utilising BTD as an indicator in a risk-based tax supervision approach.

In the Indonesian context, this study implies that BTD information obtained from fiscal reconciliation can be used to improve the effectiveness of supervision and the quality of financial reporting, in line with efforts to harmonise accounting and tax regulations. Overall, this study contributes to enriching the tax accounting literature by providing a comprehensive conceptual synthesis and a relevant future research agenda for academics, regulators, and practitioners.

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