

A Comparative Study of Tax Information Reliability in Financial Statements as Compliance to Tax Laws and Tax Accounting Standards

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Abstract

This study was conducted by comparing data from 20 leading companies in the US and Indonesia from 2020 to 2023 using EViews 14 parametric test. The explanation of variables used found that compliance with Indonesian tax laws is more sensitive to the intensity of earnings management, tax planning, and changes in tax regulations. The reliability of tax information is appropriate. Corporate governance and company characteristics are ineffective in moderating and controlling corporate instruments with the laws. In the US, corporate governance has been shown to be able to maintain control over reliability of tax information reported in financial statements, although there are indications of tax planning and earnings management within limits that can be tolerated by compliance with tax laws. Testing compliance with tax accounting standard reveals that Indonesian companies tend to have inconsistent results, while US companies are consistent, given the support of governance moderation and control of company characteristics. Comparatively, this study concludes that the reliability of tax information in financial statements in the US is supported by compliance with tax laws and tax accounting standard, while in Indonesia compliance with tax accounting standards is dominated by indications of earnings manipulation.

Keywords: *Compliance; Tax Accounting Standard; Tax Laws; Tax Planning; Earnings Management; Corporate Governance.*

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Introduction

The reliability of tax information plays an important role in company's financial reporting policy. Reliable tax information not only ensures compliance with tax laws but also reflects compliance with financial accounting standard on taxes. Significant differences in tax systems, the level of adoption of accounting standards, and the business environment between countries result in development of tax planning, earnings management, and changes in tax regulations, which are related to the reliability of accounting information.

Indonesia has a convergent status to IFRS accounting standards, while the US still uses US GAAP modified by the SFAC 8 accounting framework. In practice, international accounting standards on income taxes based on IAS 12 (Revised) adopt SFAS 109 which has been implemented in the US first. Indonesia has reformed its tax laws since 1983 using main reference of the US Tax Reform Act.

Tax planning is one of the company's actions that has direct implications for level of accounting information compliance with tax laws and tax accounting standard. Choudhary et al. (2016) stated that increasing tax planning efforts can result in a decrease in the reliability of tax accounting information, given the uncertainty of future cash flows. High-pitched tax planning strategies, although legally valid, have potential to increase unreliability of tax accounting information by creating transaction complexity. The risk of tax surprises can be greater if companies try to minimize tax consequences that arise (Dyrengr et al., 2019). The tendency of managers to limit tax disclosure can attract attention of tax administrators (Balakrishnan et al., 2019) and can worsen the compliance relationship. Conversely, tax planning that is carried out carefully, comprehensively, wisely, and transparently can increase reliability and relevance of tax information presented in financial statements.

Hanlon and Heitzman (2010) observed that corporate tax planning decisions significantly affect financial reporting and investor perceptions of earnings. Earnings management is a practice that utilizes accounting policies to control earnings reporting. This is related to reliability of tax accounting (Dhaliwal et al., 2004; Holland and Jackson, 2004). Companies that engage in earnings management tend to present financial information that does not reflect actual economic performance, which in turn can distort tax information. Mulford and Comiskey (2006) explain various earnings management and tax manipulation techniques that can affect reliability of financial reporting.

Corporate governance is designed to improve quality of financial reporting while aligning interests of managers with shareholders. Thus, companies are expected to produce better tax information by limiting high-pitched tax planning practices and reducing management bias in determining profits, then financial reports can be relied on by their users.

Shaw et al. (2008) stated that in general, comparisons between countries are quite important to study because of fundamental differences in tax sovereignty. Changes in tax reporting regulations in a country tend to have an impact on the way companies record and report tax-related transactions. The implementation of new standards often requires complex interpretation and implementation, which can affect the consistency and comparability of tax accounting information. Glaeser and Guay (2017) examined the impact of adoption of International Financial Reporting Standards (IFRS) on reliability of financial reports and found significant changes in tax reporting practices. Indonesia has a level of convergence compliance with IFRS, while the US uses US GAAP and full adoption of IFRS for public companies as choices of each other.

A study conducted by Song and Holland (2023) examined 323 non-financial UK companies listed on the London Stock Exchange from 1992 to 2017 to analyze quality of tax accounting for financial reporting purposes. From the study, it was found that there is a negative relationship between tax planning and earnings management pressure on tax accounting quality. The existence of tax management

can trigger an increase in tax risk which results in greater uncertainty in estimating future tax cash flows. Furthermore, when the pressure to meet profit targets increases, it can result in tax accounting bias which leads to lower tax accounting quality. In addition, corporate governance mechanisms do not moderate the relationship between tax management and tax accounting quality. However, there is sufficient evidence regarding moderating effect in the relationship between tax management pressure. In addition, the study also observed the decline in tax accounting quality over time associated with changes in tax reporting standards.

Desai and Dharmapala (2006) in their study found that incentive compensation is a significant determinant of tax avoidance. The relationship is mediated by corporate governance and does not apply to the subsample of companies with good governance. The interaction between tax avoidance and rent diversion by managers is a significant problem for companies with poor governance. This study was conducted with the aim of conducting an in-depth comparative analysis of the reliability of tax information in Indonesia and the US, which are the main references for tax reform in Indonesia. Parametric tests were applied to analyze two hypotheses.

Theoretical Framework and Hypothesis Development

The Compliance Theory

Milgram (1974) stated that most individuals will obey authority figures, even if their actions may be immoral. His research proved that obedience is influenced by external factors such as the legitimacy of authority and a hierarchically structured environment. Compliance theory indicates that public companies must be accountable for their business activities by publishing financial statements in accordance with applicable accounting standards.

In Indonesia, the applicable accounting standards are those in accordance with the provisions of IFRS convergence. This has had an impact since January 1, 2012. In the US, the capital market authority applies use of accounting standards that refer to the adoption of IFRS and US GAAP. This compliance is

important because it maintains the reliability of financial reporting, prevents fraud, meets legal requirements, and maintains public trust.

Tax Laws and Tax Accounting Standard

Based on the Conceptual Framework for Financial Reporting issued by the IASB (2018), financial reporting provide information about the economic potential of the reporting entity, claims against it, the impact of transactions, observations, and other conditions that affect the power and claims in question. In order for financial information (including tax accounting) to be useful to various parties, the information must be presented relevantly and describe its meaning honestly (faith representation). To improve the reliability of accounting information, several additional requirements are required such as comparability, verifiability, timeliness, and understandability.

The IASB still adopts IAS 12 (Revised) as the financial reporting standard related to income tax. In Indonesia, this standard is converged with PSAK 46 and in the US, which first issued the related standard, refers to SFAS 109. Song and Holland (2023) state that the quality of tax accounting is determined as the relationship between annual tax expense reported in the company's financial statements and future tax cash flows. By assessing qualified corporate tax accounting, it is expected to help users of financial statements in estimating future commitments from available internal funds.

The high or low tone of corporate tax accounting is determined by various factors. Internal factors can be the presentation of corporate tax planning, the competence of tax staff, the accounting information system used, the choice of accounting policies applied, and corporate governance. External factors can be the complexity of tax system in a country, the supervisory aspects of tax authorities, and the government's tax accountability.

Cooper and Nguyen (2020) state that tax planning refers to the ability of a company to plan and organize all its tax affairs with various mechanisms involving mechanisms that do not violate regulations to reduce taxes (legally). Corporate tax planning activities not only include efforts that focus on taxes

owed on annual income, but also concentrate on the tax implications of other corporate activities such as business structures, especially mergers and acquisitions. According to Hoffman (1961), tax planning is defined as the ability of taxpayers to manage their financial activities in such a way as to ensure minimum tax expenditures. Because tax planning involves the use of foresight, this activity is related to prospects. He also explained that more and more individuals are aware of the possibility of minimizing tax payments, so they will turn to effective tax planning.

Dechow and Skinner (2000) concluded two opinions related to earnings management, the first according to Katherine Schipper (1989) who stated that earnings management is an intervention used in the external financial reporting process with aim of obtaining personal wealth. The second opinion according to Healy and Wahlen (1999) who stated that earnings management occurs when managers implement policies in financial reporting to mislead stakeholders by using accounting figures. Watts et al. (1978) stated that managers often engage in earnings management with legitimate goals such as to maintain stable financial performance and meet market expectations.

The guidelines that govern how taxpayers calculate and report their tax liabilities accurately, transparently, and in accordance with applicable laws in Indonesia are called tax bookkeeping provisions. Tax authority is held by the Directorate General of Taxes and in the US by the Internal Revenue Services. Reporting of tax liabilities through online tax forms in Indonesia is required to be complete, clear, and correct, as is required to submit an Annual Tax Return through the Electronic Federal Tax Payment System in the US.

Corporate Governance

Corporate governance is a set of mechanisms that encourage corporate controllers to make decisions that can improve corporate performance for their owners (Denis et al., 2020; Shleifer and Vishny, 2007). Governance is a system that rules processes, regulations, and policies in managing a company to achieve long-term goals. Claessens (2006) stated that good tools will provide benefits to the

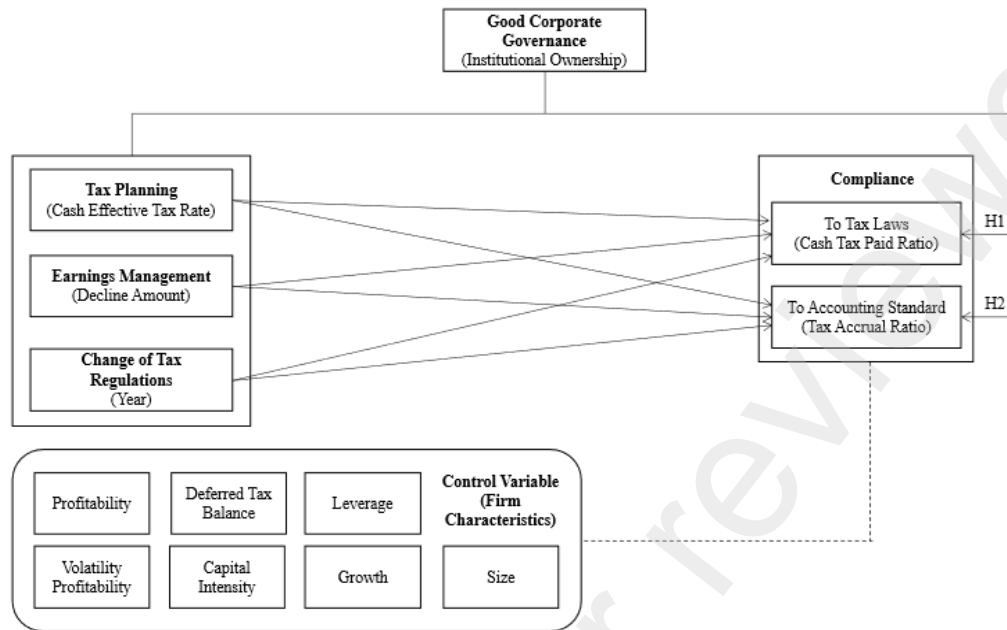
company, the market, and the country. This is because it is identical to lower capital costs, higher returns on equity, greater efficiency, and fairer treatment of stakeholders. The corporate governance system is based on five main principles: transparency, accountability, responsibility, independence, fairness, and business ethics. This system plays a role in regulating interactions between the board of directors, management, shareholders, and other related parties in making business decisions. The goal is to protect the rights of stakeholders and reduce the potential for conflicts that arise. Furthermore, corporate governance is not only about compliance with regulations, but also includes various best practices that encourage the maintenance of corporate performance and responsibility.

Moore (2021) explains that the system is designed to encourage the creation of higher quality financial reporting and align interests of managers and shareholders. Chung et al. (2010) stated that to form a good system can be done by increasing financial and operational transparency, because it indirectly minimizes information asymmetry between internal parties of the company and external parties such as investors.

Hypothesis Development

Assessing the quality of tax information can help users of financial statements to estimate long-term plans for internal funds, considering that Corporate Income Tax has a material proportion of income (Song and Holland, 2023). The following illustration is a framework based on compliance theory, as an actualization of the research model.

Illustration 1 The Theoretical Framework



Tax planning that is carried out systematically and comprehensively will encourage companies to be more careful in understanding tax regulations and presenting tax information in financial statements. This presentation includes eliminating increased operational and financial complexity to facilitate tax reporting, thereby avoiding tax surprises from tax administrators (Kim et al., 2011) (Frank et al., 2009; Balakrishnan et al., 2019). Song and Holland (2023) found that tax planning has a negative and statistically significant relationship to tax accounting quality. This indicates that the quality of tax information is lower in companies involved in high levels of tax planning in line with the tax management perspective which can lead to a lack of information transparency (Desai and Dharmapala, 2009; Kim et al., 2011; Balakrishnan et al., 2019).

Dechow and Dichev (2002) stated that companies provide incentives as an attraction to meet profit targets, and tend to be pressured to take earnings management actions. Research by Dhaliwal et al. (2004) and Holland and Jackson (2004) stated that managers have the opportunity to control deferred income tax accounts if their performance cannot achieve the set profit targets. With this control, Song and Holland (2023) explained that the higher the earnings management action, the lower the quality of tax information produced by the company.

Research by Eberhartinger and Samuel (2025) stated that one of the determining components of corporate tax planning activities according to Hanlon and Heitzman, (2010) is the ownership structure in corporate governance. Given this, in line with the statement of Desai and Dharmapala (2006) that the tendency of companies to engage in tax planning activities is based on the manager's incentive structure and overall corporate governance. Likewise, good corporate governance can be useful as an effective mechanism to reduce earnings management and increase the reliability of financial reporting (Bhagat and Bolton, 2008; Yu, 2008).

This study is a continuation of research that discusses the relationship between company's shareholder structure and tax planning activities, considering that both have an influence on the corporate governance structure (Wilde and Wilson, 2018). One element that has a significant influence on the reliability of tax information in financial statements is the tax laws. Tax authorities require fiscal reconciliation by matching the output of accounting financial statements with tax provisions to recognize income and expenses. Changes in tax regulations have potential to change the process profile. Tax accounting standards will also do the same.

During the 2020-2023 period, in Indonesia there have been several changes in tax regulations to encourage country's economic recovery after pandemic. One of these changes is reduction in corporate income tax rate from 25% to 22% since January 1, 2020 and the increase in value-added tax rate from 10% to 11% since April 1, 2022. In the US, regulatory changes during the same period were limited. This is a result of major changes introduced by the Tax Cuts and Jobs Act (TCJA) in 2017. According to Price Waterhouse-Cooper (2023), the US government taxes US-domiciled companies at a flat rate of 21%. Certain US-source income (such as interest, dividends, and royalties) that is not effectively connected with a non-US corporation's trade or business continues to be taxed at a gross rate of 30% unless a domestic treaty has been entered into. The US tax reform law TCJA passed on December 22, 2017 significantly revised the US Federal income tax regime by shifting it from a worldwide corporate tax system to a

territorial tax system. Prior to the TCJA, non-US corporations engaged in a trade or business in the US were taxed at the US corporate rate of 35% on net income from effectively connected source income. According to JPMorgan (2025), the Tax Cuts and Jobs Act is expected to expire in 2025.

Based on the description, this study formulates the first hypothesis as follows:

H1: Earnings management, tax planning, changes in tax regulations, and corporate governance affect level of corporate compliance with tax laws.

Milgram's (1974) compliance theory can be analogized in the context of compliance carried out by companies as a result of pressure from the audit mechanism on financial statements and the risk of an unqualified opinion. Therefore, effective tax planning and earnings management and proper anticipation in responding to changes in tax regulations are closely related to the reliability of tax information presented in financial statements.

Earnings management can affect the reliability of tax information because companies can use accrual strategies to adjust tax burden or real tax reported. Companies are under pressure to comply with tax regulations to avoid legal sanctions, but are also encouraged to manage profits to achieve certain financial targets. Therefore, earnings management has an impact on the reliability of tax accounting information. This considers interests of alignment between obligation to comply with laws and desire to optimize company's financial performance, within limits of an acceptable level of compliance.

Changes in tax regulations will affect the way companies record, present, and report transactions that have tax consequences. When the new tax regulations are enacted, companies are also required to adjust tax accounting practices in their financial statements, from recognizing income and expenses to calculating deferred taxes. These changes have potential to increase or decrease reliability of tax information contained in financial statements, along with tax reporting profile to the authorities. Tax planning is one of management strategies to legally minimize tax by utilizing loopholes in the tax laws.

The tax accrual ratio can reflect reliability of tax information. This is because this ratio shows how effective the company is in managing tax burden recognized in commercial financial statements compared to the real tax payments. The action in question also reflects accuracy of application of tax accounting standards that must be adhered to in presentation of financial statements. By implementing tax accounting standards appropriately, companies can optimize recognition of tax burdens while still producing reliable information in financial statements.

The accounting principle in tax regulations is mostly applied using a cash basis, in contrast to financial statements which are full accrual. Thus, fiscal adjustments to calculate taxable income, which tend to decrease from period to period, indicate better compliance with accounting standards. This is because the adjustment component is more dominant in the expense sector than in income. In Indonesia, many income components are subject to final tax rates, then no longer calculated as calculation items in the fiscal reconciliation.

The tax accrual ratio in this study is interpreted as an indicator of reliability of tax accounting because it reflects extent to which the company can align interests of commercial accounting with fiscal reporting in tax reports. If changes in tax regulations result in increased reliability of information, then the tax accrual ratio will tend to produce a smaller difference between tax expense and cash tax paid. This indicates that the company's tax accounting practices are more accurate and fairer in reflecting actual tax liabilities. This discussion underlies formulation of the second hypothesis of this study:

H2: Earnings management, tax planning, changes in tax regulations, and corporate governance affect company's compliance with tax accounting standard.

Research Method

This study uses case of 10 leading companies in Indonesia, both public and state-owned companies. Likewise for object of companies in the US, 10 leading companies listed on the NASDAQ

composite during 2020 to 2023. The purpose of selecting companies as case studies is to represent the best practices of compliance with tax accounting standard and tax laws. The research hypothesis is tested parametrically with EViews 14. A panel data regression model is run to analyze reliability of compliance according to tax accounting standard and tax laws. The target variables used are cash tax paid ratio which represents compliance with tax laws and tax accrual ratio which describes compliance with tax accounting standard. Models used for this study is as applied by research of Song and Holland (2023) with changes to several variables and proxies, to conduct a more focused test analysis.

Model 1

$$CTPR_{it} = \beta_0 + \beta_1 CETR_{it} + \beta_2 DA_{it} + \beta_3 YEAR_{it} + \beta_4 CETR_{it} * INS_{it} + \beta_5 DA_{it} * INS_{it} + \beta_6 FC_{it} + \epsilon_{it}$$

Model 2

$$TAR_{it} = \beta_0 + \beta_1 CETR_{it} + \beta_2 DA_{it} + \beta_3 YEAR_{it} + \beta_4 CETR_{it} * INS_{it} + \beta_5 DA_{it} * INS_{it} + \beta_6 FC_{it} + \epsilon_{it}$$

Furthermore, details of the variables are shown in following Table.

Table 1. Operational Definition of Variables

No	Variable	Indicator	Symbol
1	Tax laws compliance	Cash Tax Paid Ratio: amount of cash taxes paid divided by previous year total assets.	CTPR
2	Accounting standards compliance	Tax Accrual Ratio: difference between income tax expense and amount of paid cash taxes divided by previous year total assets.	TAR
3	Tax planning	Cash Effective Tax Rate: amount of cash taxes paid divided by income before taxes.	CETR
4	Earnings management	Decline Amount: difference between income before taxes for current year and previous year divided by previous year total assets.	DA
5	Corporate governance	Institution: percentage of stock ownership held by institutions.	INS
6	Tax regulation changes	Year: set to one in the initial sample year and increases by one for each subsequent sample year.	YEAR

7	Company characteristics (Control 1)	Profitability: income before taxes divided by previous year total assets.	PTBI
8	Company characteristics (Control 2)	Volatility Profitability: standard deviation of profitability.	VolIPTBI
9	Company characteristics (Control 3)	Deferred Tax Balances: Deferred tax balances divided by previous year total assets.	DTB
10	Company characteristics (Control 4)	Capital Intensity: Gross amount of property, plant, and equipment divided by previous year total assets.	CAPINT
11	Company characteristics (Control 5)	Leverage: Long-term debt divided by total assets.	LEV
12	Company characteristics (Control 6)	Growth: Market value of equity divided by book value of equity.	GRW
13	Company characteristics (Control 7)	Size: Natural log of total assets.	SZ

Results

Statistical tests conducted include Chow, Hausman, Lagrange Multiplier (LM), coefficient of determination, F statistic, and t statistic. This study is a case study of 20 companies in the US and Indonesia that tested separately and comparatively. For companies in Indonesia, 8 of them are listed in the capital market, and 2 are public sectors with 100% owned by the state. All companies in this case study present complete and consecutive financial reports for the period 2020-2023. The following table is a list of sample companies for Indonesia.

Table 2. List of Indonesian Sample of Companies

No	Name
1	PT Astra Agro Lestari Tbk.
2	PT Adaro Energy Tbk.
3	PT Aneka Tambang Tbk.
4	PT Astra International Tbk.
5	PT Bumi Resources Minerals Tbk.
6	PT Barito Pacific Tbk.
7	PT Gudang Garam Tbk.

8	PT Pertamina (Persero)
9	PT Perusahaan Listrik Negara (Persero)
10	PT Sampoerna Agro Tbk.

Source: Companies' and the Indonesia Capital Market website, 2024.

The following table is list of the US companies sample used for this study.

Table 3. List of the US Sample of Companies

No	Name
1	Amazon.com, Inc.
2	Apple Computer, Inc.
3	Ford Motor Company
4	Freeport-McMoRan, Inc.
5	General Electric Company
6	Meta Platforms, Inc.
7	Microsoft Corporation
8	NVIDIA Corporation
9	Starbucks Corporation
10	Tesla, Inc.

Source: NASDAQ, 2024.

The following table is statistical description output of Indonesian companies. After conducting initial testing and eliminating outlier data, the number of observations that can be used is 36.

Table 4.3. Descriptive Statistic of Indonesian Companies

	CETR	DA	YEAR	INS	FC
Mean	0.335383	0.009226	2.444444	0.668111	19.0
Median	0.250425	0.006747	2.000000	0.696800	19.0
Maximum	1.061606	0.198084	4.000000	1.000000	22.5
Minimum	0.034412	-0.064407	1.000000	0.013800	14.5
Std. Dev.	0.250957	0.050720	1.157447	0.290550	2.2
Skewness	1.247088	1.446207	0.080748	-0.995461	-0.3
Kurtosis	3.781935	6.735895	1.593900	3.451036	2.8
Jarque-Bera	10.248510	33.484460	3.004799	6.250808	0.7
Probability	0.005951	0.000000	0.222595	0.043919	0.6
Sum	12.073790	0.332124	88.000000	24.052000	685.4
Sum Sq.	6.253616	0.093101	262.000000	19.024080	13221.4
Sum Sq.	2.204274	0.090037	46.888890	2.954667	170.5
Dev.					
Observations	36	36	36	36	

Source: Output EViews 14 (2025)

The following table is statistical description of the US companies. After conducting initial testing and eliminating outlier data, the number of observations that can be used is 38.

Table 4.4. Descriptive Statistic of US Companies

	CETR	DA	YEAR	INS	FC
Mean	0.151853	0.032076	2.500000	0.754161	21.811230
Median	0.141398	0.037164	2.500000	0.755650	16.544550
Maximum	0.454803	0.192143	4.000000	0.923300	61.981600
Minimum	0.000000	- 0.130355	1.000000	0.520000	-14.376960
Std. Dev.	0.110083	0.073331	1.108932	0.115251	15.986740
Skewness	0.560794	- 0.270674	0.000000	-0.361932	0.781323
Kurtosis	2.937803	2.860428	1.695568	2.278719	3.950917
Jarque-Bera	1.997893	0.494851	2.694109	1.653357	5.297998
Probability	0.368267	0.780808	0.260005	0.437500	0.070722
Sum	5.770426	1.218884	95.000000	28.658100	828.826800
Sum Sq.	1.324636	0.238063	283.000000	22.104280	27534.030000
Sum Sq.	0.448378	0.198966	45.500000	0.491467	9456.302000
Dev.					
Observations	38	38	38	38	38

Source: Output EViews 14 (2025)

Chow and Hausman tests were used as the model selection. The results of Chow test for Indonesian companies, model 1 has a chow test probability of not significant at 0.1037 and model 2 is significant at 0.0041. Significant values indicate that the effect model is more appropriate to use. For US companies, both models have probabilities below 0.05, the numbers are 0.0000 and 0.000, indicating that the effect model is suitable to be applied.

The Hausman test compares fixed effects model with random effects model to determine which is more appropriate based on correlation between individual effects and independent variables. Indonesian companies show probabilities for both models above 0.05, the numbers are 0.2729 and 0.3285 which means supporting use of random effects model. For US companies, only the first model has a value of more than 0.05, the number is 1.0000, then further testing is needed to ensure final results, the Lagrange-Multiplier test. This test is final stage in model selection test, between random effect model or fixed effect model that is suitable for use. After comparing with Hausman test, results for Indonesian

companies are that random effect model is more suitable, because significant figures of the LM test are at 0.2484 and 0.1901. For US companies, both models indicate LM test probability figures below 0.05, the numbers are 0.0062 and 0.0050, after comparing with results of Hausman test, this indicates that random effect model is appropriate.

Table 4.5. Output of The Determinant Coefficients of Model 1

	Indonesia	US
R-squared	0.662649	0.622790
Adjusted R-Squared	0.592852	0.549782

Source: Output EViews 14.

Based on the R-squared test output in both countries, model 1 is representative to use as an estimator of population parameters because it has a figure above 50% (Gujarati, 2009).

Table 4.6. Output of F Test for Model 1

	Indonesia	US
F-statistic	9.493971	8.530388
Prob. F-statistic	0.000009	0.000016

Source: Output EViews 14.

Results of the F probability test for all variables simultaneously show that for Indonesian company, model 1 is statistically significant. For US companies, the F probability in model 1 is significant. These results indicate level of significance for testing the first hypothesis in model 1 both for Indonesia and the US, simultaneously. That means variables of earnings management, tax planning, changes in tax regulations, and corporate governance affect corporate compliance to the tax laws.

Table 4.7. Output of Significance Test Variables of Model 1

Variable	Indonesia		US	
	t-Statistic	Sig.	t-Statistic	Sig.
CETR	2.387883	0.0237	-2.168680	0.0379
DA	2.372523	0.0245	-1.20541	0.2372
YEAR	2.421643	0.0219	2.112624	0.0428
CETR*INS	4.103284	0.0003	3.384796	0.0019
DA*INS	-1.286873	0.2083	1.448962	0.1574

FC	-1.678021	0.1041	4.376053	0.0001
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Source: Output EViews 14 (2025)

Results of probability significance test t from each variable indicate that for model 1, in Indonesian companies, all variables are significant except for corporate governance moderation in relationship between earnings management and compliance with tax laws and company characteristics which are control variables. This shows that tax planning, earnings management, and changes in tax regulations have a significant positive effect on compliance with tax laws as measured by ratio of cash taxes paid. This effect is moderated by corporate governance, in addition to that derived from earnings management. The positive effect shows that with low pressure from tax planning, earnings management, and changes in tax regulations, level of compliance with tax laws is considered high. This is caused by the high tax planning and earning management scores according to the indicators used in this study, cash effective tax rate and decline amount, showing low intensity of the two variables.

In US companies, the result indicates a significant probability for tax planning and tax regulation changes. Corporate governance variables moderate the influence of those on tax laws compliance. The negative influence of tax planning indicates that the presence of high-pitched tax planning results in a level of tax laws compliance that can also be predictively high.

In model 2, the results of coefficient of determination indicate that the model used in this study can represent population conditions, both in Indonesia and in the US.

Table 4.8. Output of The Determinant Coefficient for Model 2

	Indonesia	US
R-squared	0.660922	0.579069
Adjusted R-Squared	0.590768	0.497598

Source: Output EViews 14.

Results of F probability test for model 2 indicate that variation of dependent variable can be simultaneously explained by the independents, moderator, and control variables. The second hypothesis

qualify that earnings management, tax planning, changes in tax regulations, and corporate governance affect corporate compliance with tax-related financial accounting standard is acceptable, both in Indonesia and in the US.

Table 4.9. Output of The F Test for Model 2

	Indonesia	US
F-statistic	9.421003	7.107705
Prob. F-statistic	0.000009	0.000079

Source: Output EViews 14.

The results of the t-probability test on the model 2 of Indonesian companies, there are two significant positive variables, earnings management and corporate governance moderation. Referring to the significance of F probability test results, the results of t-probability test indicate that role of earnings management is proven to be dominant among other explanatory variables. Positive results mean inconsistent as an indication that earnings management can maintain companies in complying with tax accounting standard. This is because when the intensity of earnings management is high, the level of compliance is also considered high.

In US companies, all variables except changes in tax regulations have probability values below 0.05. This shows that tax planning and earnings management have a significant negative effect on compliance with tax accounting standard. The intensity of tax planning and earnings management is revealed to be detectable by compliance with tax accounting standard, which is moderated by corporate governance and controlled by company characteristics. The higher compliance with tax accounting standard, the lower tax planning and earnings management actions. These results can be interpreted as consistent.

Table 4.10. Output of Independent Variables Significance Test of Model 2

Variable	Indonesia		US	
	t-Statistic	Sig.	t-Statistic	Sig.
CETR	0.762069	0.4522	-3.71048	0.0008

DA	4.142043	0.0003	-2.28828	0.0291
YEAR	0.170367	0.8659	1.515463	0.1398
CETR*INS	1.586151	0.1236	4.774732	0.0000
DA*INS	-2.06082	0.0484	3.014879	0.0051
FC	-0.66523	0.5112	4.573921	0.0001

Source: Output EViews 14.

The results of the t-probability test in model 1 and model 2 show that level of compliance with tax laws and tax accounting standard is influenced by a combination of variables with different variations in Indonesian and US companies. There are differences in results of interaction of control variables, US data assumes that company characteristics play a role in the level of compliance, while according to Indonesian data it does not.

In Indonesian companies, the difference between earnings before tax for current year and previous year divided by total assets of the previous year is significantly positive, indicating that earnings management has a significant positive impact on tax laws compliance as measured by amount of cash tax paid divided by total assets for the previous year. The results of earnings management in US companies are not significant, or have no impact on tax laws compliance.

Referring to companies in Indonesia, the moderation of corporate governance on relationship between tax planning is significant, while the moderation on relationship between earnings management is not significant. This can be interpreted that corporate governance only moderates the effect of tax planning on tax compliance, but does not moderate the effect of earnings management.

Corporate governance moderation on the relationship between tax planning and earnings management, based on results of t-probability test on US data, shows the same results as the Indonesian data. Referring to Indonesian companies, it can be interpreted that corporate governance only moderates the influence between earnings management and compliance with tax laws, but this does not occur in tax planning. Corporate governance moderation on the relationship between tax planning and earnings

management in US companies shows a significant value or corporate governance moderates the influence between tax planning and earnings management on compliance with tax laws.

In Indonesian companies, changes in tax regulations are significantly positive, indicating that changes have a positive impact on compliance with tax laws. The significance value of changes in tax regulations according to US data is the same as Indonesian data.

Referring to Indonesian companies, the cash effective tax rate is not significant, meaning that tax planning does not have an impact on the level of compliance with tax accounting standard as measured by tax accrual ratio. In the US companies, there is a significant negative influence on the influence of tax planning, earnings management, corporate governance moderation, and control of company characteristics on compliance with tax accounting standard. This means that when tax planning and earnings management occur, the response to the level of compliance with tax accounting standard can be identified. These results indicate a good response to the feature of tax accounting standard applied in the United States and the ability of companies to carry out tax planning and earnings management but still within reasonable limits, and within framework of good corporate governance. Changes in tax regulations do not provide any significance to compliance with tax accounting standard, both in Indonesia and in the United States. This means that the component of changes in tax rules during observation period is not relevant to measure compliance with tax laws and tax accounting standard.

Based on the statistical results of comparative research between companies in Indonesia and the US, companies in the US are consistent with research of Song and Holland (2023) conducted with object of companies in the UK. However, because the interpretation of compliance theory used to model this study is different from that research, results of positive relationship given by Indonesian companies can be traded better than those applied in the US. The mechanism of influence of corporate governance that significantly moderates relationship between tax planning and earnings management on compliance is due to tax laws in the US which provide a tolerant response to such treatment. The level of

implementation of tax planning and earnings management by companies in the US is very constructive, even synchronous with corporate governance, then it remains within limits of compliance with tax laws. Corporate governance acts as an internal supporter that pressures management to always comply with tax accounting standards and tax laws. With an effective oversight mechanism, the pressure to comply with tax laws increases, tax planning and earnings management are carried out within reasonable limits and without damaging permission of tax accounting information as measured by accrual tax rate. The results of the study in the US are consistent with study of Choudhary et al. (2016) on tax planning. The consistency of corporate governance support and characteristics in tax planning and earnings management practices in the US is consistent with research results of Balakrishnan et al. (2019). The combination of presence carried out by companies in the US is in accordance with Hanlon and Heitzman's (2010) perceptions regarding balance between regulation and investor perspectives.

The existence of different preference on tax law in this study is in line with statement of Shaw et al. (2008) regarding the need for reviewing tax regulations between countries. The practice of using different tax accounting standard references between Indonesia and the US has proven to be incomparable in case of this study, as expressed by Glaeser and Guay (2017) regarding the significance of IFRS impact.

Based on the theory of compliance, level of compliance with tax laws in Indonesia is a mild-consistent phenomenon, while in the United States it provides a mild relationship not only to tax laws but also to tax accounting standard. This theory implies crucial nature of maintaining financial reporting, preventing fraud, and complying with legal provisions, in this case is tax laws and tax accounting standard.

Conclusion, Limitation, and Recommendation

Conclusion

This study was conducted comparatively involving 20 leading companies in Indonesia and the United States. Statistics of parametric is the model used to test compliance with tax laws and tax-related financial accounting standard that can be concluded from the behavior of population in both countries.

Explanation of variation of each variable used reveals that tax conditions in Indonesia are sensitive to the intensity of earnings management, tax planning, and changes in tax regulations, which have an impact on level of compliance with tax laws. This result means that it is able to measure reliability of tax information supported by role of effective corporate governance in tax planning. As for compliance with tax accounting standard, it is proven that standard convergence cannot indicate the existence of earnings management contained in disclosure of financial statements.

In the United States, tax planning and earnings management are indicated to be still within tolerance limit of compliance with tax regulations and by compliance with tax accounting standard. Corporate governance is able to bridge this strategy to maintain reliability of tax information disclosed in financial statements. The phenomenon of corporate tax governance found in this study, referring to results in the United States, shows that the higher understanding in field of accounting and tax by business entities is able to maintain safe conditions even though they have a tendency to be efficient in tax liabilities.

Limitation

This study used 20 leading companies in US and Indonesia as sample of data analysis and limited for 2020 to 2023 annual period.

The use of cumulative amounts of measurements of company characteristic variables may reduce the representative meaning of them.

Recommendation

This study suggests that the use of more than two countries and a longer window period would accelerate better data fit for future studies.

The Accounting Standard Setters in Indonesia need to review details of converged tax accounting standard then are able to indicate earnings management practices included in financial statement disclosures, as adopted in the US.

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Appendix

Output of EViews 14

Output of Indonesian Companies (Model 1)

Dependent Variable: CTPR
Method: Panel EGLS (Cross-section random effects)
Date: 05/30/25 Time: 22:11
Sample: 2020 2023
Periods included: 4
Cross-sections included: 9
Total panel (balanced) observations: 36
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.022483	0.016082	1.397986	0.1727
CETR	0.019261	0.008066	2.387883	0.0237
DA	0.263960	0.111257	2.372523	0.0245
YEAR	0.003490	0.001441	2.421643	0.0219
CETR*INS	0.041500	0.010114	4.103284	0.0003
DA*INS	-0.233956	0.181802	-1.286873	0.2083
FC	-0.001314	0.000783	-1.678021	0.1041

Effects Specification		S.D.	Rho
Cross-section random		0.000000	0.0000
Idiosyncratic random		0.009810	1.0000

Weighted Statistics			
R-squared	0.662649	Mean dependent var	0.021717
Adjusted R-squared	0.592852	S.D. dependent var	0.015724
S.E. of regression	0.010033	Sum squared resid	0.002919
F-statistic	9.493971	Durbin-Watson stat	0.836142
Prob(F-statistic)	0.000009		

Unweighted Statistics			
R-squared	0.662649	Mean dependent var	0.021717
Sum squared resid	0.002919	Durbin-Watson stat	0.836142

Output of Indonesian Companies (Model 2)

Dependent Variable: TAR
Method: Panel EGLS (Cross-section random effects)
Date: 05/30/25 Time: 22:13
Sample: 2020 2023
Periods included: 4
Cross-sections included: 9
Total panel (balanced) observations: 36
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.022911	0.014437	1.586976	0.1234
CETR	0.006631	0.008702	0.762069	0.4522
DA	0.374680	0.090458	4.142043	0.0003
YEAR	0.000198	0.001163	0.170367	0.8659
CETR*INS	0.018517	0.011674	1.586151	0.1236
DA*INS	-0.299173	0.145172	-2.060824	0.0484
FC	-0.000469	0.000705	-0.665227	0.5112

Effects Specification		S.D.	Rho
Cross-section random		0.004623	0.2753
Idiosyncratic random		0.007501	0.7247

Weighted Statistics			
R-squared	0.660922	Mean dependent var	0.013955
Adjusted R-squared	0.590768	S.D. dependent var	0.011910
S.E. of regression	0.007619	Sum squared resid	0.001683
F-statistic	9.421003	Durbin-Watson stat	1.558891
Prob(F-statistic)	0.000009		

Unweighted Statistics			
R-squared	0.653497	Mean dependent var	0.022150
Sum squared resid	0.002284	Durbin-Watson stat	1.149066

Output of US Companies (Model 1)

Dependent Variable: CTPR
Method: Panel EGLS (Cross-section random effects)
Date: 05/30/25 Time: 10:45
Sample: 2020 2023
Periods included: 4
Cross-sections included: 10
Total panel (unbalanced) observations: 38
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008460	0.005277	-1.603141	0.1190
CETR	-0.199107	0.091810	-2.168680	0.0379
DA	-0.177250	0.147045	-1.205408	0.2372
YEAR	0.003214	0.001521	2.112624	0.0428
CETR*INS	0.366563	0.108297	3.384796	0.0019
DA*INS	0.280817	0.193806	1.448962	0.1574
FC	0.000588	0.000134	4.376053	0.0001

Effects Specification		S.D.	Rho
Cross-section random		0.004283	0.1839
Idiosyncratic random		0.009020	0.8161

Weighted Statistics			
R-squared	0.622790	Mean dependent var	0.019453
Adjusted R-squared	0.549782	S.D. dependent var	0.017281
S.E. of regression	0.011643	Sum squared resid	0.004203
F-statistic	8.530388	Durbin-Watson stat	1.476960
Prob(F-statistic)	0.000016		

Unweighted Statistics			
R-squared	0.649717	Mean dependent var	0.026712
Sum squared resid	0.005763	Durbin-Watson stat	1.077139

Output of US Companies (Model 2)

Dependent Variable: TAR
Method: Panel EGLS (Cross-section random effects)
Date: 05/30/25 Time: 10:47
Sample: 2020 2023
Periods included: 4
Cross-sections included: 10
Total panel (unbalanced) observations: 38
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.004286	0.004440	-0.965266	0.3419
CETR	-0.287567	0.077501	-3.710481	0.0008
DA	-0.284064	0.124139	-2.288275	0.0291
YEAR	0.001955	0.001290	1.515463	0.1398
CETR*INS	0.435917	0.091297	4.774732	0.0000
DA*INS	0.493357	0.163641	3.014879	0.0051
FC	0.000515	0.000113	4.573921	0.0001

Effects Specification		S.D.	Rho
Cross-section random		0.003483	0.1716
Idiosyncratic random		0.007652	0.8284

Weighted Statistics			
R-squared	0.579069	Mean dependent var	0.016697
Adjusted R-squared	0.497598	S.D. dependent var	0.015729
S.E. of regression	0.011173	Sum squared resid	0.003870
F-statistic	7.107705	Durbin-Watson stat	1.164863
Prob(F-statistic)	0.000079		

Unweighted Statistics			
R-squared	0.632047	Mean dependent var	0.022465
Sum squared resid	0.005352	Durbin-Watson stat	0.842341