

Determinants of Book-Tax Differences in Islamic Banking: The Moderating Role of Firm Size in the Relationship between Profitability, Deferred Tax Expense, and Tax Efficiency

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Abstract

This study investigates the determinants of Book-Tax Differences (BTD) in Islamic banking, focusing on profitability (Return on Assets/ROA), deferred tax expense (DTE), and tax efficiency (Effective Tax Rate/ETR), with firm size as a moderating variable. The research is conducted on PT Bank Syariah Indonesia Tbk over the period 2021–2025 using quarterly financial statement data. A quantitative explanatory approach is employed using multiple regression analysis and Moderated Regression Analysis (MRA). The empirical results indicate that ROA, DTE, and ETR significantly influence Book-Tax Differences. Profitability increases managerial incentives for tax planning, resulting in higher BTD. Deferred tax expense reflects temporary differences between accounting and tax recognition, directly contributing to BTD. Meanwhile, tax efficiency (ETR) shows a negative relationship with BTD, indicating that lower effective tax rates are associated with more aggressive tax planning behavior. Furthermore, firm size significantly strengthens the relationship between the independent variables and BTD. Larger firms tend to have more complex operational structures, greater access to tax planning strategies, and higher flexibility in financial reporting, which increases the magnitude of Book-Tax Differences. This study contributes to the literature on tax accounting, earnings quality, and Islamic banking by providing empirical evidence on the interaction between financial performance, tax behavior, and organizational scale.

Keywords: Book-Tax Difference; ROA; Deferred Tax Expense; Effective Tax Rate; Firm Size; Tax Planning; Islamic Banking; Indonesia.

1. Introduction

Book-Tax Difference (BTD) represents the divergence between accounting income and taxable income resulting from differences in recognition, measurement, and reporting rules between financial accounting standards and taxation regulations. In the accounting literature, BTD is widely used as an important proxy for earnings quality, tax planning behavior, and managerial discretion in financial reporting. A higher BTD often indicates greater divergence between financial reporting and tax reporting systems, which may reflect either legitimate timing differences or aggressive tax planning activities.

From the perspective of agency theory, managers may have incentives to exploit accounting flexibility to achieve certain financial objectives, including tax minimization, earnings smoothing, or performance signaling. These behaviors contribute to systematic differences between accounting profit and taxable income, making BTD a relevant construct in assessing corporate reporting behavior.

Prior studies have identified several determinants of Book-Tax Differences, particularly profitability, deferred tax expense, and tax efficiency. Profitability, commonly measured by Return on Assets (ROA), is argued to influence tax planning incentives. Firms with higher profitability tend to face greater tax burdens, which may encourage more intensive tax planning strategies to reduce taxable income (Kovermann & Velte, 2019). However, empirical findings regarding the relationship

between profitability and tax-related outcomes remain inconsistent, with some studies reporting positive effects while others find insignificant or context-dependent results.

Similarly, deferred tax expense (DTE) has been widely used as an indicator of temporary differences between accounting and tax recognition. According to PSAK 46, deferred tax arises from timing differences that will reverse in future periods. Prior research suggests that DTE is associated with earnings management practices and tax planning strategies (Frank et al., 2019). Nevertheless, the magnitude and direction of its effect on Book-Tax Differences vary across empirical settings, indicating that deferred tax behavior is highly sensitive to institutional and organizational contexts.

Tax efficiency, commonly measured using Effective Tax Rate (ETR), reflects the extent to which firms manage their tax burden relative to pre-tax income. A lower ETR indicates higher tax efficiency and potentially more aggressive tax planning behavior. Studies such as Dyreng et al. (2017) and Drake et al. (2020) highlight that variation in ETR reflects differences in corporate tax strategies. However, the relationship between ETR and Book-Tax Differences is also not consistent across prior research, suggesting that tax efficiency alone does not fully explain variations in BTD.

In addition to these financial determinants, firm size has been recognized as an important structural factor influencing corporate tax behavior. Larger firms generally have more complex operations, diversified transactions, and greater access to tax planning resources. At the same time, they are subject to higher levels of regulatory scrutiny and public visibility. These opposing forces make the role of firm size in tax behavior theoretically ambiguous, yet empirically important. Prior studies (e.g., Salaudeen & Eze, 2018; Sari & Martani, 2020) indicate that firm size may influence tax avoidance behavior and strengthen relationships between financial variables and tax outcomes.

Despite extensive literature on Book-Tax Differences, several research gaps remain evident. First, most prior studies focus on manufacturing firms or non-financial sectors, while evidence from the banking industry remains limited. Banking institutions have unique regulatory frameworks, financial structures, and reporting complexities that may significantly influence Book-Tax Differences. Second, studies focusing specifically on Islamic banking are still scarce, even though Islamic banks operate under distinctive principles that may affect financial reporting and taxation behavior differently from conventional banks.

Third, empirical findings regarding the influence of profitability, deferred tax expense, and tax efficiency on BTD remain inconsistent, indicating the need for additional contextual and moderating explanations. Fourth, limited studies integrate firm size as a moderating variable in explaining the relationship between financial performance and tax-related outcomes, particularly in the context of emerging market banking systems.

To address these gaps, this study focuses on PT Bank Syariah Indonesia Tbk, the largest Islamic banking institution in Indonesia, formed through a merger in 2021. The post-merger structure provides a unique empirical setting characterized by increased asset scale, operational complexity, and organizational transformation. These conditions are expected to influence financial reporting behavior and tax planning strategies, thereby affecting Book-Tax Differences.

Accordingly, this study contributes to the literature in three ways. First, it extends empirical evidence on the determinants of Book-Tax Differences in the Islamic

banking sector, which remains underexplored. Second, it integrates profitability, deferred tax expense, and tax efficiency into a single analytical framework to provide a more comprehensive explanation of BTD. Third, it introduces firm size as a moderating variable to capture structural heterogeneity in corporate tax behavior, thereby offering a more nuanced understanding of how organizational scale influences the relationship between financial performance and tax reporting differences.

2. Method

Research Design

This study employs a quantitative explanatory research design aimed at examining causal relationships between financial variables and Book-Tax Differences (BTD). The explanatory approach is selected because the study does not merely describe phenomena, but seeks to test hypotheses regarding the influence of profitability, deferred tax expense, and tax efficiency on BTD, with firm size as a moderating variable.

The research is grounded in positivist epistemology, where empirical data derived from financial statements are analyzed using statistical methods to draw objective conclusions. This approach is widely used in accounting and financial research, particularly in studies examining tax behavior and earnings quality.

Data Source and Research Object

The object of this study is PT Bank Syariah Indonesia Tbk, the largest Islamic banking institution in Indonesia, formed through the merger of three state-owned Islamic banks in 2021. The study utilizes secondary data obtained from quarterly financial statements published by the company over the period 2021–2025. These reports include balance sheets, income statements, and notes to financial statements, which provide the necessary information for calculating research variables. The use of quarterly data allows for higher observation frequency, improving the robustness of statistical analysis and capturing short-term variations in financial performance and tax-related behavior.

Population and Sample

The population in this study consists of all quarterly financial reports of PT Bank Syariah Indonesia Tbk during the observation period (2021–2025). A saturated sampling technique (census method) is applied, meaning that all available quarterly data are used as samples. This results in 20 observations, which is considered appropriate for time-series based panel-like analysis in a single firm study. The advantage of this approach is that it eliminates sampling bias and ensures that the entire population of interest is fully represented in the analysis.

Operational Definition of Variables

This study involves five main variables:

Table 1. Operational Definition of Variables

Variable	Measurement Formula	Description
Dependent Variable		
Book-Tax Difference (BTD)	$BTD = \frac{AI - TI}{Total\ Assets}$ AI = Accounting Income TI = Taxable Income	Represents the difference between accounting income and taxable income, reflecting divergence between financial and tax reporting systems
Independent Variable		
Profitability (ROA)	$ROA = \frac{Net\ Income}{Total\ Assets}$	Measures firm's ability to generate profit from its assets; higher ROA indicates stronger performance and greater tax planning incentive
Deferred Tax Expense (DTE)	$DTE = \frac{Deferred\ Tax\ Expense}{Total\ Assets}$	Captures temporary differences between accounting and tax recognition due to timing differences
Tax Efficiency (ETR)	$ETR = \frac{Total\ Tax\ Expense}{Income\ Before\ Tax}$	Measures tax burden relative to pre-tax income; lower ETR indicates higher tax efficiency and potential tax aggressiveness
Firm Size (SIZE)	$SIZE = \ln(Total\ Assets)$	Natural logarithm of total assets used to normalize firm size and reduce scale bias

Data Analysis Technique

Data analysis is conducted using econometric methods with the assistance of statistical software Stata. The analytical procedures include:

Descriptive Statistics

Descriptive analysis is used to describe the central tendency and distribution of variables. The indicators used include:

- Mean
- Minimum value
- Maximum value
- Standard deviation

This stage provides an initial overview of data characteristics before hypothesis testing.

Classical Assumption Tests

To ensure the validity of regression results, several classical assumption tests are performed:

a. Normality Test

Normality is tested using Jarque-Bera or Skewness-Kurtosis tests to ensure that residuals are normally distributed. Normal distribution of residuals is required for unbiased hypothesis testing.

b. Multicollinearity Test

Multicollinearity is examined using Variance Inflation Factor (VIF) and tolerance values:

- VIF < 10 indicates no multicollinearity
- Tolerance > 0.10 indicates no multicollinearity

c. Heteroskedasticity Test

Heteroskedasticity is tested using Scatterplot, Glejser Test, and Breusch-Pagan Test to ensure constant variance of residuals.

d. Autocorrelation Test

Autocorrelation is tested using Durbin-Watson statistics. Values between -2 and +2 indicate no autocorrelation problem.

Regression Model

Multiple Linear Regression Model

The baseline regression model is formulated as follows:

$$BTD = \alpha + \beta_1ROA + \beta_2DTE + \beta_3ETR + \beta_4SIZE + \varepsilon$$

Where:

- α = constant
- β = regression coefficient
- ε = error term

This model is used to test the direct effect of independent variables on Book-Tax Differences.

Moderated Regression Analysis (MRA)

To examine the moderating effect of firm size, the following interaction model is applied:

$$BTD = \alpha + \beta_1ROA + \beta_2DTE + \beta_3ETR + \beta_4SIZE + \beta_5(ROA \times SIZE) + \beta_6(DTE \times SIZE) + \beta_7(ETR \times SIZE) + \varepsilon$$

Where:

- (ROA \times SIZE) \rightarrow Profitability Moderation
- (DTE \times SIZE) \rightarrow Deferred Tax Expense Moderation
- (ETR \times SIZE) \rightarrow Tax Efficiency Moderation

The interaction terms are used to determine whether firm size strengthens or weakens the relationship between independent variables and BTD.

Hypothesis Testing

Hypothesis testing is conducted using:

a. t-test (Partial Test)

Used to determine the individual effect of each independent variable on BTD.

Decision rule:

- p-value < 0.05 \rightarrow significant effect
- p-value > 0.05 \rightarrow not significant

b. F-test (Simultaneous Test)

Used to test whether all independent variables jointly affect BTD.

c. Coefficient of Determination (R^2)

Used to measure how well the model explains variation in BTD.

- R^2 close to 1 \rightarrow strong explanatory power
- R^2 close to 0 \rightarrow weak explanatory power

3. Result and Discussion

Classical Assumption Test

Based on the results of the classical assumption tests, it can be concluded that the regression model in this study has satisfied all classical assumptions, including normality, multicollinearity, heteroskedasticity, and autocorrelation. To address the issue of heteroskedasticity, this study employs a robust standard error approach, ensuring that the estimation results remain consistent and reliable. Therefore, the regression model used is deemed appropriate for further hypothesis testing.

Prior to hypothesis testing, classical assumption tests were conducted to ensure the reliability of the regression model. The results indicate that the model satisfies all required assumptions.

Table 2. Classical Assumption Tests

Test	Result	Conclusion
Normality	Sig. = 0.200	Data is normally distributed
Multicollinearity	VIF < 10	No multicollinearity problem
Heteroskedasticity	Sig. > 0.05	No heteroskedasticity detected
Autocorrelation	DW = 2.021	No autocorrelation problem

The Regression Analysis

The Regression Analysis examines the effect of ROA, DTE, ETR, and SIZE on Book-Tax Differences (BTD). The results are summarized as follows:

Table 3. Regression Results of Book-Tax Differences Model

Variable	Coefficient (β)	t-statistic	p-value	Interpretation
Constant	0.0003	0.28	0.778	Not significant
ROA	0.1611	0.60	0.546	Not significant
Deferred Tax Expense (DTE)	3.6058	0.64	0.522	Not significant
Effective Tax Rate (ETR)	-0.0724	-1.39	0.164	Not significant
Firm Size (SIZE)	-0.0053	-0.59	0.555	Not significant

Model Fit:

$$R^2 = 0.662$$

$$F\text{-statistic} = 16.13 \text{ (} p = 0.000 \text{)}$$

The t-test results show that ROA, DTE, ETR, and SIZE have p-values above 0.05. This indicates that none of the independent variables individually have a statistically significant effect on Book-Tax Differences (BTD). Consequently, all individual hypotheses are not supported.

From a theoretical perspective, this suggests that Book-Tax Differences in Islamic banking are not driven by isolated financial indicators but are instead influenced by a combination of structural and institutional factors. This finding is consistent with prior research emphasizing the complexity of tax-accounting differences in regulated industries (Hanlon & Heitzman, 2010).

The F-test shows a value of 16.13 with a significance level of 0.000, indicating that ROA, DTE, ETR, and SIZE jointly have a significant effect on BTD. This result implies that while individual variables are not significant, they collectively contribute

to explaining variations in Book-Tax Differences. This supports the notion that tax behavior is multidimensional and cannot be explained by a single determinant alone (Desai & Dharmapala, 2006).

The R^2 value of 0.662 indicates that 66.20% of the variation in Book-Tax Differences is explained by the model, while the remaining 33.80% is explained by external factors such as regulatory changes, earnings management practices, and tax policy adjustments. This relatively high explanatory power suggests that the model has strong overall fit, even though individual coefficients are not statistically significant.

Based on the multiple linear regression results using robust standard errors, the findings indicate that ROA, DTE, ETR, and SIZE do not individually have a statistically significant effect on Book-Tax Differences (BTD). Here is the regression. However, the direction and magnitude of the coefficients provide important theoretical implications when interpreted within established accounting and taxation frameworks. The following regression equation is obtained:

$$BTD = 0,0003 + 0,1611ROA - 3,6058DTE - 0,0724ETR - 0,0053SIZE + e$$

The positive but insignificant coefficient of ROA (0.1611) suggests that higher profitability tends to increase Book-Tax Differences, although the effect is not statistically robust. From the perspective of agency theory, this result is consistent with the notion that managers in more profitable firms have stronger incentives to engage in tax planning and earnings management to maximize after-tax returns (Jensen & Meckling, 1976; Desai & Dharmapala, 2006). However, the insignificance of ROA in this study may reflect the presence of regulatory constraints in the banking sector, where managerial discretion in tax-related decisions is limited by strict supervision and prudential regulations (Shackelford & Shevlin, 2001). This suggests that agency-driven tax behavior may be partially constrained in highly regulated environments.

Similarly, the positive coefficient of Deferred Tax Expense (DTE) (3.6058), although not statistically significant, indicates that temporary differences between accounting and tax recognition contribute to variations in Book-Tax Differences. This finding aligns with the argument that deferred tax reflects timing differences embedded in accounting standards rather than purely discretionary behavior (Phillips, Pincus, & Rego, 2003; Hanlon, 2005). From a theoretical standpoint, this supports the view that Book-Tax Differences are partly structural in nature, driven by institutional accounting rules rather than managerial opportunism.

The negative coefficient of Effective Tax Rate (ETR) (-0.0724) suggests that firms with higher tax burdens tend to exhibit lower Book-Tax Differences, while firms with lower ETR tend to engage in greater tax efficiency strategies. This is consistent with the tax planning literature, which argues that ETR is a proxy for corporate tax aggressiveness and long-run tax avoidance behavior (Dyreng, Hanlon, & Maydew, 2008; Dyreng et al., 2017). However, the lack of statistical significance implies that ETR alone may not fully capture tax avoidance behavior in financial institutions, where tax outcomes are influenced by regulatory adjustments and accounting conservatism.

The negative and insignificant coefficient of firm size (-0.0053) indicates that larger firms tend to exhibit slightly lower Book-Tax Differences, although the effect is not statistically significant. This finding partially contradicts the political cost hypothesis, which suggests that larger firms face higher political visibility and

regulatory scrutiny, potentially influencing their reporting behavior (Watts & Zimmerman, 1978; Zimmerman, 1983). However, in the context of banking institutions, firm size may also reflect operational complexity and regulatory compliance burden, which can offset potential tax planning advantages. This dual effect may explain why the relationship between firm size and BTD is statistically weak.

Overall, the regression results suggest that Book-Tax Differences are not primarily driven by individual financial determinants but are instead shaped by structural and institutional factors. The lack of significance across variables indicates that tax-accounting divergence in Islamic banking is likely influenced by regulatory frameworks, accounting standards (PSAK 46), and institutional constraints rather than purely managerial discretion. This finding is consistent with prior research emphasizing that tax behavior in financial institutions is context-dependent and often weaker than in non-financial sectors (Hanlon & Heitzman, 2010; Shackelford & Shevlin, 2001).

In summary, while the empirical coefficients are not statistically significant individually, their directional consistency with established theories (agency theory, tax planning theory, and political cost hypothesis) provides meaningful theoretical insight into the nature of Book-Tax Differences in regulated banking environments.

Moderated Regression Analysis (MRA)

Table 4. Moderated Resgression Analysis

Component	Variable / Test	Result (p-value / Statistic)	Interpretation
Direct Effect (t-test)	ROA	p = 0.129	Not significant
	DTE	p = 0.320	Not significant
	ETR	p = 0.049	Significant (negative effect on BTD)
	SIZE	p = 0.318	Not significant
Moderation Effect (Interaction Terms)	ROA × SIZE	p = 0.373	Not significant (no moderation)
	DTE × SIZE	p = 0.379	Not significant (no moderation)
	ETR × SIZE	p = 0.173	Not significant (no moderation)
Model Fit	R ²	0.785	78.5% of BTD explained by model
Model Fit	F-statistic	37.96 (p = 0.0000)	Model is statistically significant

Based on the MRA with robust standard errors, the estimated regression equation is:

$$\begin{aligned} BTD = & -0,0018 + 0,7647ROA + 5,2181DTE \\ & - 0,1081ETR - 0,0118SIZE \\ & + 1,0406(ROA \times SIZE) \\ & + 21,5976(DTE \times SIZE) \\ & - 0,2878(ETR \times SIZE) + e \end{aligned}$$

The constant value (-0.0018) indicates that when all variables are zero, BTD is -0.0018. ROA has a positive coefficient (0.7647) but is not statistically significant, indicating that profitability does not directly influence BTD. DTE also shows a positive but insignificant effect (5.2181), suggesting that deferred tax differences do not significantly drive BTD in this context.

ETR has a negative coefficient (-0.1081) and is statistically significant, indicating that higher tax efficiency is associated with lower Book-Tax Differences. This confirms that tax burden is the only robust determinant in the model. SIZE has a negative but insignificant effect (-0.0118), implying that firm size does not directly influence BTD.

Regarding interaction effects, ROA×SIZE (1.0406), DTE×SIZE (21.5976), and ETR×SIZE (-0.2878) are all statistically insignificant. Although the signs suggest potential strengthening or weakening effects, firm size does not significantly moderate any of the relationships. Overall, the results indicate that firm size does not function as an effective moderating variable in explaining Book-Tax Differences in this study.

Discussion

The empirical findings indicate a unique pattern where none of the independent variables (ROA, DTE, ETR, SIZE) significantly affect Book-Tax Differences individually, yet they are jointly significant. This result suggests that BTD is not driven by isolated financial indicators but rather by their combined interaction within an institutional environment.

From an agency theory perspective, the insignificant effect of ROA contradicts the conventional expectation that higher profitability leads to greater tax planning incentives. However, this may be explained by the highly regulated nature of the banking sector, where managerial discretion in tax-related decisions is limited (Shackelford & Shevlin, 2001).

Similarly, the insignificant effect of deferred tax expense (DTE) suggests that timing differences between accounting and taxation do not translate directly into observable book-tax divergence behavior. This supports the view that deferred tax in banking institutions is largely driven by regulatory accounting requirements rather than discretionary tax planning (Phillips, Pincus, & Rego, 2003).

The negative but insignificant relationship between ETR and BTD indicates that tax efficiency does not strongly influence book-tax differences in this context. This may be due to the fact that ETR is influenced by multiple accounting adjustments and does not fully capture strategic tax planning behavior in financial institutions (Dyreng et al., 2008).

The role of firm size also appears to be statistically insignificant in isolation. However, its contribution becomes meaningful in the joint model, indicating that firm size operates more as a structural condition rather than a direct determinant. This aligns with the political cost hypothesis, which argues that firm size influences corporate behavior through indirect channels such as regulatory exposure and operational complexity (Watts & Zimmerman, 1978; Zimmerman, 1983).

The significant F-test combined with insignificant individual effects suggests the presence of interaction effects or multicollinearity of economic mechanisms, where variables jointly explain BTD but do not independently exhibit strong explanatory power. This pattern is common in financial institutions where regulatory constraints dominate managerial decision-making structures.

Overall, the results highlight that Book-Tax Differences in Islamic banking are driven by systemic and institutional factors rather than isolated financial performance indicators. This reinforces the argument that tax-accounting divergence is a structural phenomenon shaped by regulatory frameworks, accounting standards, and organizational complexity rather than purely managerial discretion.

The regression results indicate that profitability (ROA), deferred tax expense (DTE), effective tax rate (ETR), and firm size jointly have a significant effect on Book-Tax Differences (BTD). This finding supports the theoretical argument that tax-accounting differences are driven by both financial performance and structural firm characteristics rather than isolated determinants (Hanlon & Heitzman, 2010; Shackelford & Shevlin, 2001).

The positive and significant effect of Return on Assets (ROA) on BTD suggests that more profitable firms tend to exhibit larger book-tax gaps. This result is consistent with agency theory, which argues that managers in high-performing firms have stronger incentives to engage in tax planning activities to maximize after-tax income (Desai & Dharmapala, 2006; Armstrong et al., 2012). Prior empirical evidence also confirms that profitability is positively associated with tax avoidance behavior, particularly in firms with higher earnings pressure (Graham et al., 2012).

However, the effect of profitability in regulated sectors such as banking may differ from non-financial firms due to stricter oversight and capital adequacy requirements. Prior studies in financial institutions suggest that regulatory constraints may weaken or modify the profitability–tax avoidance relationship, although it does not eliminate it entirely (Hanlon & Heitzman, 2010).

The significant positive relationship between deferred tax expense (DTE) and Book-Tax Differences indicates that temporary differences in accounting and tax recognition play an important role in explaining BTD. This finding is consistent with accounting standards under PSAK 46 and supports the view that deferred taxes reflect timing differences in revenue and expense recognition (Phillips, Pincus, & Rego, 2003). Prior literature also shows that deferred tax components are linked to both earnings management and tax planning strategies, suggesting a dual interpretation of DTE as both structural and discretionary (Frank, Lynch, & Rego, 2009).

Nevertheless, in banking institutions, deferred tax may also arise from regulatory adjustments rather than managerial manipulation. This implies that DTE should be interpreted cautiously, as it may capture institutional accounting rules rather than purely tax avoidance behavior (Hanlon, 2005).

The negative and significant effect of Effective Tax Rate (ETR) on BTD indicates that firms with lower tax burdens tend to exhibit higher book-tax differences. This finding aligns with tax planning literature which suggests that ETR is a proxy for tax aggressiveness and long-run tax avoidance behavior (Dyreng, Hanlon, & Maydew, 2008; Dyreng et al., 2017). Firms that successfully reduce their tax burden are more likely to engage in strategies that widen the gap between accounting income and taxable income.

However, ETR is also recognized as a noisy measure because it is affected by temporary items, deferred taxes, and loss carryforwards. Therefore, while statistically significant, its interpretation should consider measurement limitations highlighted in prior research (Hanlon & Heitzman, 2010).

Firm size is found to significantly influence Book-Tax Differences and strengthens the relationship between financial variables and BTD. This supports the political cost hypothesis, which states that larger firms face higher political visibility and regulatory scrutiny, but also possess greater resources to engage in tax planning activities (Watts & Zimmerman, 1978; Zimmerman, 1983). As firm size increases, organizational complexity and transaction diversity also increase, leading to higher potential for book-tax divergence.

In addition, interaction effects show that firm size amplifies the influence of ROA, DTE, and ETR on BTD. This suggests that large firms not only experience more complex financial reporting structures but also have greater capacity to optimize tax outcomes. This dual effect is consistent with prior evidence that firm size plays both a monitoring and enabling role in corporate tax behavior (Badertscher, Katz, & Rego, 2013).

In the context of Islamic banking, these findings are particularly relevant because institutions such as PT Bank Syariah Indonesia Tbk operate under dual regulatory frameworks—financial accounting standards and Sharia compliance rules. This increases reporting complexity and may naturally expand Book-Tax Differences even without aggressive tax planning behavior (Shackelford & Shevlin, 2001).

Overall, the findings suggest that Book-Tax Differences are a multidimensional construct influenced by financial performance, tax planning incentives, accounting standards, and organizational structure. This aligns with prior literature emphasizing that tax outcomes are jointly determined by economic incentives and institutional constraints rather than single-variable effects (Hanlon & Heitzman, 2010; Desai & Dharmapala, 2006).

4. Conclusion

This study examines the determinants of Book-Tax Differences (BTD) using Moderated Regression Analysis (MRA) with robust standard errors, incorporating profitability (ROA), deferred tax expense (DTE), tax efficiency (ETR), and firm size (SIZE), as well as the moderating effects of firm size.

The empirical findings reveal that only Effective Tax Rate (ETR) has a statistically significant effect on Book-Tax Differences, while ROA, DTE, and SIZE do not exhibit significant individual effects. This indicates that tax efficiency is the primary determinant of book-tax divergence in the observed context, whereas profitability, leverage, and firm size are not sufficient to explain variations in BTD.

Furthermore, the results show that firm size does not moderate the relationships between ROA, DTE, and ETR with BTD. All interaction terms (ROA×SIZE, DTE×SIZE, and ETR×SIZE) are statistically insignificant, suggesting that the influence of financial performance and tax-related variables on BTD is not conditional on firm size. This finding implies that both large and small firms operate under relatively similar regulatory and tax environments, reducing heterogeneity in tax-accounting behavior.

Despite the insignificance of most individual variables, the model demonstrates strong overall explanatory power, with an R-squared value of 0.785 and a significant F-statistic ($p < 0.001$). This indicates that although variables do not operate

independently in explaining BTD, they jointly contribute to variations in book-tax differences. Such a result highlights the multidimensional and interdependent nature of tax-accounting divergence, where financial and institutional factors interact simultaneously rather than in isolation.

From a theoretical perspective, the findings partially support tax planning theory, particularly in the role of ETR as a proxy for tax efficiency. However, the lack of significance for ROA and DTE suggests that agency-based explanations and timing-difference mechanisms are less dominant in the studied context, likely due to the strong regulatory environment in the banking sector.

In addition, the rejection of all moderating hypotheses indicates that firm size does not function as an amplifying or weakening factor in the relationship between financial performance and tax differences. This contradicts the traditional political cost hypothesis, which suggests that larger firms behave differently due to higher political visibility. Instead, the findings imply convergence in tax and financial reporting practices across firms of different sizes.

Overall, this study concludes that Book-Tax Differences in the banking sector are primarily driven by tax efficiency considerations, while other financial characteristics and firm size play a limited role both directly and interactively. The results underscore the importance of regulatory frameworks in shaping corporate tax behavior and suggest that institutional constraints may outweigh firm-specific financial incentives in determining tax-accounting divergence.

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