GIJEA
Greenation International Journal of Economics and Accounting
+62 81210467572 https://research.e-greenation.org/GIJEA greenation.info@gmail.com
GREENATION RESEARCH

DOI: https://doi.org/10.38035/gijea.v3i2

Analyzing Effective Tax Rate Variability in Indonesian State - Owned Banks: Evidence from 2020-2024

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Abstract: This study examines the variability of the effective tax rate (ETR) in state-owned banks (BUMN) during the 2020–2024 tax years, with a case study focused on BANK XYZ. The objective of the study is to evaluate the variability of ETR and the influencing factors in state-owned banks, as well as to assess how BANK XYZ manages its ETR. The methodology employed includes quantitative analysis of financial statement data from BUMN banks, combined with interviews conducted with the tax and finance managers of BANK XYZ. The findings reveal that permanent differences affect the GAAP ETR, while both temporary and permanent differences influence the Current ETR. Among the three tax rate proxies, GAAP ETR demonstrates the most stable value and is closest to the statutory rate of 22%, whereas Cash ETR and Current ETR exhibit greater fluctuations. A common temporary difference observed across the banks is depreciation expense, while the most dominant permanent difference arises from non-deductible expenses. Additionally, income from subsidiaries contributes to the increased variability of the ETR. BANK XYZ reports an ETR that exceeds the statutory rate. Based on interview results, BANK XYZ maintains fiscal compliance while optimizing cash flow through tax management. The bank continues to enhance its tax governance through the utilization of technology, regular regulatory assessments, and strengthened collaboration with external tax consultants.

Keyword: Effective Tax Rate, Tax Variability, State-Owned Banking, Tax Compliance

INTRODUCTION

As Badan Usaha Milik Negara (BUMN), state-owned banks are responsible not only for contributing to the economy through their operational activities but also through tax payments, which serve as one of the main sources of government revenue. Taxes paid by BUMN banks constitute a significant component of the Anggaran Pendapatan dan Belanja Negara (APBN), which supports national development. In fact, tax revenues are projected to contribute 68.48% of the total national income in the 2024 APBN (Kemenkeu, 2024).

To enhance domestic tax revenues, the Direktorat Jenderal Pajak (DJP) has implemented comprehensive tax reforms, one of which is the enactment of Law No. 7 of 2021 on Harmonization of Tax Regulations. This regulation stipulates that corporate taxpayers, including permanent establishments, are subject to a statutory income tax rate of 22%, effective from the 2020 fiscal year.

In the Indonesian tax system, there are two types of tax rates: the Statutory Tax Rate (STR) and the Effective Tax Rate (ETR). The STR refers to the rate prescribed by prevailing tax laws and is regularly revised through tax reform. The ETR, on the other hand, reflects the actual tax burden borne by a company, calculated by dividing the total tax expense by pre-tax accounting income.

In practice, discrepancies often arise between a company's statutory and effective tax rates due to differences in accounting and tax treatments. These result in permanent differences and temporary differences. For instance, interest income reported in the income statement under accounting standards but excluded from taxable income may cause the ETR to fall below the STR.

Moreover, variations in business characteristics can contribute to ETR differences across firms. Companies that rely primarily on debt financing tend to report lower ETRs than those financed mostly through equity, due to the deductibility of interest expenses, which reduces taxable income. In the context of BUMN banks, this analysis is particularly relevant given their strategic role in national revenue generation and economic development.

The presence of ETR variability highlights that existing tax policies may not be applied consistently across entities. Such discrepancies may reflect systemic loopholes that enable banks to adopt diverse tax management strategies. This underlines the need for further investigation into the determinants of ETR variability, including both internal factors (e.g., firm characteristics) and external factors (e.g., fiscal policy and macroeconomic conditions).

Previous research has explored ETR variations across countries and sectors. For instance, Minnick and Noga (2010) explain that ETRs can differ significantly between countries depending on fiscal policy and economic structures. Hanlon and Heitzman (2010), in a European context, show that discrepancies between accounting income and taxable income can serve as indicators of earnings quality and potential earnings management. They emphasize the role of corporate governance and tax authorities in overseeing aggressive tax practices. Similarly, Wu, Wang, and Gillis (2012) found that tax reforms in China aimed at supporting the financial sector significantly reduced effective tax rates in state-owned banks. Gillman et al. (2002) argue that, in the absence of tax shields, credits, and rebates—collectively referred to as tax incentives—the STR should align with the ETR.

These studies illustrate that tax-related variability is often rooted in the application of ETR and the amount of taxes actually paid. ETR variability refers to fluctuations in a firm's effective tax burden compared to the legally prescribed rate. These fluctuations may be driven by both permanent and temporary differences, as well as firm-specific determinants such as firm size and profitability.

Against this backdrop, the present study aims to analyze ETR variability at BANK XYZ, a BUMN bank in Indonesia, and to identify contributing factors, including temporary and permanent differences as well as firm-specific characteristics. To achieve this objective, the study employs a conceptual framework that integrates the notions of ETR variability, permanent and temporary differences.

Permanent differences refer to items such as non-taxable income or non-deductible expenses, while temporary differences arise from timing mismatches in the recognition of revenues and expenses between tax reporting and financial reporting. These differences can create gaps in the tax system, often leveraged by firms to manage their tax burden, and are central to fiscal adjustments during the reconciliation of accounting income and taxable income (Richardson, 2007).

Both types of differences stem from misalignments between financial accounting standards and tax regulations. These misalignments not only affect the taxable income base but also have a direct impact on the amount of tax expense recognized, thereby determining the firm's ETR. Importantly, if a company's ETR consistently remains low due to negative fiscal adjustments, it may raise concerns regarding its tax compliance, particularly in the absence of transparent disclosures in the financial statements. Therefore, fiscal adjustments play a critical role in determining the recognized tax expense and, consequently, the firm's effective tax rate.

METHOD

This study employs a qualitative descriptive method with a case study approach. Data collection techniques include interviews, surveys, and observations to gather accurate and reliable information. The data collection was conducted across several state-owned banks operating in the banking sector, specifically members of the Himpunan Bank Milik Negara (Himbara), including PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk, and PT Bank Tabungan Negara (Persero) Tbk. However, the main focus of this study is BANK XYZ, which serves as the primary case.

The data analyzed covers the 2020–202 period, with particular emphasis on three proxies of the Effective Tax Rate (ETR): GAAP ETR, Cash ETR, and Current ETR. Primary data were obtained through interviews and surveys with three key informants: the Tax Manager of BANK XYZ, a Tax Staff member, and the Financial Reporting Manager. Meanwhile, secondary data were sourced from the company's audited financial statements and annual reports.

The data were analyzed using a data triangulation technique to obtain a comprehensive understanding of the phenomenon under study. The triangulation focused on three key dimensions: tax avoidance, profitability, and firm size, each measured using the three tax rate proxies: GAAP ETR, Cash ETR, and Current ETR. The formula for calculating GAAP ETR is as follows:

GAAP ETR = Total Income Tax Expense / Pre-Tax Accounting Income

Cash ETR (Cash Effective Tax Rate):

Cash ETR = Cash Taxes Paid / Pre-Tax Accounting Income

Current ETR (Current Effective Tax Rate):

Current ETR = Current Tax Expense / Pre-Tax Accounting Income

Profitability is measured using the Return on Equity (ROE) ratio, with the formula:

ROE = Net Income / Shareholders' Equity

Firm size is measured based on total assets, using the natural logarithm transformation:

SIZE = Ln (Total Asset).

RESULT AND DISCUSSION

1. Variability, Permanent and Temporary Differences, and Firm Size

Table 1. ETR Variability of BANK XYZ (2020–2024)

Year	GAAP ETR	Current ETR	Cash ETR
2020	29.81%	31.38%	36.47%
2021	19.47%	22.22%	23.15%
2022	18.34%	19.01%	18.92%
2023	18.89%	17.75%	18.03%
2024	19.77%	15.25%	18.02%

Source: Processed by the author from financial statements published on the official website.

Based on the historical average of ETR variability data presented above, a significant decline occurred between 2020 and 2021, where GAAP ETR dropped from 29.81% to 19.47%. From 2022 to 2024, the values stabilized within the range of 18% to 20%.

Meanwhile, Current ETR experienced a consistent decline throughout the five-year period, dropping from 31.38% in 2020 to 15.25% in 2024, with the most substantial decrease occurring in 2024. Similarly, Cash ETR also declined steadily from 36.47% to 18.02%, in line with the trends seen in both GAAP and Current ETR.

These results show a downward trend across all three ETR proxies, with Current ETR exhibiting the highest volatility, while GAAP ETR remains the most stable and closest to the statutory tax rate. This pattern is likely due to aggressive utilization of fiscal incentives, such as full application of tax loss carryforwards and large deferred tax asset recognition. Conceptually, Current ETR reflects the actual tax burden payable during the reporting period. A Current ETR of zero indicates that the company had no fiscal tax obligations in that year, even if its commercial (accounting) profit remained positive.

In contrast, Cash ETR, while also volatile, reported a value of 18.02% in 2024, which is closer to GAAP ETR and considered more reasonable than a zero Current ETR. Among the three ETRs, GAAP ETR most closely approximates the statutory tax rate of 22%, while Current ETR appears to be the least reflective of a fair tax burden.

As for the contributing components—Permanent Differences and Temporary Differences—the historical data for BANK XYZ are as follows:

Table 2. Average ETR, Temporary Differences, and Permanent Differences of BANK XYZ (2020–2024)

Year	GAAP ETR	Current ETR	Cash ETR	Temporary Differences	Permanent Differences
2020	29.81%	31.38%	36.47%	+1.57%	+7.81%
2021	19.47%	22.22%	23.15%	+2.75%	-2.53%
2022	18.34%	19.01%	18.92%	+0.67%	-3.66%
2023	18.89%	17.75%	18.03%	-1.14%	-3.11%
2024	19.77%	15.25%	18.02%	-4.52%	-2.23%

Source: Processed by the author from the official reports of BANK XYZ

From the table presenting the tax components of BANK XYZ, it can be observed that temporary differences during 2020–2022 showed a positive trend, averaging +1.66%, which indicates the dominance of deferred tax liabilities. However, in 2023–2024, the average value of temporary differences shifted to -2.83%, suggesting an increase in deferred tax assets. As for the permanent differences, in 2020, the value was significantly positive at +7.81%, indicating that accounting tax expenses exceeded the statutory tax rate. During 2021–2024, permanent differences consistently showed negative values, averaging -2.88%.

A deeper analysis reveals that the 2020–2021 period can be considered a transformation phase, characterized by extremely positive temporary differences and a sharp decline in GAAP ETR, likely driven by the utilization of tax incentives and income restructuring. Meanwhile, the 2022–2024 period reflects a consolidation phase, marked by negative temporary differences, which led to a 16.13 percentage point decrease in Current ETR. This consolidation phase is also characterized by the stabilization of permanent differences throughout the same period.

Table 3. Profitability and Its Relationship to ETR (GAAP ETR, Cash ETR, Current ETR) in State-Owned Commercial Banks for the Period 2020–2024

Year	ROE (%)	GAAP ETR (%)	Cash ETR (%)	Current ETR (%)
2020	8.88	29.93	27.53	31.55
2021	14.54	16.89	26.54	28.67
2022	17.53	20.20	20.17	22.16
2023	17.48	19.84	15.98	19.83
2024	15.47	20.04	17.25	16.58

Source: Processed by the author from official website reports.

From the table above, it can be observed that the profitability (ROE) of BANK XYZ demonstrated a notable upward trend, rising from an average of 8.88% in 2020 to a peak of 17.53% in 2022, before slightly declining to 15.47% in 2024. This suggests that, in general, banks within this group have been able to optimize the use of capital to generate profits, although fluctuations occurred in some banks such as BBNI and BBTN. BBRI showed the most consistent ROE growth, increasing from 11.05% in 2020 to 22.91% in 2024, reflecting its success in maximizing shareholder returns. Based on the sequential analysis, BBRI serves as an ideal example of how effective tax strategies can support profitability growth. Nevertheless, BANK XYZ as a whole has demonstrated improvements in both tax efficiency and net income, although only a few banks, particularly BBRI and BMRI, have consistently succeeded in integrating tax management with overall financial performance.
As for firm size, the data for BANK XYZ is presented as follows:

Table 4. Firm Size of State-Owned Banks (2020–2024)

Bank Code		Year	Firm Size (Ln Total Assets)
1	BBNI	2020	20,5227
		2021	20,6627
		2022	20,7208
		2023	20,7708
		2024	20,8043
2	BBRI	2020	21,0752
		2021	21,1761
		2022	21,2834
		2023	21,3304
		2024	21,3332
3	BBTN	2020	19,7050
		2021	19,7341
		2022	19,8392
		2023	19,8994
		2024	19,9674
4	BMRI	2020	20,9131
		2021	21,0275
		2022	21,1746
		2023	21,2473
		2024	21,3531

Source: Processed by the author from official website reports.

Bank Rakyat Indonesia (BBRI) showed a consistent increase in firm size, from 21.0752 in 2020 to 21.3332 in 2024. This growth indicates a stable expansion in assets and operational capacity. However, BBRI's GAAP ETR during this period was relatively volatile, with a significant decline from 30.18% in 2020 to 19.11% in 2021, followed by a slight and stable increase around 20% in subsequent years. This pattern suggests that although BBRI managed to grow its assets, its tax management strategy did not proportionally follow the trend of reducing effective taxes alongside asset growth.

As for Cash ETR, BBRI experienced significant fluctuations, with the highest value reaching 31.77% in 2021, dropping sharply to 16.10% in 2023, and then slightly increasing to 17.85% in 2024. These fluctuations indicate that the company's asset growth did not always correlate with lower cash tax payments.

Nevertheless, BBRI's Current ETR showed considerable fluctuations during the same period. It was 29.80% in 2020, rose to 34.50% in 2021, before declining sharply to 17.09% in 2023, and slightly increased again to 18.62% in 2024. These fluctuations illustrate the dynamics of current tax expenses that were not directly aligned with the firm's asset growth.

As the company with the largest assets, BBRI faces high tax complexity, which is reflected in the volatility of all three ETRs. This indicates that the company tends to implement complex tax planning strategies to manage tax burdens and cash flows optimally.

Bank Mandiri (BMRI) also experienced similar growth in firm size, from 20.9131 in 2020 to 21.3531 in 2024. BMRI's GAAP ETR showed a gradual decline from 24.57% to 20.35% over the same period, reflecting more stable and controlled tax management efficiency compared to BBRI. This pattern indicates that BMRI was able to utilize its asset growth more optimally to reduce effective tax burdens, either through fiscal strategies or tax management.

BMRI exhibited a relatively stable and consistent downward trend in Cash ETR, from 17.81% to 14.65% during the period. This consistent decline indicates better effectiveness in managing cash taxes, which may reflect more controlled fiscal policies and more optimal tax management strategies.

Fluctuating but still within the range of 17–24%, it shows a more stable current tax burden compared to BBRI. This trend reflects more controlled management of current tax expenses, which can be associated with more efficient tax strategies and favorable long-term fiscal policies.

Bank Negara Indonesia (BBNI) showed a slightly different pattern. BBNI's firm size also increased from 20.5227 to 20.8043, but its GAAP ETR fluctuated significantly, with a sharp decrease from 35.03% in 2020 to 12.54% in 2021, before rising again and stabilizing around 18–19% through 2024. These changes reflect a high variability in effective tax burdens not directly aligned with asset growth.

Meanwhile, Cash ETR showed significant changes, starting from 46.17% in 2020 and sharply declining to around 17% in both 2023 and 2024. This change indicates significant improvements in managing cash tax expenses. However, BBNI's Current ETR experienced a drastic decline from 43.44% in 2020 to 16.91% in 2024, with the most significant drops occurring in the first two years. This decline demonstrates an improvement in managing current tax obligations.

Meanwhile, Bank Tabungan Negara (BBTN), as the bank with the smallest asset size (from 19.7050 to 19.9674), showed relatively high and less varied GAAP ETR, ranging from 29.44% in 2020 and slowly decreasing to 20.29% in 2024. The high GAAP ETR indicates that this bank consistently bore a higher effective tax burden compared to other banks with larger asset sizes.

However, Cash ETR for BBTN was relatively more volatile and tended to be higher, starting from 15.04% in 2020, jumping to 27.41% in 2021, declining in the following years, and rising again to 19.11% in 2024. This pattern indicates instability in cash tax payments.

Current ETR for BBTN remained relatively high and fluctuated, starting from 29.09% in 2020, slightly decreasing in 2021 and 2022, and continued to drop until it reached 0% in 2024. The drop in Current ETR to zero in the final year may have been due to specific fiscal policies, tax incentives, or compensable fiscal losses that led to extremely low or no current tax obligations.

2. Strategic Management of Permanent and Temporary Tax Differences

In its operations, the interviewees (as part of the management) stated that the Bank adopts a careful approach in utilizing both types of tax differences to optimize the tax burden in a legal and efficient manner. In the case of BBRI, the Bank manages non-deductible expenses such as donations, representation costs, and income excluded from taxable objects. This strategy serves to reduce accounting tax expenses without creating fiscal risks, as such expenses are explicitly regulated by tax laws. Accordingly, the Bank is able to lower its effective tax rate (GAAP ETR) closer to the statutory rate, thereby increasing net income.

This is reinforced by the explanation given by the Tax Manager and Tax Staff of BANK XYZ:

> *"Our main strategy in managing permanent differences is to utilize non-deductible expenses, such as donations and representation. This reduces our accounting tax burden, bringing the GAAP ETR closer to the statutory rate without violating any rules."*

On the other hand, in the context of temporary differences, the Bank manages the recognition of deferred tax assets and liabilities, such as allowance for asset impairment and estimated commitment losses, which influence the recognition of current tax expenses. Through careful management, BANK XYZ is able to adjust the timing of tax expense recognition to enhance cash efficiency, ensuring that the company's cash flows remain optimal without compromising tax compliance, as explained by the bank’s manager:

> *“For temporary differences, we carefully manage loss reserves and deferred tax liabilities that affect current tax recognition. Through this management, we can maintain cash flow efficiency without neglecting tax regulations.”*

The management emphasizes that the handling of both types of differences is conducted cautiously and systematically, not as a form of aggressive tax avoidance, but rather as a legitimate tax planning effort to support profitability and the financial health of the company. The Tax Manager further emphasized:

> *"We always ensure that our tax management strategies comply with regulations and are carried out transparently, not as a means of aggressive tax avoidance."*

3. Impact of Firm Size and Profitability on Effective Tax Rates

The results of interviews with the financial manager of BANK XYZ revealed that firm size and profitability significantly influence tax management and financial decision-making. From the perspective of the tax manager, tax management in BANK XYZ is greatly affected by the large size of the company, which implies a higher volume of transactions and assets, necessitating more complex tax strategies. A larger scale presents both challenges and opportunities for optimizing tax management, both in terms of legitimate tax avoidance and strategic planning through the management of permanent and temporary differences. According to the tax manager of BANK XYZ:

> *“As a company with the largest assets, BANK XYZ faces high tax complexity, as reflected in the fluctuations of the three ETRs. We tend to apply sophisticated tax planning strategies to manage tax burdens and cash flows optimally.”*

In terms of profitability, the tax manager also revealed that higher corporate profits lead to higher tax liabilities. Therefore, the Bank strives to manage the tax burden more efficiently alongside the growth in net income and more optimal cash flow management. Tax management ensures that high profitability does not burden the company with excessive taxes by utilizing both temporary and permanent differences, as previously described. The tax manager of BANK XYZ also stated:

> *“Although the Bank’s profits have continued to rise, the actual cash tax payments made each year have not necessarily increased proportionally. We have managed to reduce the amount of cash taxes paid, even as profitability increased.”*

From the perspective of the financial manager, the influence of firm size on profitability is evident in the increasing Return on Equity (ROE) and the overall financial performance of the Bank. A larger size provides more opportunities for expansion and income diversification, which directly impacts profit growth and profitability. Larger banks with more assets tend to have better access to financing and resources that can be used to strengthen market position and improve profitability. The financial manager of BANK XYZ explained:

"The growing size of the company, in terms of both assets and operational capacity, allows us to improve profitability and maximize the returns on investment for our shareholders."

Additionally, increasing profitability not only affects the amount of tax paid but also influences cash management strategies and more prudent financial planning. Larger and more profitable banks must carry out careful financial planning to ensure that cash flows remain stable despite tax burden fluctuations. This is reflected in changes to the Cash ETR, which demonstrate that even as profits rise, the tax burden can be kept under control. The financial manager added:

> *"We always ensure that even as profitability continues to increase, cash flow management must remain efficient to support long-term expansion and financial stability."*

Tax Management Efficiency and Compliance:

From interviews with both the tax manager and financial manager of BANK XYZ, it is evident that tax efficiency and compliance are two inseparable elements of the Bank's tax management strategy. Although each has a different focus, both agree that efficiency and compliance must be maintained in parallel to ensure the continuity and operational stability of the Bank.

From the tax manager's perspective, tax efficiency at BANK XYZ is achieved through careful management of permanent and temporary differences. For permanent differences, for example, BANK XYZ utilizes non-deductible expenses such as donations or representation costs to reduce accounting tax burdens, thereby bringing the GAAP ETR closer to the statutory tax rate. This strategy, according to the tax manager, is not only aimed at reducing taxes but is conducted within legal limits and always prioritizes regulatory compliance. As explained by the Tax Manager of BANK XYZ:

> *"Tax efficiency is our primary goal, but we always ensure that all measures taken remain within legal frameworks and in accordance with prevailing tax regulations."*

Meanwhile, from the perspective of the Financial Manager, tax efficiency is considered essential for maintaining corporate cash flows. By managing permanent and temporary differences appropriately, the Bank can optimize the tax burden without undermining financial stability. BANK XYZ has successfully reduced tax burdens while ensuring that cash flows remain stable, which also affects the company's ability to grow and maintain long-term profitability. The Financial Manager of BANK XYZ added:

> *"For us, tax efficiency is the key to maintaining financial stability. We always manage taxes in a way that is not only efficient but also compliant with all regulations, as we understand that compliance is the foundation of our business sustainability."*

Compliance with tax regulations is a principle strongly upheld by both the Tax Manager and the Financial Manager. The Tax Manager explained that while they implement tax efficiency strategies such as utilizing permanent and temporary differences, they always ensure that all actions taken are within the scope of applicable laws. Transparency and compliance with tax regulations are prioritized in every policy implemented by the Bank.

Additionally, the Financial Manager emphasized the importance of maintaining a balance between tax efficiency and compliance. In dealing with increasingly complex tax management challenges, the company seeks not only to maximize profit through efficient tax planning but also to safeguard its reputation and avoid legal risks arising from unlawful tax avoidance. The Financial Manager of BANK XYZ stated:

> *"We prioritize compliance as the foundation of tax management. Every action we take is always within the legal framework, and we maintain transparency to avoid legal risks in the future."*

BANK XYZ has succeeded in managing taxes efficiently, reducing tax burdens, and maintaining stable cash flows, while still complying with applicable tax regulations. This demonstrates that a company can achieve tax efficiency without violating the principles of compliance and transparency that underpin legitimate tax management.

CONCLUSION

Based on the analysis of financial reports and interviews, several key findings can be concluded that first, the variability of ETR at BANK XYZ remained relatively controlled throughout the observation period, indicating the presence of effective tax management strategies. This ETR stability was achieved through well-planned management of temporary differences, particularly via the reversal of fiscal corrections on items such as provisions for productive asset losses, which were conducted in accordance with accounting principles and tax regulations.

Second, permanent differences were found to contribute significantly to lowering the GAAP ETR without creating deferred tax liabilities. However, consistency and proper documentation in applying permanent differences must be maintained to avoid potential negative interpretations related to aggressive tax planning.

Third, firm-specific characteristics such as size (total assets) and profitability played a critical role in influencing ETR. As a large-scale and highly profitable company, BANK XYZ faces greater tax complexity than smaller firms. Nevertheless, its business scale provides strategic opportunities to leverage tax incentives and structure income and expense recognition more efficiently.

Fourth, the ability to maintain ETR stability is also closely tied to the strength of internal supervision and control systems. BANK XYZ applies good corporate governance principles through compliance in reporting, fiscal validation, and strict documentation control, all of which support transparency and accountability.

Therefore, it can be concluded that the variability of ETR at BANK XYZ is not merely a result of external fluctuations, but rather the outcome of structured tax strategies, shaped by the company's internal characteristics and the careful, compliant management of both temporary and permanent differences. These findings underscore the importance of sustainable tax planning as an integral part of financial governance in state-owned enterprises.

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