



## Is Tax Accounting Information Relevant to Users? The Case of Indonesia

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### Abstract

*This research aimed to investigate whether the tax accounting contained in financial statements is relevant to users' decision-making and represents compliance with the tax laws. In this research, tax accounting information is classified into (1) tax recognition items (TRI) and (2) tax disclosure items (TDI). Survey data were collected from 131 professional tax accountants in Indonesia. The study employed two analysis methods: (1) the paired sample test, to determine whether there was any gap between the current condition and the expected condition of tax accounting information; and (2) regression analysis, to establish whether tax accounting information affected the relevance of financial statements. The results showed that (1) there were more gaps in TRI than in TDI; and (2) while TRI created relevance, TDI did not. This result indicates that tax accounting information is essential to improve decision-making. However, there are gaps and inadequate information. These results also imply that the accounting standards setter should improve the standards so that tax accounting provides value to financial statement users.*

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## 1. Introduction

There has long been debate in accounting science on whether tax information in financial statements reflects companies' compliance with tax rules and whether this compliance is relevant information for investors (Aisbitt, 2002; Balios, Tantos, Eriotis, & Vasiliou, 2020; Chan, Lin, & Mo, 2010; Karagiorgos, Lazos, & Leontiadis, 2020). Tax itself is a direct consequence of companies' transactions. Therefore, it should be presented in their financial statements (Vokshi, 2018; Wang, Xu, Sun, & Cullinan, 2020). Research has also shown that tax accounting represents companies' rights and obligations to the government (Hanlon, 2003; Markle & Shackelford, 2012). Nowadays, many investors are also concerned about companies' tax compliance levels; for example, several pieces of research have shown that companies that engage in tax avoidance are deemed immoral and not fit to receive additional loans and investments (Overesch & Wolff, 2021). When Indonesia introduced a tax amnesty in 2016–2017, several studies also showed that the special tax accounting rules enacted in SFAS 70 – Accounting for Tax Amnesty Assets provided information that was relevant to investors and increased the value of companies (Inasius, Darijanto, Gani, & Soepriyanto, 2020; Pratama, 2018). The new accounting interpretation, the International Financial Reporting Interpretation Committee (IFRIC) 23 – Uncertainties in Income Tax Treatment, also aims to increase the quality of financial statements by explaining tax uncertainty and showing how companies plan to deal with this uncertainty (Hoeppers, Moino, Gonzales, & Santos, 2020; Yeoh, 2019).

However, several studies have presented contradictory opinions. Few accounting standards specifically discuss tax as an item in financial statements (Freedman, 2008). Although the accounting treatment of tax-related items is relatively straightforward, various scholars have asserted that there should be specific accounting guidance for tax accounting (Lamb, 1996; Oliveras And & Puig, 2005; Sikka, 2017). In many jurisdictions, there is a difference between accounting standards and tax codes. When submitting a tax return, the financial statement needs to first be adjusted with the tax code. This process creates complexity, and several tax disputes have arisen due to the different interpretations of taxpayers and the tax apparatus (Asiri, 2021; Baldenius & Dyreng, 2021; Qiang, 2007). The International Financial Reporting Standards (IFRS) implementation created yet more differences regarding the tax code since the IFRS required more judgement

and prediction, which are generally unacceptable in tax treatment (Beerbaum, Puaschunder, & Piechocki, 2019; Guerreiro, Lima Rodrigues, & Craig, 2021). For example, IFRS 9 could lead to a tax dispute arising from the recognition and measurement of impairment loss using the expected credit loss model (Novotny-Farkas, 2016). IFRS 15 could also result in tax disputes since the timing and amount of recognition can be uncertain due to the complexity of the contract (Napier & Stadler, 2020). Furthermore, IFRS 16 could cause complexity since it no longer recognizes an operating lease classification, although many tax laws still recognize operating lease treatment (Morales-Díaz & Zamora-Ramírez, 2018). Various studies have shown that IFRS implementation creates more tax disputes relating to the recognition and measurement of income and expense accounts (Ahalik, 2021; Budi & Rahayu, 2021; Eberhartinger & Klostermann, 2007; Tambun & Haryati, 2022).

Nowadays, the focus of the accounting standards is on better communications (Baksaas & Stenheim, 2019; Saha & Bose, 2021; Wee, Tarca, & Chang, 2014). The specific area relating to communications is accounting disclosures, usually located in the notes to financial statements (Cheung & Lau, 2016). The implementation of IFRS introduced more disclosures into financial statements, creating a problem for companies since more sophisticated infrastructures and resources are required to produce such information (George, Ferguson, & Spear, 2013; Lang & Stice-Lawrence, 2015). Many companies also disclose almost all their information as the standards do not explicitly state how to disclose the information (Efretuei, 2018; Miah, Jiang, Rahman, & Stent, 2021). Tax accounting information in financial statements can be relatively limited (Eberhartinger, Genest, & Lee, 2020). Most tax accounting information in financial statements consists only of a description of the tax types and the total amount of tax payable or receivable (Chytis, 2019; Larson, Lewis, & Spilker, 2017). Qualitative information on tax is still not adequately disclosed (Depoers & Jérôme, 2020). Tax information presents a negative image of companies or, as the tax laws protect the tax information provided by taxpayers, many companies decide against including tax-related information in their financial statements (Hoopes, Robinson, & Slemrod, 2018; Lenter, Slemrod, & Shackelford, 2003; Schmal, Schulte Sasse, & Watrin, 2021).

Indonesia has recently implemented significant tax law reforms (Dwianika, Murwaningsari, Umar, & Mayangsari, 2021). Aside from the lowered tariff and further deregulation of tax obligations, Indonesia's new tax laws mandate all companies to disclose more documents related to tax compliance to the tax office so that the automatic exchange of information (AEOI) can be applied (Simanjuntak & Indrawati, 2020). One of these documents is the financial statement. Various studies have shown that the tax office still perceives the quality of tax-related disclosures in financial statements to be low (Boonvut, 2017), and, during the tax audit and tax litigation process, several questions or disputes have arisen due to the lack of clarity regarding the numbers and presentation of tax information in financial statements (Al-Frijat, 2014; Downing & Langli, 2019). Several studies have also suggested that most companies' directors and accountants do not have a robust knowledge of tax accounting and that some tax consultants have the same problem (Cools & Rossing, 2021; Hasseldine, Holland, & van der Rijt, 2011; Minnick & Noga, 2010).

Based on this background information, it is evident that there is a gap between users' expectations and the reality of tax disclosure (Frecknall-Hughes & Kirchner, 2015). As far as the author knows, no or few studies have previously been conducted on the expectation gap in tax disclosure. Hence, this research can provide a significant contribution by explaining the expectation gap in the tax information context. This research distinguishes two types of tax accounting information: (1) tax recognition items (TRI), as reported in the statement of financial positions of profit and loss and the statement of cash flows; and (2) tax disclosure items (TDI), as presented in the notes to financial statements or companies' annual reports. TRI can take the form of assets, liabilities, and expenses. Indonesian tax laws have requirements for certain companies to be tax withholders. Therefore, for tax withholders, there are several more obligations. Tax-related information is primarily qualitative, ranging from the information required by the accounting standards to the information required by the tax laws. This research aims to test whether the tax accounting information in financial statements represents compliance with the tax laws. Also, it investigates whether tax accounting information affects users' decision-making. This research additionally considers the education and work background of the users to determine whether there are information gaps between specific groups of users.

This research can contribute to an explanation of how financial statement users utilize tax accounting information. Moreover, this research can contribute to explaining the current state of tax accounting information disclosures across financial statements and whether they provide benefits to users or not. It also expands the scope of tax accounting research since most of the current research on tax accounting discusses tax avoidance and book-tax gaps. This research can open a new, exciting area, specifically investigating how financial statements should present tax information. The rest of the paper is structured as follows: Section 2 presents the literature review and hypothesis development, Section 3 introduces the research methodology, Section 4 provides the results and relevant discussion, and Section 5 concludes the article.

## **2. Literature Review and Hypothesis Development**

### **2.1. Literature Review**

The theory of the firm is a major general theory used in this research. It explains the nature and characteristics of a company, showing that its actions and motives are derived from economic motivations (Biondi, 2017). In the accounting context, the behavioural theory of the firm explains that, while users have the ability to read and understand information, they also have different levels of knowledge, and some users

even have an issue with bounded rationality (Fochmann & Hemmerich, 2018; Gavetti, Greve, Levinthal, & Ocasio, 2012). Financial statements explain the information that represents the company's current performance and compliance with the rules; however, financial statements are always constrained by cost-benefit and materiality. Therefore, the behaviour theory predicts that if the users do not perceive the information to be useful or have difficulty understanding it, they will not use it for decision-making and the information, therefore, loses its relevance (Kiziukiewicz & Jaworska, 2017; Qadeer, Rizvi, & Ahmad, 2021).

The conceptual framework provides clear explanations of the objective and purpose of financial statements. The objective of financial statements is to provide users with information about the performance and financial position of entities for decision-making purposes (International Accounting Standards Board, 2021). Therefore, all the elements of financial statements need to be relevant to decision-making. The performance of entities can be interpreted in various ways. Entities are expected to comply with all the rules and regulations in the country, among which is tax regulation. Tax regulation is compulsory, and, if companies fail to comply with the tax rules, they can be interpreted as having poor performance (Musimenta, Naigaga, Bananuka, & Najjuma, 2019). The combination of financial accounting and tax regulation has given rise to the science of tax accounting (Henrique, da Silva, Saporito, & Silva, 2021).

Tax accounting itself has the purpose of describing companies' tax compliance to relevant users, that is, the tax authorities. Tax accounting is mostly derived from tax rules rather than accounting principles (Hanlon, 2021). There are several differences between financial accounting and tax accounting. The cause of the differences is that tax accounting needs to conform to the tax function and purposes, which are to secure the government's income to finance its expenditure (Robinson, Stomberg, & Towery, 2016; Sikka, 2017). Therefore, tax accounting can be said to be more conservative, to have stricter rules for expense recognition, and to emphasize profit or loss statements (Zhong & Li, 2017). Accounting standards provide several principles concerning tax. In Indonesia, there are two statements of financial accounting standards (SFAS) and one interpretation of financial accounting standards (IFAS) that concern tax, namely:

1. SFAS 46 concerning Income Tax.
2. SFAS 70 concerning Accounting for Tax Amnesty Assets.
3. IFAS 34 concerning Uncertainties in Income Tax Treatment.

These three accounting standards mainly focus on aspects of income tax; however, although income tax constitutes the main tax in almost all jurisdictions, several other taxes contribute significantly to companies' financial statements, such as value added tax, withholding taxes, and local taxes. All taxes other than income tax are considered relatively straightforward; therefore, it is deemed to be unnecessary to have specific accounting standards for them (Albuquerque & Neves, 2021). Nevertheless, tax cases and problems can be significant in areas other than income tax. For example, there have been several cases of late payments of local taxes, disputes about tax withholding between the withholder and the taxpayer, and disputes about tax credit in Value Added Tax (VAT) (Avi, 2018; Pratama, 2018).

**Table 1.** Tax accounting in financial statements.

<b>Elements of Financial Statements</b>	<b>Items</b>
Assets	Prepaid tax (income tax or VAT, company as a withholder) Tax receivable (if there is any tax refund, subject to tax authority assessment) Tax amnesty assets Deferred tax assets
Liabilities	Tax payable (income tax or VAT, company as a withholder) Current income tax payable Tax amnesty liabilities Deferred tax liabilities Provision for tax loss/tax litigation
Income	Tax refund
Expenses	Tax expense (other than income tax) Current income tax expense Deferred income tax expense
Cash Flow	Tax payment to the government Tax refund paid by the government

When reading tax accounting information, users expect to be able to assess the compliance level of the taxpayer (Blaufus, Lorenz, Milde, Peuthert, & Schwäbe, 2022; Boonvut, 2017). Tax compliance can be a significant factor for investors and creditors since socially responsible investors and creditors will be very hesitant to invest in or provide credit to a company that has tax problems (Kemme, Parikh, & Steigner, 2020). However, the amount of tax paid by a company can also prompt concern since tax payments can reduce several key financial indicators, such as liquidity or even profitability (Tee, Boadi, & Opoku, 2016). Investors and

creditors also need to assess whether a company is facing a situation of tax litigation or even tax avoidance (Dash & Raithatha, 2018).

Tax accounting is one area that has sometimes been neglected by the accounting standards board (Martinez, 2019). For example, in Indonesia, the secretive nature of companies' tax returns creates a need for companies to disclose more information in their financial statements. The lack of accounting standards regulation concerning tax can create a significant gap between user expectations and user satisfaction. In Indonesia, for example, there are several differences in accounting and tax treatment that can create confusion among readers if the financial statements do not properly disclose them (Pratama, 2019).

Several items in financial statements can be categorized as tax accounting items. These items are summarized in the Table 1.

## *2.2. Hypothesis Development*

### *2.2.1. Tax Accounting Information Expectation Gap*

The expectation gap can be defined as the difference between users' hopes and their feelings about a certain action or piece of information (Naynar, Ram, & Maroun, 2018). The source of companies' tax compliance is a tax return; however, according to Indonesian tax laws, a tax return is a confidential document. Therefore, one of the public documents that can be used to assess companies' tax compliance is their financial statement (Eljammi-Ayadi, Damak, & Hussainey, 2020; Martins, 2017). Financial statements are more focused on the accounting treatment of income tax, and there is a lack of disclosure concerning tax management, tax risk, and tax strategy (Neuman, Omer, & Schmidt, 2020). Users of financial statements expect the tax information in the financial statement to be comprehensive, not just containing a monetary amount but also indicating whether this monetary amount represents efficient tax payment and whether this payment complies with the relevant tax laws and regulations (Blaufus et al., 2022; Tee et al., 2016). Accounting standards lack the requirement for those two expectations, and the voluntary nature of tax management and tax risk disclosure in financial statements has made the disclosure levels of these two items relatively low or even non-existent (Sikka, 2017). Therefore, the wider the expectation gap, the less information can be obtained by society regarding the company's compliance level (Austin, Bobek, & LaMothe, 2020).

Tax accounting information can produce an expectation gap since there are only a few requirements for the recognition and disclosure of tax accounting items, which can lead to a lack of information for users' decision-making, that is, their assessment of a company's tax compliance level. Therefore, the first hypothesis in this study is the following:

*H<sub>1</sub>: There is an expectation gap in the tax accounting information presented in financial statements.*

### *2.2.2. Relevance of Tax Accounting Information*

In accounting, there are three significant points: (1) recognition, (2) measurement, and (3) disclosure. In tax accounting, all the accounts are measured using the same measurement, that is, the undiscounted amount (Bergner & Heckemeyer, 2017). Therefore, the focus of this study is on the two remaining items: recognition and disclosure.

Recognition deals with when items need to be present in financial statements. Depending on certain criteria, several items might not appear in financial statements, for example, when the probability of economic benefit or sacrifice was not high enough or the amount could not be estimated reliably (Michels, 2017). Tax accounting items, as shown in Table 1, have a straightforward treatment, and the amount is based on taxpayers' own calculations, as required by the self-assessment system. Tax-related items are usually presented in financial statements when the entity has contractual rights or obligations according to the tax laws (Hanlon, 2003); for example, prepaid tax can be recognized when the withholder has already withheld a sum from the company, or the tax payable can be recognized if the company has already withheld the tax from the amount that it pays to a third party. The recognition process in accounting is in line with the timing of rights and obligations as required by the tax laws; therefore, there is no significant gap in the treatment (Hanlon, 2021). The measurement itself is determined by taxpayers' own calculations, and accounting and tax laws generally have similar procedures regarding the measurement (Kwok, 2005). However, the self-assessment system also gives the tax authority the right to determine the final amount of tax to be paid in case there is a calculation error or even tax fraud. The amount determined by the taxpayer can be challenged in the future and can contain uncertainty (Ayers, Seidman, & Towery, 2019; Jacob, Wentland, & Wentland, 2022). Hence, the recognition criteria can be affected by the quality of the information provided in financial statements; therefore, the following hypothesis is proposed:

*H<sub>2</sub>: TRI has an influence on accounting information quality.*

Disclosure deals with information other than merely the amount presented in the financial statement and can be quantitative (an explanation of transactions or the amount presented) or qualitative (an explanation of the nature, circumstances, or events surrounding certain transactions) (Michels, 2017). Tax disclosures explain more about the nature of companies' rights and obligations as taxpayers, and several previous studies have shown that tax disclosures consist of a basic explanation of the amount of the tax items presented in financial statements (Venter, Stiglingh, & Smit, 2017). Nowadays, investors demand more information than merely a company's tax compliance. The Global Reporting Initiative (GRI), the standard-setter for

sustainability reporting, published the GRI standards regulating tax disclosure, which focus more on how well a company manages its tax and mitigates any risks associated with tax (Holle, Kockrow, & Schnitger, 2021). Several previous researchers have also shown that tax is an integral part of a business and should be explained with integrated thinking; that is, it must be linked with the relevant business processes, how it affects business performance, and how tax laws are expected to affect the company's business processes in the future (Albuquerque & Neves, 2021; Venter et al., 2017). Indonesia has not implemented sustainability reporting to its full extent, and tax disclosures about tax management and risk are still at a low level (Andriadi & Werastuti, 2022). Although IFAS 34 mandated the disclosure of any uncertainties concerning tax treatment, it still has weaknesses, namely (1) it focuses only on income taxes and does not cover all taxes, and (2) this IFAS focuses on the recognition and measurement of an uncertain tax amount and not on the entire accounting treatment (Owens & Pemberton, 2021). Hence, the tax disclosure might affect the quality of information provided in financial statements; therefore, the following hypothesis is proposed:

*H<sub>3</sub>: TDI has an influence on accounting information quality.*

This research also employs a control variable, which is tax exposure. Tax exposure can be defined as whether the users have basic experience with or knowledge about tax (Kadous & Magro, 2001). Previous research has shown that users with more tax accounting experience will not be easily satisfied with the current accounting treatment (Inasius, 2019) and will demand more than just the tax amount or basic information to be presented in financial statements (Olsen, Kasper, Kogler, Muehlbacher, & Kirchler, 2019; Yasa, Dharmawan, Adiputra, Martadinata, & Herawati, 2021). Therefore, tax exposure can be a good proxy to determine whether the current accounting information concerning tax is adequate. This research does not employ demographic factors (such as gender, age, income level, etc.) as control variables since there is a lack of previous studies that examined the role of demographic factors in accounting information quality.

### 3. Methodology

This research aimed to analyse any expectation gap that might arise from the differences between reality and users' expectations; therefore, the population of this research consisted of tax accounting information users, that is, tax accountancy professionals. Tax accounting information users can be classified into the following categories: (1) tax accountants – accountants working in a company with the main job of recording and analysing tax transactions; (2) tax consultants – professionals who assist taxpayers in fulfilling their tax obligations correctly; (3) tax office representatives – employees of the tax office who mainly analyse taxpayers' financial statements; and (4) tax academics and students, who might conduct research or teaching to develop the tax accounting framework. For this research, we gathered 131 respondents, comprising 76 tax accountants, 23 tax consultants, 15 tax officer representatives, and 19 tax academics and students.

The data were collected using a questionnaire. Since this research was conducted during the COVID-19 pandemic, the questionnaire was administered using an online survey platform. To minimize any bias due to unclear questions or respondents' situations, we conducted a focus group discussion with the respondents to explain the mechanism of the questionnaire and provide a brief description and explanation of the questions. The questionnaire consisted of three main sections: first, tax items' recognition, second, tax items' disclosure, and third, tax accounting information quality. For the first and second parts, the questionnaire was divided into two subsections: expectation and reality. In the first part, 11 items were presented, and the respondents were required to provide their assessments of their expectations of the information as well as their objective feelings about the information. In the second part, seven questions were asked, and the respondents' assessment procedure was the same as in the first part. The third part contained eight questions, and the respondents provided their assessment of the accounting information quality. The questionnaire used a closed-answer format and a 5-point scale, with 1 indicating strong disagreement with the items or statements provided in the questionnaire and 5 indicating strong agreement. A total of 44 questions were asked, a short summary of which is presented in Table 2.

To test the hypotheses, this research used quantitative statistical tools and analysis. To test the first hypothesis related to the expectation gap, we performed non-parametric paired-sample tests, or the Wilcoxon ranked sum test. The reason for employing a non-parametric approach was the data distribution in the first and second parts, in which both expectation and reality showed non-normal distribution. Non-parametric distribution is suitable for non-normal data. Each of the items was also tested for significant differences, and the total score of each of the first and second parts was calculated and subjected to the difference test. To test the second and third hypotheses, we used multiple linear regressions. For the independent variables, the objective assessment scores from the first part (tax recognition) and the second part (tax disclosure) were calculated. The dependent variable was the tax accounting information. The regression model is shown in Equation 1:

$$TAI = \alpha + \beta TRI + \beta TDI + \beta TE + \epsilon \quad (1)$$

TAI: tax accounting information.

TRI: tax recognition items.

TDI: tax disclosure items.

TE: tax exposure, which is measured using a dummy variable (1 if the respondent has tax exposure; 0 if the respondent has no tax exposure)

$\alpha$ : constant.

$\beta$ : variables.

$\varepsilon$ : residual errors.

All the questionnaires were checked for validity and reliability using the Pearson correlation test and Cronbach's alpha; no items were invalid, and the instrument was deemed reliable. The classical assumption tests for multiple linear regressions were conducted, and there was no violation of assumptions; therefore, the multiple regression analysis could continue.

**Table 2.** Short summary of the questionnaire.

<b>Questionnaire Part</b>	<b>Description</b>
First Part: Tax Recognition Items (TRIs)	Tax-related accounts that are presented in statements of financial positions, statements of profit or loss and other comprehensive income, or statements of cash flows: <ol style="list-style-type: none"> <li>1. Prepaid taxes</li> <li>2. Deferred tax assets</li> <li>3. Tax amnesty assets</li> <li>4. Tax liability/payable</li> <li>5. Deferred tax liabilities</li> <li>6. Tax amnesty liabilities</li> <li>7. Current tax expense</li> <li>8. Deferred tax expense</li> <li>9. Non-income tax (other taxes) expense</li> <li>10. Tax refund</li> <li>11. Tax payment</li> </ol>
Second Part: Tax Disclosure Items (TDIs)	Tax-related information that is presented primarily in the notes to financial statements: <ol style="list-style-type: none"> <li>1. Fiscal reconciliation</li> <li>2. Positive/negative fiscal corrections</li> <li>3. Temporary/permanent differences</li> <li>4. Tax amnesty-related information</li> <li>5. Tax litigation-related information</li> <li>6. Tax incentive-related information</li> <li>7. Uncertainty of tax treatment-related information</li> </ol>
Third Part: Tax Accounting Information Quality (TAIQ)	Qualitative characteristics of tax information in financial statements: <ol style="list-style-type: none"> <li>1. Tax information might predict tax liability potential in the future</li> <li>2. Tax information might assist users in analysing tax compliance</li> <li>3. Tax information is complete and comprehensive</li> <li>4. Tax information is free from error or bias</li> <li>5. Tax information is in accordance with prevailing tax laws</li> <li>6. Tax information is understandable</li> <li>7. Tax information enables users to make comparisons between taxpayers</li> <li>8. Tax information is always updated to the current situation</li> </ol>

## 4. Results and Discussion

### 4.1. Results

This research collected data from 131 respondents. All the question items were checked for validity and reliability, and no issues were found. Over half the respondents were female, comprising 54% of the total respondents, while around 84% of the respondents were aged below 49 years. These data showed that the majority of the respondents were of productive age and in a position that enabled them to make decisions in their workplace. Their education levels were almost equally divided between undergraduate and postgraduate; therefore, the education level of the respondents can be described as advanced. The majority of the respondents had the occupation of tax accountant, followed by tax consultant. Tax accounting information is relevant to tax consultant professionals since tax consultants are usually the party that prepares tax-related documents and undertakes a proper review before submitting them to the tax office on behalf of the client. Of the 131 respondents, 65% had been exposed to tax (they had a tax education background, had attended public/private tax courses, or had at least 5 years' work experience in tax-related jobs). The details of the respondents are presented in [Table 3](#).

Table 3. Description of the respondents.

Descriptions		f	%
Gender	Male	59	45.0%
	Female	72	55.0%
Age (y.o.)	20-29	42	32.1%
	30-39	40	30.5%
	40-49	37	28.2%
	50-59	17	13.1%
	>60	4	3.1%
Education level	Undergraduate	68	51.9%
	Postgraduate	63	48.1%
Occupations	Tax accountant	76	58.0%
	Tax consultant	23	17.6%
	Tax office representative	15	11.5%
	Tax academics and students	19	14.5%
Tax exposure	Yes	86	65.7%
	No	45	34.3%

Note:

F: frequency.

Y.o.: years old.

The result of the descriptions of TRIs and TDIs showed that, overall, an expectation gap existed. This result showed us that the users demanded more relevant and reliable tax information. The gaps were wider for the TRIs than for the TDIs, implying that the tax items presented in financial statements need to be reassessed, especially regarding their recognition or measurement criteria, whereas, for the TDIs, although the description showed a higher value, the average gap was larger than that of the TRIs, indicating that their disclosure also needs to be reassessed. For the TRIs, of the 11 specific items, seven showed significant differences, while the other four showed no significant differences. This result shows that much work needs to be undertaken to fix the recognition and/or measurement treatments to improve the quality of tax accounting information. The four items that were not significantly different were items that are traditionally included in financial statements, and these are the most straightforward items about companies' tax compliance, such as income tax expenses (current and deferred). This information is easy to find in profit and loss statements. The information about tax payments was also not significant since their meaning is very straightforward and can easily be observed in the statements of cash flows. The deferred tax liabilities section showed no expectation gap, while the section on deferred tax assets did. This result could be caused by the conservative views of the users, who believed that more information should be disclosed about assets than about liabilities since the deferred tax assets can be adjusted under several conditions, which can lead to uncertainty regarding the amount of deferred tax assets, while there is no such requirement for deferred tax liabilities (Mear, Bradbury, & Hooks, 2021).

The largest gaps in the TRIs were for tax amnesty liabilities, non-income tax expenses, and deferred tax assets. Tax amnesty liabilities were rarely disclosed in the financial statements, and there was no adequate explanation of the amount, while non-income tax expenses were sometimes not presented due to non-material amounts. However, the other taxes are a significant component of tax compliance and should be presented separately. In the TDIs, of the seven items, two showed significant differences, while the other five showed no differences. The reason no significant gap was found in fiscal reconciliation and fiscal correction of tax – the accounting difference – is the same as for the TRIs: the disclosure had already been presented, could easily be found in the notes to financial statements, and involved essential aspects of tax compliance. Tax amnesty-related information and tax incentives showed no significant gap because the tax laws mandate that the financial statements must present all the details. Tax litigation had an expectation gap that could perhaps be explained by the fact that tax litigation is a long process that might not be disclosed since it will not meet the definition of accounting treatment for contingencies, while uncertainty about tax treatment had a significant gap, the largest gap in the TDI section, perhaps because the accounting standard was only recently implemented in Indonesia, in 2020; therefore, the gap might stem from a lack of understanding about the impact of the new accounting standards. The expectation gap results are presented in Table 4.

For the dependent variable, the average score was 3.62 out of 5.00, indicating that the information was deemed to be relevant; however, three points indicated a lack of relevance: (1) free from error or bias: tax information always contains the possibility of mistakes due to calculation error or tax treatment disputes since not all taxpayers understand the tax laws and procedures; (2) understandability: tax information is not easy to understand and users need to have at least a basic knowledge of the tax laws; hence, tax laws are always perceived to be complex and confusing; (3) comparability: the current information presented in the financial statements cannot clearly indicate which companies are compliant and which are not. Comparability is a characteristic of good financial statements, and a lack of information or insufficient accounting treatment can lead to comparability issues. Table 5 presents this information:

Table 4. Tax information expectation gap.

Categories	Sub-Categories	Reality	Expectation	Standardized Gap Score	Sig.
Tax Recognition Items (TRIs)	Prepaid taxes	4.020	4.130	-2.042	0.041**
	Deferred tax assets	3.720	3.880	-2.554	0.011**
	Tax amnesty assets	3.670	3.840	-2.48	0.013**
	Tax liability/payable	4.200	4.100	-2.038	0.042**
	Deferred tax liabilities	3.900	3.960	-1.058	0.290
	Tax amnesty liabilities	3.710	3.910	-3.426	0.001*
	Current tax expense	4.150	4.150	-0.117	0.907
	Deferred tax expense	3.850	3.930	-1.223	0.221
	Non-income tax (other taxes) expense	3.810	4.000	-3.328	0.001*
	Tax refund	3.930	4.050	-2.219	0.027**
	Tax payment	4.220	4.200	-0.335	0.738
Average Score	3.930	4.010	-3.181	0.001*	
Tax Disclosure Items (TDIs)	Fiscal reconciliation	4.200	4.300	-1.836	0.066
	Positive/negative fiscal corrections	4.100	4.200	-1.395	0.163
	Temporary/permanent differences	3.930	4.030	-1.198	0.231
	Tax amnesty-related information	3.970	4.060	-1.467	0.142
	Tax litigation-related information	4.040	4.150	-1.967	0.049**
	Tax incentive-related information	4.060	4.120	-1.14	0.254
	Uncertainty of tax treatment-related information	3.860	4.010	-2.195	0.028**
Average Score	4.020	4.120	-3.293	0.001*	

Note:

\*: significant at  $\alpha = 1\%$ .

\*\*: significant at  $\alpha = 5\%$ .

Table 5. Tax accounting information.

Sub-categories	Mean	Interpretation
Tax information might predict any tax liability potential in the future	4.072	High quality
Tax information might assist users in analysing tax compliance	3.893	High quality
Tax information is complete and comprehensive	3.571	High quality
Tax information is free from error or bias	3.225	Adequate quality
Tax information is presented in accordance with the prevailing tax laws	3.742	High quality
Tax information is understandable	3.271	Adequate quality
Tax information enables users to make comparisons between taxpayers	3.385	Adequate quality
Tax information is always updated to the current situation	3.816	High quality
Average Score	3.621	High quality

Note:

The criteria for the interpretation are as follows:

1.00–1.80: very low.

1.81–2.60: low.

2.61–3.40: adequate.

3.41–4.20: high.

4.21–5.00: very high.

Table 6. Regression results.

Variables	Coefficient	Std Error	t-Statistic	Prob.
C	20.692	3.226	6.414	0.0000
TRI	0.1747	0.083	2.118	0.0361*
TDI	0.1898	0.119	1.598	0.1126
TE	-4.679	2.182	-2.144	0.0340*
Adjusted R-Squared	0.156			
F-Statistic	9.039			
Prob(F-Statistic)	0.000**			

Note:

\*: significant at  $\alpha = 1\%$ .

\*\*: significant at  $\alpha = 5\%$ .

The regression results show that the TRIs positively influence the relevance of tax accounting information, while the TDIs do not affect the tax accounting information. This is an interesting result, which



will be discussed in detail in the next section. The control variable, tax exposure, has a negative sign, meaning that users who have tax exposure perceive the tax accounting information to be less relevant. This result confirms the previous findings, and more details will be provided in the discussion section. Based on the results presented, this research accepts the first and second hypotheses and rejects the third hypothesis. The regression results are presented in [Table 6](#).

#### *4.2. Discussion*

The results reveal several interesting developments concerning the relevance of tax accounting information. First, the study showed that there is an expectation gap, proving that much more work needs to be undertaken to improve the tax accounting information in financial statements. Overall, many more gaps were found in the TRIs than in the TDIs, but the average gap in the TDIs was larger than that in the TRIs. This result indicates that merely presenting the amount of tax in financial statements is too simplistic and perhaps not in accordance with the relevant characteristics ([Gabršek, 2017](#)). The tax items presented in financial statements are mostly routine; however, some of them are not, for example, tax amnesty or tax litigation. Tax amnesty accounting treatment can be said to be a compromise between keeping users informed and allowing taxpayers to conceal the tax amnesty items since the secrecy of these items was guaranteed by the Indonesian government ([Martani & Maharani, 2020](#)). Tax litigation cannot always be predicted accurately, and sometimes companies prefer to show a minimal amount of tax litigation to minimize the liabilities and expenses shown in the financial statements ([Kiepura, 2019](#)). One of the relevant characteristics is the predictive value, and, by merely disclosing an undiscounted amount, based only on self-assessment, financial statements cannot provide information on whether the TRI amount is the real tax that must be paid by the taxpayer ([Oh & Ki, 2020](#)). Another relevant characteristic is the confirmatory value; this amount cannot be confirmed since the information is based on tax calculations and reports, which are secret and cannot be disclosed to the public ([Kim, 2020](#)). These results imply that some kind of development is needed to improve tax items' recognition and criteria in financial statements. It is possible to recognize the tax items using a realizable value or the amount that a company is expected to pay, so if there is any uncertainty about the tax treatment, the company can show it properly in its financial statements ([Poli, 2015](#)). Previous research has also shown that a lack of specific guidance in tax accounting can create confusion for taxpayers since they are uncertain whether they should follow the accounting rules or the tax rules ([Ahalik, 2021; Albuquerque & Neves, 2021; Oliveras And & Puig, 2005](#)). Therefore, it would be advisable to create separate guidance for tax accounting information that clearly describes the accounting standards' requirements and tax code requirements regarding the presentation of the items and shows how companies can record their transactions while fulfilling both requirements ([Ahmeti, Aliu, Elshani, & Ahmeti, 2014; Bergner & Heckemeyer, 2017](#)).

Second, the results showed that the impact of tax disclosure on users' decision-making is still minimal. The third hypothesis was based on the theory that the disclosure of information would enhance users' understanding of the transactions, but tax transactions are not always fully disclosed by companies. Tax is a very secret matter, and, in Indonesia, few taxpayers, whether individuals or corporations, are willing to discuss tax matters in public ([Inasius, 2019; Iraman, Ono, & Kakinaka, 2022](#)). Indonesia also has a very low rate of taxpayers who voluntarily disclose their tax returns to the public ([Inasius, 2019](#)). This result implies that to make disclosures more effective, the willingness of taxpayers to disclose tax matters should also be improved. The notes to financial statements provide only very basic information about the amount and lack information that could enable people to understand the business process and how the uniqueness of the process leads to specific tax consequences ([Eberhartinger et al., 2020; Lenter et al., 2003](#)). In the future, it will be possible to disclose tax information if the level of tax awareness improves. Previous research has shown that the level of voluntary tax disclosure is higher in countries that respect taxpayers' compliance, and most of these countries are developed countries ([Kirchler, Hoelzl, & Wahl, 2008; Umar, Derashid, Ibrahim, & Bidin, 2019; Van Dijke, Gobena, & Verboon, 2019](#)). Indonesia, as a developing country, needs to establish a culture of tax compliance, by, for example, establishing an award for the most compliant taxpayer or creating a tax report award, in which a company with a good quality of tax reporting receives a prize and tax-related benefits ([Kravchenko, Yarmolitska, Shuliarenko, Kolumbet, & Kharchuk, 2019](#)). Previous research has shown that good-quality tax teaching can also be expanded to increase taxpayers' awareness ([Pratama, 2017; Yuan, Hu, & Tian, 2019](#)). In the long term, curricula must be modified, especially in tax accounting courses, so that students are not just taught about the basic accounting procedures but also about tax accounting analysis, tax accounting information systems, or even tax auditing in the accounting context ([James, 2000](#)).

Third, the results indicate that users with higher tax exposure perceive the tax information as less relevant. An investigation of the control variable tax exposure was not the main objective of this study; however, it revealed the interesting fact that more tax knowledge creates a greater demand for the presentation of satisfactory tax information in financial statements. Tax education teaches us several things, not only about tax compliance matters but also about tax strategy, risk management, and even the management of tax cash flows ([Folan, 2017](#)). Tax experts, such as auditors and consultants, need more information to construct a sound tax strategy or conduct tax risk management, and the information from financial statements can provide them with this ([Tan & Laswad, 2019](#)). Meanwhile, academics and accountants perceive tax as a matter of ordinary scorekeeping and compliance, and the disclosure of detailed information

on amounts can be satisfactory for them (Van Oordt & Mulder, 2016). This result suggests that the presentation of tax information does not fulfil all general users' needs. Financial statements are presented to satisfy the needs of general users, and general users of tax information demand more information than merely the amount or the fact of compliance (Eberhartinger & Klostermann, 2007; Eberhartinger et al., 2020). In the future, accounting standards can be developed to ensure that the tax information presented in financial statements can accommodate the interests of various users. To realize this goal, it is necessary to establish collaboration between accounting professionals and the tax office (Ormin & Bashir, 2020). Currently, accounting professionals and the tax office follow separate paths; however, previous research has shown that an understanding and knowledge of tax clearly improve its image and further tax compliance (Lamb, 1996; Pratama, 2017). This result indicates that if the tax office and accounting professionals can improve the information presented in financial statements, it will be more relevant to financial statements and, of course, eventually improve taxpayers' image and compliance (Sikka, 2017).

## 5. Conclusions

To conclude, this study has found an expectation gap in the tax information presented in financial statements, and it applies to all aspects of the accounting treatment of tax items. The expectation gap is a problem as it can reduce the positive impact of financial statements; therefore, it needs to be resolved immediately. The discussion section explored several alternatives to develop tax accounting information in the future, and if the expectation gap is erased, the understanding of tax information will increase significantly, as well as taxpayers' compliance. This research also found that the demand for tax accounting information is increasing and that there is a need for a framework that allows a more robust tax information objective in financial statements, which can consist of tax accounting qualitative characteristics, elements of tax information, and assumptions, principles, and constraints of the tax accounting presentations in financial statements. Guidance is expected to be established in the near future to fulfil the need for a robust framework. Relevance is a virtue of good financial statements, and to present relevant information, there must be a framework that can eliminate the current expectation gap.

This research has several limitations, however. First, we were only able to collect data from 131 respondents. Future research might endeavour to increase the sample size. Second, the proportions of users' occupations were unbalanced due to the difficulty of finding willing respondents. Future research can collaborate with accounting professionals to increase the number of participants and better balance the proportions. Future researchers might also consider conducting the study across the entirety of Indonesia since there is still a significant disparity between accounting information users in the western and eastern areas. Third, future research could undertake a comparison across countries to investigate the country effect on tax accounting information and make the results more robust. Finally, there is still a lack of references concerning tax accounting information in financial statements. Therefore, this research could only employ a simple model of analysis and limited variables.

The findings of this research also suggest several policy implications. For the government, the tax office or tax authority could introduce comprehensive lists of tax disclosure regulations to maximise the supply of tax information for its users. Tax information can assist the tax office's supervision of taxpayers' compliance. For the standard-setter, the Financial Accounting Standards Board (FASB), the suggestion put forward by the author is to re-evaluate the need for standards governing the disclosure of tax information in financial statements. These standards may include rules for determining tax information in financial statements, tax information through additional disclosure, and other standards that make it easier for users of financial statements to access corporate tax information.

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