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The Effect of Tax Expenses, Profit Volatility, and Cash Holding on the Quality of Profits of Companies in the Basic Industry and Chemical Sectors

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ABSTRAK

Kualitas laba berperan sebagai penengah dalam konflik kepentingan antara manajemen dan pemilik modal, dengan fungsi utamanya sebagai indikator kinerja dan dasar pengambilan keputusan investasi. Tekanan untuk mempertahankan citra kinerja yang positif dapat mendorong manajemen merespons beban pajak, fluktuasi laba, dan pengelolaan kas secara strategis, yang berpotensi memengaruhi keandalan informasi keuangan. Penelitian ini menganalisis pengaruh beban pajak, volatilitas laba, dan *cash holding* terhadap kualitas laba perusahaan sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia sebagai industri mengalami lonjakan kinerja signifikan pada 2023–2024. Fenomena ini dianalisis secara statistik dalam pendekatan kuantitatif analisis regresi data panel terhadap 165 observasi dari 33 perusahaan, menggunakan *Common Effect Model* (CEM). Hasil menunjukkan bahwa secara terpisah, beban pajak berpengaruh negatif dan signifikan terhadap kualitas laba, sedangkan volatilitas laba dan *cash holding* tidak berpengaruh signifikan. Secara serentak, ketiga variabel berpengaruh signifikan, dengan beban pajak sebagai faktor dominan. Hasil pengujian berimplikasi pada pentingnya berfokus terhadap tekanan fiskal perusahaan karena dapat berdampak pada integritas pelaporan laba, yang berkaitan erat dengan persepsi dan keputusan investor.

Keyword: Kualitas Laba; Beban Pajak; Volatilitas Laba; Cash Holding; Kinerja

ABSTRACT

The quality of profits acts as a mediator in conflicts of interest between management and capital owners, with its main function as an indicator of performance and the basis for investment decision-making. The pressure to maintain a positive performance image can prompt management to respond to tax expenses, profit fluctuations, and manage cash strategically, potentially impacting the reliability of financial information. This study analyzes the influence of tax expenses, profit volatility, and cash holding on the quality of profits of companies in the basic and chemical industries sectors listed on the Indonesia Stock Exchange as industries experiencing a significant performance surge in 2023–2024. This phenomenon was statistically analyzed in a quantitative approach of panel data regression analysis of 165 observations from 33 companies, using Common Effect Model (CEM). The results show that separately, tax expense has a negative and significant effect on profit quality, while profit volatility and cash holding have no significant effect. Simultaneously, all three variables have a significant effect, with tax burden as the dominant factor. The results of the test imply the importance of focusing on corporate fiscal pressures as it can impact the integrity of earnings reporting, which is closely related to investor perceptions and decisions.

Keyword: Profit Quality; Tax Burden; Profit Volatility; Cash Holding; Performance

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1. INTRODUCTION

The complexity of the company's current business processes makes the concept of profit no longer just an accounting number that contains information about the difference between income and expenses, but has developed into a strategic tool in investor decision-making, which directly becomes the axis of the company's main business goal, which is to create value through maximizing profits.

The cruciality of profits for the company and investors gives rise to a conflict of interest between the management and the capital owners (company owners and investors), as explained in the perspective of agency theory where the management as an agent has an interest in maintaining the reputation of performance in order to obtain incentives while the capital owner as the principal has an interest in estimating the strength and prospects of profits, as well as its reliability is used in taking investment decisions such as predicting investment risks (Astutik & Mildawati, 2016). Based on this, profit quality is a key role as an intermediary that reduces the tension of interests between the management and the capital owner. High-quality profits not only reflect actual performance that can be accounted for, but also with respect to increasing investor confidence in investment decision-making. Nugraha and Dillak (2018), explained that there is a tendency to only assess financial statements from profit figures alone, without further weighing the source and composition, thus opening a gap in information that misleads external parties when there are conditions that suppress management performance. In conditions of facing performance pressure, management tends to take certain actions according to its interests that can reduce the quality of profit information. Thus, it is important for companies to maintain the quality of profits to reflect their actual financial conditions, as well as ensure the relevance and reliability of the information conveyed to interested parties. This study focuses on three main variables, namely tax burden, profit volatility, and cash holding, which are assumed to affect the high quality of the company's profits.

The basic concept of taxation is that the amount of tax that must be paid is determined by the amount of profit earned by the company. The occurrence of an increase in profits for a certain period will increase the tax burden that companies must pay to the state, this motivates management to make every effort to delay or accelerate the recognition of income and expenses to reduce the amount of tax burden (Mahendra & Jati, 2020). According to research by Setyaningsih and Irawati (2024), the tax burden has the potential to increase the tendency of management to carry out profit management practices such as income smoothing as an effort to minimize the tax burden that must be paid. In other words, the high tax burden encourages management to report the company's performance by not representing real conditions so as to affect the quality of the informed profit. Profit volatility is another factor that is suspected to affect the tendency of income smoothing practices. Profit volatility describes the fluctuation of a company's operating profit from year to year in a certain period of time that is uncertain and significant (Wijayanti & Diyanti, 2017). This condition reflects uncertainty about future profits, as well as a warning regarding the company's inability to distribute dividends consistently according to investor expectations, which can ultimately reduce investor interest in investing (Sasongko et al., 2021). Profit volatility has a negative effect that has the potential to encourage management to manipulate financial statements to produce a consistent non-real profit representation to interested parties that reduces the quality of the informed profit.

The last factor that is suspected to have influenced the tendency of income smoothing practices is cash holding. A high level of cash holding reflects the amount of liquidity held by the company (Agitia & Dillak, 2021). The liquid nature of cash provides flexibility for management to manage revenue recognition and expenses, especially in periods when the company's performance is declining. This flexibility makes management potentially use cash to cover operational shortfalls or postpone the recording of certain expenses so that profits appear stable in financial statements (Herawati et al., 2025). Therefore, the availability of cash, especially at a high level, allows management to hide real performance that lowers the quality of informed profits.

This study takes the basic and chemical industry sectors as objects of observation as these sectors show significant performance dynamics in the last two years. In 2023, the industry will experience severe pressure due to sluggish global demand, dominance of imported products, and a decline in export quantity. Based on data from the Indonesian Ministry of Trade, exports of chemical products fell by 29.63% in the January-May 2023 period, which also reduced selling prices by up to 40%, resulting in a 30% decline in industrial performance compared to 2022 (Ifes, 2023). However, in 2024, the sector recorded a significant recovery. The export figure of the non-oil and gas processing industry, dominated by the basic and chemical industries, increased by 5.33%, indicating that the expansion movement and industrial growth of 4.2% in the chemical, pharmaceutical, and textile sectors also strengthened the contribution to the national manufacturing sector (Ministry of Industry, 2025).

Based on this phenomenon, this study aims to analyze the influence of tax burden, profit volatility, and cash holding on the quality of profits in companies in the basic and chemical industrial sectors. The selection of this sector is based on the significant dynamics that occurred in the performance of the manufacturing industry, especially the decline in the rate in 2023 and the rapid recovery in 2024. These extreme

changes raise the issue of the extent to which reported earnings truly reflect real performance conditions. Faced with such a situation, management can potentially come under pressure to maintain a reputation for positive performance, so responses to tax burdens, profit fluctuation patterns, and strategic use of cash can affect the level of reliability and representativeness of the information presented. Therefore, the quality of profit becomes a dependent variable that is observed to identify whether the performance spike that occurs in this sector reflects real performance or simply looks healthy on the surface.

2. LITERATURE REVIEW

A. Agency Theory

Agency theory raises the issue of the impact arising from the incident of delegation of duties and authority of the capital owner as the principal to management as an agent in the form of information asymmetry that creates a conflict of interest where the agent can act contrary to what the principal wants (Jensen & Meckling, 1976). In the context of this study, the agency theory describes how profit plays a role in triggering a conflict of interest, namely the management has an interest in obtaining economic benefits in the form of bonuses or incentives for its performance measured based on profit, while the capital owner needs reliable and accurate profit information to make investment decisions and expects to get a positive return from the invested capital. So that this has the potential to encourage management to always present a good performance reputation in its financial statements through interventions that can lead to actions that degrade the quality of profits such as manipulating financial statements to reduce tax burdens, controlling the level of volatility, and controlling the recognition of income and expenses using cash policies.

B. Tax Burden

According to the Financial Accounting Standard Statement (PSAK) Number 46 of 2015 before the Adjustment, tax expense is the total of the taxes that must be paid by the company in the current period (current tax) and the tax deferred for the future, which is all calculated as part of the company's profit or loss during an accounting period.

C. Profit Volatility

Profit volatility is a variable that describes the significant instability of a company's profits in both short and long periods, in other words volatility indicates that the company does not have the ability to sustain its profit achievements (Chuang & Viriany, 2023). Thus, companies with a high level of volatility show greater risk for capital owners such as investors (Pongrangga & Kurniawati, 2020).

D. Cash holding

Cash holding essentially refers to the amount of cash that is in the company or that is available for investment activities in physical assets and is intended to be distributed to investors, so that it is perceived as an asset that is very easily converted into cash (Sugihwan & Susanto, 2024). Meanwhile, in practice, cash holding is a cash management practice in maintaining liquid assets as an anticipatory step against cash flow uncertainty, financial risk protection, meeting routine operational needs, and financing long-term investment activities (Khatib et al., 2022). The liquid nature of cash allows management to freely reduce profit fluctuations by regulating the timing of revenue recognition and expenses.

E. Quality of Profit

Profit quality refers to the profit information presented in the financial statements and is able to accurately reflect the company's financial condition. In general, profit quality describes the company's ability to present profit information that not only reflects actual performance, but also has predictive data on future revenue (Khasanah, 2019). Quality profit is ideally one that is able to reflect the true state of the company, because profit information is a reflection of management's strategy and policies in managing its financial performance. The higher the quality of the profit that is informed, the greater the opportunity for the company to obtain more investment value from potential investors. In the context of this research, it motivates management to always present the best quality profit through various means, including intervening in financial statements (Amalia & Wahidawati, 2022).

The high tax burden can encourage management to carry out tax avoidance practices or profit management practices to reduce tax obligations, which risks reducing the quality of the profit information presented. This hypothesis is supported by research by Safitri et al., (2019) which found that the tax burden planned by companies has a negative effect on the quality of profits. This research is also supported by the research of Christabelle et al., (2022) which states that tax burden has a negative effect on the quality of profits, this is because management tends to try to pay the minimum amount of tax through profit management actions, which is motivated by the assumption that tax paying activities can reduce the company's economic benefits. On the contrary, the hypothesis of this study contradicts the results of research by Pakpahan and Prabowo (2017) who found that tax burden has a positive effect on the quality of profits, and research by Widjayanti (2018) which found that tax burden has no effect on the quality of profits.

Ha1: Tax Burden Negatively and Significantly Affects the Quality of Profits

High earnings volatility indicates that the company has performance instability, which of course has a negative effect on investors' judgments so that this encourages management to present more stable profits in an unreal manner, which can affect the quality of informed profits. This is supported by research from Widjayanti and Safitri (2017) who found the negative influence of profit volatility on the quality of profits, especially in the formation of impairment loss reserves (CKPN). This study is in line with the findings of Phua et al., (2021) which show that profit volatility has a positive relationship with profit management practices, where companies tend to carry out accounting interventions to significantly reduce profit fluctuations.

Given that profit management is often associated with a decline in profit quality, these findings indirectly support the argument that profit volatility can negatively impact profit quality. On the other hand, research from Octaviani et al., (2023) and Muslih et al., (2024) found the opposite result, namely no significant influence given by profit volatility on profit quality.

Ha2: Profit Volatility Negatively and Significantly Affects Profit Quality

A high level of cash holding provides flexibility for management in financial reporting, which can be used to improve or decrease the quality of profits depending on its strategic objectives. This hypothesis refers to research by Nathania (2023) who found a negative effect of cash holding on the quality of profits. On the other hand, research from Aldhamari and Ismail (2015) found that cash holding has a positive effect on old quality, this finding is supported by research by Tami and Pohan (2023) found that cash holding has a positive effect on profit quality through profit equalization carried out to maintain the stability of reported profits.

Ha3: Cash holding Negatively and Significantly Affects Profit Quality

3. RESEARCH METHOD

A. Research Design

This research employs a quantitative methodology that emphasizes the impact of various internal company factors on the quality of profits specifically within the foundational and chemical industry sectors. Within the context of this investigation, the quality of profit is hypothesized to be affected by three primary variables: tax expense (X1), profit volatility (X2), and cash reserves (X3). The data collection method utilized is the documentation technique, with data sourced from secondary documents that are publicly accessible. The financial data was acquired from the financial statements of the foundational and chemical industry sectors, accessed via the official IDX website, with a substantial portion retrieved from the internal websites of the respective companies. The temporal range for observations spans from 2020 to 2024, with the unit of analysis comprising the financial statements and the annual reports of the companies.

B. Population and Sample

The population in this study is all companies included in the Basic Industry and Chemical sectors listed on the Indonesia Stock Exchange during the 2020-2024 observation period, which totals 112 companies. Sampling was carried out using the purposive sampling method to obtain samples that represent the research, by applying the sample selection criteria represented in Table 1 below:

Table 1. Sampling Table

No	Sample Selection Criteria	Selected Samples
1.	Companies in the Basic Industry and Chemical sector listed on the IDX for the 2020-2024 period	112
2.	Publish the full annual report or financial statement for the last quarter during 2020-2024	56
3.	Publish annual reports or financial statements for the last quarter of the 2020-2024 period using rupiah currency	55
3.	Posting a positive net profit is continuous during the 2020-2024 period	33
	Total	33
	Total observations	165

C. Variable Operational Definition

Tax burden as the first independent variable (X1) of this study is the fiscal burden borne by the company, both in the form of current and deferred taxes, as a consequence of the profits obtained. The tax burden in this study is proxied by the ETR (Effective Tax Ratio) ratio which compares the tax burden with total net income to assess the effectiveness of the company in managing its tax burden, where the lower the ETR percentage indicates the more efficient the company is in managing its taxes (Walidah, 2022). The ETR formula is as follows:

$$\text{Effective Tax Rate} = \frac{\text{Total Income Tax Expense}}{\text{Profit Before Tax}} \times 100\% \quad (1)$$

Profit volatility as the second independent variable (X2) of this study is the rate of fluctuations in company profits during the observation period. Profit volatility in this study was measured using the calculation

of the standard deviation or standard deviation from net profit before tax to describe the level of uncertainty of a company's profit over a certain period scaled by total assets. The formula for profit volatility is as follows:

$$\text{Profit Volatility} = \frac{\text{Standard Deviation of Net Profit before Tax}}{\text{Total Assets}} \times 100\% \quad (2)$$

Cash holding as the third independent variable (X3) of this study is the cash level and cash equivalents owned by the company which reflects managerial flexibility in managing short-term operational needs and strategic decisions. Cash holding as a variable in this study is measured using the ratio between cash to total assets. This ratio represents the proportion of liquid assets owned by the company, which is prepared to support operations as well as as a form of anticipatory policy against the risk of future uncertainty. The formula for cash holding is as follows:

$$Cash\ holding = \frac{\text{Cash and Cash Equivalents}}{\text{Total Assets}} \times 100\% \quad (3)$$

Profit quality, serving as the dependent variable (Y) in this research, pertains to the degree of trustworthiness of the profit information disclosed by the enterprise, which accurately mirrors the genuine financial circumstances indicative of sincere, pertinent, and predictive financial performance. In this investigation, the profit quality variable was assessed through a comparative analysis of cash flows derived from the firm's operational activities and net profit prior to taxation, aimed at evaluating the extent to which the firm's earnings are underpinned by tangible cash. An elevated ratio indicates a superior quality of profits generated by the organization. The formula for determining profit quality is articulated as follows:

$$\text{Quality Profit} = \frac{CFO}{Earning\ After\ Income\ Tax} \times 100\% \quad (4)$$

D. Data Analysis Techniques

The comprehensive data analysis methodology employed in this investigation was executed through a sequence of systematic phases, encompassing descriptive statistical analysis, selection of panel data regression models, testing of classical assumptions, estimation of panel regression, and hypothesis validation. Initially, descriptive statistical analysis was conducted to furnish a synopsis of the data characteristics through the representation of mean values, medians, standard deviations, and other metrics of data distribution pertinent to the research objectives (Fenti, 2020). Subsequently, the process of identifying the optimal panel regression estimation model was undertaken. In alignment with the framework delineated by Gujarati and Porter (2013), three principal types of panel data estimation models are recognized: CEM, FEM, and REM. These models were chosen through a series of statistical assessments, including the Chow test, Hausman test, and Lagrange Multiplier (LM) test, to ascertain the appropriateness of the model in accordance with the Goodness of Fit criteria. Once the preferred model was identified, a validity assessment of the regression model was performed via classical assumption testing for multicollinearity and heteroscedasticity, applicable for datasets comprising more than 30 observations. Ultimately, the panel regression model estimation was executed utilizing E-views 12 software, which adeptly accommodates both time series and cross-sectional data concurrently and with greater precision, thereby affording enhanced flexibility in analyzing the behavior of variables across entities throughout the observation duration. The panel data regression model pertinent to this study is as follows:

$$KL_{it} = \alpha + \beta_1 BP_{it} + \beta_2 VL_{it} + \beta_3 CH_{it} + \varepsilon_{it} \quad (5)$$

Information	:	
KL_{it}	:	Quality Profit
α	:	Konstanta
β	:	Regression Coefficients
BP	:	Tax Burden
VL	:	Profit Volatility
CH	:	*Cash holding*
ε	:	Standard Error
i	:	Company
t	:	Period

E. Hypothesis Testing Techniques

Hypothesis testing was carried out to test the influence of each independent variable on the dependent variable separately (t-test) and simultaneously (F-test), as well as to consider the value of the regression coefficient to see the direction and strength of the independent variable in explaining the dependent variable. This study formulates three hypotheses, including tax burden negatively affecting profit quality, profit volatility negatively affecting profit quality, and cash holding negatively affecting profit quality.

4. RESULTS AND DISCUSSION

Table 2 below presents the results of the descriptive statistical analysis of each variable in this study, which is as follows:

Table 2. Descriptive Statistical Analysis Results

	Y	X1	X2	X3
Mean	2.697721	0.273115	0.043097	0.127770
Median	1.412000	0.231000	0.018000	0.104000
Maximum	103.9920	1.000000	0.755000	0.487000
Minimum	-4.125000	0.000000	0.004000	0.001000
Standar Deviasi	8.587417	0.159023	0.073643	0.099583

Table 2 of the results of descriptive statistical analysis explains that there is a fairly high variation in the dependent variable, namely profit quality (Y), with a mean value of 2.70 and a standard deviation of 8.9. The range of values with independent variable values ranging from -4.13 to 103.99 indicates that there is a possibility of outliers and heterogeneity of profit quality between companies in the sample. The variable tax expense (X1) has a mean value of 0.27 and a standard deviation of 0.16 which reflects that the level of corporate tax expense is relatively high relative to profit before tax. The earnings volatility (X2) has a mean value of 0.043 and a standard deviation of 0.074 reflecting relatively low but varied earnings fluctuations between companies. Finally, cash holding (X3) with a mean value of 0.128 and a standard deviation of 0.100 indicates that the majority of sample companies maintain a small proportion of cash to total assets.

The selection of the estimation model begins with the Chow test (CEM vs FEM). If FEM is the best option, then it is followed by the Hausman test (FEM vs REM). If REM is the best option after the Hausman test is performed, the LM Breusch-Pagan test (REM vs CEM) should be performed to determine the final best estimation model. The results of the Chow test of this study are represented in Table 3 as follows:

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.657838	(32,129)	0.0257
Cross-section Chi-square	56.838127	32	0.0044

The rationale behind the Chow test pertains to the evaluation of the probability value derived from the cross-sectional chi-square in relation to a significance threshold of 0.05. Specifically, if the probability value is less than the significance level, the optimal estimation model, as determined by the Chow test, is the Fixed Effects Model (FEM). According to Table 3, the observed probability value of 0.0044, which is less than 0.05, signifies that the preferred model is indeed FEM; thus, the analysis proceeds to the Hausman test.

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.804829	3	0.1215

Cross-section random effects test comparisons:

Variable	Fixed	Random	Where(diff.)	Prob.
X1	28.559133	24.032998	5.860057	0.0615
X2	22.989633	13.329429	112.035315	0.3614
X3	13.383084	2.984052	116.069134	0.3344

The rationale behind the Hausman test pertains to the evaluation of the probability value of random cross-section in relation to a significance threshold of 0.05. If the probability value is greater than the significance threshold, the appropriate estimation model to adopt is the Random Effects Model (REM). According to the findings presented in Table 4 from the Hausman test, the probability value of 0.1215 exceeds 0.05, thereby indicating that the chosen estimation model is indeed REM; hence, it is imperative to advance to the LM test.

Table 5. LM Breusch-Pagan Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	2.714524	0.002393	2.716918
	(0.0994)	(0.9610)	(0.0993)

The justification of the LM test refers to the value of the Breusch Pagan probability compared to the significance value of 0.05 where the selected model remains REM if the Breusch-Pagan value < 0.05. Based on the results of the LM test represented by Table 5, it is known that the probability value of 0.0994 > 0.05 indicates that the best estimation model chosen in this study is CEM.

The classical assumption test of this study is divided into multilolinierity test and heteroscedasticity test to ensure that the designed regression model meets the BLUE (Best Linear Unbiased Estimator) assumption, so that the estimation results can be interpreted validly and reliably. First, test the freedom of the model on the symptoms of multicollinearity of each independent variable to verify the absence of attachment

of values to each other in influencing the dependent variables. The justification for the multicollinearity-free regression model is if the tolerance value is not greater than 0.80 (Purbolakseto and Rudianto, 2024). The results of the multicollinearity test are represented in Table 6 as follows:

Table 6. Multicollinearity Test Results

	X1	X2	X3
X1	1.000000	0.063542	-0.126031
X2	0.063542	1.000000	0.071719
X3	-0.126031	0.071719	1.000000

Based on Table 6, all independent variables have a value of no greater than a tolerance value of 0.80, indicating that the data regression model of this research panel does not reflect the symptoms of multicolonialism. Next, a heteroscedasticity test was performed to see the consistency of the variation of errors in the regression model, where the regression model should ideally be constant and homogeneous. This study looked at the symptoms of heteroscedasticity from the residual graph which are said to be free of heteroscedasticity symptoms if there is a random pattern scattered around the zero line. Figure 1 shows the results of the heteroscedasticity test of this study, which are as follows:

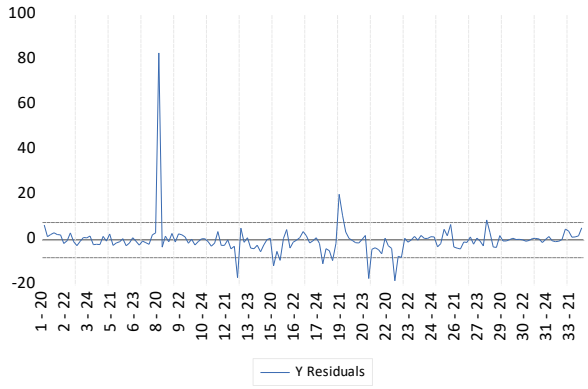

Figure 1. Heteroscedasticity Test Results

Based on Figure 1, it is known that the residual graph lines are randomly scattered around the zero line, indicating the presence of homogeneity or freedom from the symptoms of heteroscedasity. The most suitable estimation model in this study is the CEM model, so the mathematical equation of panel data regression can be formulated as follows:

KL = -4.10540653053 + 22.3005211251*BP + 11.8448470087*VL + 1.58128671259*CH

This regression model equation informs that a constant of -4.105 indicates that when the variables BP, VL and CH are zero, then the Profit Quality (KL) variable as a dependent is estimated to have a negative value of 4.105. The tax burden coefficient (BP) of 22.301 indicates that any 1% change in BP, assuming other variables are ceteris paribus, will increase the profit quality value by 22.301 positively. Furthermore, a profit volatility coefficient (VL) of 11.845 indicates that every 1% change in the VL has a positive impact on the profit quality value of 11.845. Finally, a cash holding coefficient (CH) of 1.581 indicates that every 1% change in CH contributes to an improvement in profit quality by 1.581. Thus, all independent variables (BP, VL, and CH) show a positive relationship to profit quality, with the greatest influence of the tax expense variable.

The identification of the optimal model within this research culminated in the adoption of the CEM model. The subsequent Table 7 encapsulates the estimation of the regression coefficient associated with the CEM model, which serves as a benchmark for evaluating the individual effects (t-test) and collective effects (F-test) of the independent variables on the dependent variables of the study, as well as for assessing the capacity of the independent variables to elucidate the dependent variables, as indicated by the coefficient of determination. The findings pertaining to the hypothesis testing of this investigation are delineated in Table 7 as follows:

Table 7. CEM Model Estimation Results and Statistical Tests

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.105407	1.540396	-2.665163	0.0085
X1	22.30052	3.883709	5.742068	0.0000
X2	11.84485	8.341000	1.420075	0.1575
X3	1.581287	6.205314	0.254828	0.7992

Root MSE	7.729515	R-squared	0.184884
Mean dependent var	2.697721	Adjusted R-squared	0.169695
S.D. dependent var	8.587417	S.E. of regression	7.824944
Akaike info criterion	6.976454	Sum squared resid	9857.990
Schwarz criterion	7.051750	Log likelihood	-571.5575
Hannan-Quinn criter.	7.007019	F-statistic	12.17263
Durbin-Watson stat	1.205424	Prob(F-statistic)	0.000000

The evaluation of the significance of the t statistic can be conducted by juxtaposing the computed t value against the corresponding t table. If the computed t value exceeds the t table value, it indicates the acceptance of the alternative hypothesis, signifying that the independent variable exerts a significant impact on the dependent variable in isolation (Nuryadi et al., 2017). Considering a 5% significance threshold for a one-tailed hypothesis, with a sample size of 165 observations and 4 tested variables, a t-table value of 1.654 was derived. In accordance with the statistical findings detailed in Table 7, it can be inferred that only the hypothesis concerning the BP variable (Ha1) is accepted (t calculated = 5.743 > t table = 1.654). Conversely, the hypotheses pertaining to the VL (Ha2) and CH (Ha3) variables were dismissed (t calculated VL = 1.429 < 1.645 and t calculated CH = 0.255 < 1.645). This substantiates that tax expense has a negative and statistically significant influence on profit quality, while the volatility of profit and cash holdings, in isolation, do not affect profit quality.

The criteria for testing the significance of F are carried out by comparing the statistical F value with the F table which assumes all independent variables are simultaneously capable of influencing the dependent variable if the statistical F value > the F table (Winantisan et al., 2024). Based on the significance level of 5%, the hypothetical direction is one-way, 4 observation variables, and 165 observation data, the F value of the table is obtained of 2.661. Referring to Table 7, it is known that the F-statistical value > the F table (12.173 > 2.661) so that it can be concluded that H0 is rejected. This indicates that the variables Tax Burden, Profit Volatility, and Cash holding have a significant effect on Profit Quality.

The justification for the determination coefficient refers to the adjusted R2 value which is in the range of 0 to 1. The closer the number 1, the greater the ability of the independent variable to explain the variations that occur in the dependent variable (Nuryadi et al., 2017). Referring to Table 7, it is known that the adjusted R2 value of this study is 0.170. This value provides information that the variables Tax Burden (BP), Profit Volatility (VL), and Cash holding (CH) are able to explain the profit quality variable (KL) by 17% and the other 83% are explained by other variables that are not discussed in this study model.

Ha1 posits that the tax liability exerts a detrimental and statistically significant influence on the quality of earnings. The escalation of tax liabilities, concomitant with an increase in earnings, may prompt management to manipulate financial statements to mitigate the tax obligations owed to the government. While this practice may alleviate the financial burden, it concurrently undermines the transparency of the financial statements presented to stakeholders, thereby adversely affecting the quality of reported earnings, specifically by rendering the profit information inaccurate and less trustworthy in the decision-making process. The findings from the hypothesis testing illustrated in Table 7 indicate that Ha1 is validated. Consequently, the tax liability has been established to have a detrimental and significant impact on the quality of earnings. These findings corroborate the assertions made by Safitri et al. (2019) and Christabelle et al. (2022), who similarly concluded that tax liability negatively and significantly influences the quality of earnings.

Ha2 posits that the volatility of profits exerts a negative and statistically significant influence on the quality of earnings. Pronounced fluctuations in earnings signify a lack of stability in managerial performance, complicating the decision-making process for investors, as erratic corporate profits lose their predictive and trustworthy characteristics. This phenomenon also creates a vulnerability for management to manipulate financial statements, thereby diminishing the quality of earnings as it no longer accurately represents the firm's genuine economic circumstances. Nevertheless, the hypothesis testing results presented in Table 7 indicate that Ha2 is not supported. This finding demonstrates that profit volatility is, in fact, shown to have no impact on earnings quality. Variations in profit do not directly signify an enhancement or decline in the intrinsic quality of the profit information. A substantial rise or fall in profit does not assure that the data disclosed in the financial statements will be more precise or dependable, rendering it an inadequate metric for attracting investor capital (Octaviani et al., 2023). The findings of this investigation align with the conclusions drawn by Octaviani et al. (2023) and Muslih et al. (2024), who also dismissed the findings of Widjayanti and Safitri (2017) and Phua et al. (2021).

Hypothesis Ha3 posits that the retention of cash adversely impacts the quality of profits. Elevated levels of cash reserves may incentivize management to manipulate profit figures to project a more favorable perception of corporate performance and valuation in the eyes of investors, thereby undermining profit quality due to its artificial nature. Nevertheless, the findings from the hypothesis testing presented in Table 7 indicate that Ha3 is dismissed. This outcome suggests that cash retention has been empirically validated to exert no

influence on profit quality. Furthermore, it has been suggested by Aldhamari and Ismail (2015) that the relationship is likely positive, particularly from a managerial standpoint. This pertains more to the strategic maneuvers employed by management in the presentation of financial statements, rather than to any substantive enhancement of profit quality. The conclusions drawn from this investigation align with the findings of Aldhamari and Ismail (2015) and Tami and Pohan (2023), which stand in contrast to the conclusions reached by Helina and Permanasari (2017); Amin and Firmansyah (2023); Nathania (2023), who identified a detrimental impact of cash retention on profit quality.

5. CONCLUSION

Based on the results of the analysis, this study concludes that tax burden has a negative and significant effect on the quality of profits of companies in the basic industry and chemical sectors on the Indonesia Stock Exchange, which indicates the potential for managerial intervention to reduce tax burden through profit reporting practices. In contrast, earnings and cash holding volatility did not show a significant effect individually. However, simultaneously, these three variables have a significant effect on the quality of profit, with an explanatory contribution of 17%, where tax burden is the most dominant factor. These findings confirm that fiscal pressures can prompt management to take strategic steps in financial reporting, which has implications for the reliability of the information on which investor decision-making is based.

For further studies, it is recommended that the study include additional variables such as corporate governance mechanisms, ownership structures, or leverage to increase the power of the model in explaining the quality of profits. A more diverse approach to methods, including the use of Fixed Effect or Random Effect Models, as well as the expansion of sectors and observation time periods, is also expected to provide more comprehensive results. In addition, a mixed methods approach that combines quantitative analysis and in-depth interviews can provide a more holistic insight into managerial motives in earnings reporting, thereby strengthening scientific and practical contributions to financial information-based supervision and decision-making.

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