

TAXATION STUDIES | RESEARCH ARTICLE

The Effect of Excise Burden, Income Smoothing, and Effective Tax Rate (ETR) on Financial Performance

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ABSTRACT

The tobacco industry is a strategic sector that significantly contributes to national revenue through excise and taxation. However, high fiscal burdens may suppress the financial performance of companies operating in this sector. This study aims to examine the effect of excise burden, income smoothing practices, and effective tax rate (ETR) on the financial performance of tobacco companies listed on the Indonesia Stock Exchange (IDX). A quantitative approach as employed using multiple linear regression analysis. The data were obtained from secondary sources, namely annual reports of four tobacco companies over the period of 2021 to 2023, resulting in a total of 12 observations (N=12). The results indicate that excise burden has a significant negative effect on Return on Assets (ROA), income smoothing has a significant positive effect on ROA, and ETR also has a significant negative effect on ROA. These findings suggest that fiscal pressure from excise and taxation needs to be counterbalanced by adaptive managerial strategies, such as cost efficiency and healthy earnings management. The results align with cost theory, signaling theory, and agency theory. In conclusion, internal fiscal management plays a critical role in maintaining profitability under increasingly strict government regulations. Companies are advised to enhance cost control and tax planning as mitigation strategies against fiscal burdens. The practical implication of this study is to provide insights for corporate management and policymakers on the importance of balancing fiscal policy and industry competitiveness.

Keywords: Excise Burden, Income Smoothing, Effective Tax Rate, ROA, Tobacco Industry.

JEL Code: H25, M41, L66, G30.

I. Introduction



The tobacco industry in Indonesia is a strategic sector that plays a vital role in the national economy, particularly in state revenue. According to data from the Directorate General of Customs and Excise, tobacco excise revenues contribute more than 90% of total national excise income (1,2). Fiscal policy through annual increases in excise rates is intended to control cigarette consumption and directly affect the cost structure and financial performance of tobacco companies listed on the Indonesia Stock Exchange (3). The progressive increase in excise rates puts significant pressure on corporate profit margins. Tobacco companies face substantial challenges in maintaining profitability and investor appeal in this situation. In response to increasing cost pressures, some companies are suspected of implementing managerial strategies such as income smoothing to maintain earnings stability and create a positive perception of financial performance (4,5).

Furthermore, the effective tax rate (ETR) is essential in measuring a company's fiscal management efficiency. A high ETR may indicate a lack of tax avoidance strategy and budgetary efficiency, but at the same time, it can reduce financial performance due to higher tax expenses. Therefore, in a highly regulated tobacco industry, the combination of excise burden, income smoothing, and ETR can create complex financial dynamics. Several previous studies have investigated these aspects separately. The effect of excise policy on corporate performance was considered, but it did not consider the simultaneous influence of earnings management and tax efficiency strategies (3). Leverage and profitability with tax avoidance, but did not address the unique characteristics of the tobacco industry, such as the excise burden (6). Financial performance using standard ratio approaches without considering structural aspects like excise and taxes.

The research gap indicates that few studies have simultaneously assessed the effects of excise burden, income smoothing, and effective tax rate (ETR) on the financial performance of tobacco companies. Yet, these three variables can mutually influence the formulation of corporate financial strategies and outcomes. Therefore, the novelty of this study lies in its integrative approach, which focuses on the tobacco sub-sector as one with distinctive fiscal regulations. Practically, the results can provide strategic insights for tobacco company management in designing appropriate budgetary and financial reporting strategies. Academically, it enriches the literature on the relationship between fiscal policy, earnings management strategies, and economic performance in highly regulated industries.

II. Literature Review and Hypothesis Development

A high excise burden affects a company's cost structure. In the tobacco sector, excise is one of the primary factors influencing the cost of goods sold and profit margins. An enormous excise burden can reduce profitability and affect financial performance. High excise policies may reduce tobacco companies' profitability due to the high operational costs they must bear (1,5). Companies that practice income smoothing aim to reduce volatility in their profit reports. This is done to maintain the perception of stability in the eyes of investors and the market. Such practices may create the appearance of stronger performance even when operational conditions are less supportive. Income smoothing is often employed to create financial stability that benefits companies in the eyes of investors (7). Companies with lower ETRs demonstrate more efficient tax management. While aggressive tax avoidance can damage a company's reputation, it can also improve net profit and financial performance. Although tax avoidance can increase short-term profits, such strategies may negatively impact relationships with investors and regulators in the long term (8).

Tobacco companies in Indonesia face strict excise tax regulations, which increase significantly yearly. Excise tax is one of the most significant cost components in the operational structure of tobacco companies. For example, continually increasing excise policies in Indonesia may raise cigarette selling prices, potentially lowering sales volume. As a result, although revenues may remain steady, profit margins can be eroded by the heavy excise burden. If companies cannot efficiently manage excise costs, reduced profit margins may lower their Return on Assets (ROA). Companies facing significant excise hikes may struggle to maintain optimal financial performance even with stable revenues.

Empirical studies have shown that a high excise burden directly correlates with declining corporate financial performance. High excise costs reduce the profits of tobacco firms, which in turn affects their stock prices and financial image in the market (3). Rising excise rates pressure company profit margins due to fixed operational costs (1,5). Fixed Cost Theory explains that increased excise burdens—considered fixed costs—diminish a company's ability to adapt to market and operational fluctuations (1). Additionally, under the Cost Structure Theory, higher fixed costs (such as excise) potentially reduce net profit and financial performance (ROA).

H1: Excise burden negatively affects tobacco companies' financial performance (ROA).

Like other firms, tobacco companies tend to implement income smoothing to create a perception of stability and reduce fluctuations in financial performance. Income smoothing helps ensure reported profits do not vary significantly yearly. For example, a company reporting high profits in one year may reduce them through unexpected expenses or adjustments to portray more stable performance to stakeholders. This stability makes the company appear healthier and more predictable, attracting investors and increasing its market value. Companies that consistently maintain stable earnings can gain investor trust and improve perceptions of their financial performance. Positive Accounting Theory explains that income smoothing can strengthen market perceptions of economic stability, improving a company's position in attracting investment and capital (7). Companies practicing income smoothing tend to have higher market value, as investors favor firms with stable earnings over those with high volatility (9). Income Smoothing Theory explains that earnings management, including income smoothing, avoids fluctuations that could weaken investor and stakeholder confidence. Under the Earnings Behavior Theory, income smoothing is viewed as a tool to present more consistent performance, which leads to a more favorable perception of financial performance.

H2: Income smoothing positively affects tobacco companies' financial performance (ROA).

III. Research Method

The research approach is quantitative, providing numerical data categorized as survey research. This approach is used to collect data without examining specific factors. The data collection techniques help to understand the factors influencing purchasing decisions and to answer the research questions. The population in this study consists of all cigarette companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. Based on data from the IDX and publicly available financial reports, five cigarette companies were consistently listed during that period. The analytical tool used in this study is the multiple regression method.

Table 1. Sample of Cigarette Companies on the IDX (2021–2023)

No	Issuer Code	Company name
1	GGRM	PT Gudang Garam Tbk
2	HMSP	PT Hanjaya Mandala Sampoerna Tbk
3	WIIM	PT Wismilak Inti Makmur Tbk
4	RMBA	PT Bentoel Internasional Investama Tbk
5	ITIC	PT Indonesian Tobacco Tbk

IV. Results and Discussion

4.1. Analysis Result

Descriptive statistics provide a general overview of the characteristics of the data for each research variable, namely excise burden, income smoothing, effective tax rate (ETR), and financial performance (measured by Return on Assets or ROA). These statistics present the minimum, maximum, mean, and standard deviation values for each variable across the four cigarette companies included as the research sample during the 2021–2023 period.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Dev
Excise burden (%)	12	48.10	67.45	57.83	5.41
Income Smoothing (Dummy)	12	0	1	0.58	0.50
Effective Tax Rate	12	0.18	0.47	0.31	
ROA (%)	12	3.65	18.74	9.82	4.62

Based on the table 2, the following observations are made:

1. The excise burden has an average value of 57.83%, with a minimum of 48.10% and a maximum of 67.45%. The relatively moderate standard deviation (5.41) indicates variation in excise burdens across cigarette companies. The high average value suggests that cigarette companies bear a substantial fiscal burden where the state imposes higher levies on goods with negative externalities, such as tobacco.
2. Income smoothing is measured using a dummy variable (0 = no smoothing, 1 = smoothing), with a mean value of 0.58. This implies that approximately 58% of the sample companies engaged in income smoothing practices during the observation period. This supports agency theory, which states that managers tend to present stable earnings to reduce conflicts of interest with shareholders and creditors (10,11).
3. The effective tax rate (ETR) shows an average of 0.31 or 31%, higher than Indonesia’s normal corporate income tax rate of 22%. This indicates that some companies did not fully utilize tax incentives or engage in tax planning schemes. The substantial variation in ETR (ranging from 18% to 47%) reflects significant differences in tax strategies among companies.
4. Return on Assets (ROA) as an indicator of financial performance shows a mean value of 9.82%, with a standard deviation of 4.62, indicating significant variation in profit-generating ability among companies. The highest ROA is 18.74% and the lowest is 3.65%, pointing to efficiency

gaps among entities. Cost structure heavily influences asset management efficiency, including taxes and excise.

This study examines the effect of excise burden, income smoothing, and effective tax rate (ETR) on the financial performance of cigarette companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023. Economic performance is measured using the Return on Assets (ROA) indicator. Before further interpretation, the results of the multiple linear regression test are presented below:

Table 3. Results of Multiple Linear Regression Analysis

Variable	Beta Coefficient	t-Statistic	Sig. (p-value)
Constant	0.025	1.13	0.287
Excise burden (BC)	-0.039	-2.35	0.041*
Income Smoothing (PL)	0.068	3.21	0.010**
ETR	-0.115	-3.36	0.008**
R Square	0.641		
F Calculated	8.69		0.006

Based on Table 3, the R Square value is 0.641, indicating that 64.1% of the variance in the dependent variable (ROA) can be explained by the independent variables (excise burden, income smoothing, and ETR), while other variables outside the model explain the remaining 35.9%. Simultaneously, the regression model shows a significant result ($F = 8.69$; $p = 0.006$), meaning that excise burden, income smoothing, and ETR jointly significantly affect the financial performance of cigarette companies listed on the IDX. Partially, three key findings are identified:

1. Excise burden has a significantly adverse effect on ROA ($\beta = -0.039$; $p = 0.041$). This result shows that the higher the company's excise burden, the lower its profitability. Tax and excise burdens significantly reduce the profitability of the tobacco sector in Indonesia (2).
2. Income smoothing significantly positively affects ROA ($\beta = 0.068$; $p = 0.010$). This indicates that management smoothing moderate earnings can create stability and increase investor confidence, positively impacting company performance. This finding aligns with signaling theory, where income smoothing signals corporate stability to the market (12). When kept within reasonable limits, income smoothing can positively affect firm perception and value (13,14).
3. ETR significantly affects ROA ($\beta = -0.115$; $p = 0.008$), indicating that the higher the effective tax rate a company pays, the lower its financial performance. This is a fiscal burden that erodes the company's net income. This finding is consistent with agency theory, which posits that management avoids high tax burdens to preserve performance (5,10). High ETR indicates low tax efficiency and negatively impacts ROA.

The results of this study demonstrate that, simultaneously, excise burden, income smoothing, and ETR significantly influence the financial performance of cigarette companies. These three variables represent key fiscal responsibility, managerial strategy, and tax obligation determinants in maintaining profitability stability. Firstly, the negative significance of excise burden reflects the reality of the cigarette industry being increasingly burdened by government fiscal regulation as a means of tobacco control (15,16). In the short term, this reduces company profit margins. From a fiscal economic theory perspective, excise is a tool to suppress negative externalities. However, for companies, it becomes a

rigid cost component. As such, companies must revise their production efficiency strategies or diversify their product lines. Secondly, income smoothing as a managerial strategy has improved ROA (11,14). Logically, stable earnings reports are viewed positively by investors and creditors. In financial communication theory, stable earnings information generates positive expectations for the company's future. Although often associated with manipulation, moderate income smoothing can serve as an adaptive strategy to manage fluctuations in expenses such as excise and taxes (13,14). This also reflects management's active role in maintaining the company's performance image amid external pressures. Thirdly, the inverse relationship between high ETR and ROA underlines the importance of tax efficiency in managing cost structure (17). High ETR reflects suboptimal tax planning. In the context of publicly listed companies, efficient tax management is a key indicator of sound financial governance. Companies with effective tax management exhibit higher profitability than those paying large tax amounts without efficient planning (16,18). Overall, the findings of this study emphasize the importance of internal fiscal management (through income smoothing and tax management) in maintaining corporate financial performance, especially as external burdens such as excise taxes become more stringent. As a heavily regulated industry, cigarette companies require adaptive strategies beyond increasing sales, focusing instead on cost efficiency and the credibility of financial reporting.

V. Conclusion

Based on the analysis and discussion results, it can be concluded that the excise tax burden has a significant adverse effect on the financial performance (ROA) of cigarette companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. This indicates that the higher the excise tax burden the companies bear, the more likely their financial performance declines due to reduced net profits. Earnings smoothing significantly affects ROA, indicating that managerial strategies to stabilize earnings can enhance positive perceptions of company performance and improve profitability. The effective tax rate (ETR) significantly negatively affects ROA, implying that the higher the effective tax rate paid, the lower the company's financial performance due to the increased fiscal burden. Collectively, these three variables also significantly affect the company's financial performance, with the model contributing 64.1%.

Based on the findings of this study, several recommendations can be made as follows, for cigarette company management, it is essential to improve efficiency in managing excise tax burdens, for example through product innovation, business diversification, or cost relocation, so that the fiscal burden's impact on company profits can be minimized. Regarding earnings smoothing, management is expected to continue applying this practice ethically and transparently as part of a financial communication strategy, while maintaining compliance with accounting standards and not violating the principles of good corporate governance (GCG). Concerning the Effective Tax Rate (ETR), companies must conduct careful tax planning to legally minimize tax burdens without disrupting the company's long-term profitability stability. For regulators, these findings serve as a consideration in formulating excise and tax policies that balance the state's fiscal interests and the sustainability of legal industries such as the tobacco sector. This study provides both theoretical and practical implications. Theoretically, the findings support the validity of cost, signaling, and agency theories in the context of industries facing fiscal regulatory pressure and the need to maintain financial performance. These results can be practically utilized by stakeholders such as financial managers, investors, and regulators in developing

financial strategies and fiscal policies based on empirical data. This research also serves as a preliminary reference for further studies in other industrial sectors that face high budgetary burdens.

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