

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

National development is what all nations aim for to compete in this globalization era. The development of each country are funded by the income derives from inside and outside of country. Tax is one of the main income sources of a country as a form of support of the community to the states. In Indonesia, the role of tax itself is very important as tax is used for the national development, such as the infrastructure, public facilities, to pay debts, and the operational of the governance.

According to the *Undang-Undang No. 28 Tahun 2007*, tax is a mandatory contribution to the state that is owed by individuals or entities that is enforced by the law, by not receive compensation directly and used for state requiremennts for the citizen's prosperity. Hence, the payment of tax is an obligation of each individual or entity as taxpayers.

One of the several types of tax should be paid by each taxpayers is Income Tax or known as *PPh* in Indonesia. Income tax in Indonesia is based on *Undang-Undang No. 7 Tahun 1983* which was lastly amended by *Undang-Undang No. 36 Tahun 2008*. This regulation governs the income tax imposition on taxpayers in relation to revenue or income earned or accrued in a taxable year.

Income tax paid by entity taxpayers plays an important role as it determines the amount of net income after tax that would be recognized by the company. Initially, every company would prefer that to reduce the income tax paid to increase the profit that would be recognized.

For entity or company, capital structure is a significant issue. Capital structure is the ratio or the percentage of debt toward capital owned by company. It is important because capital structure will have a direct impact

on the economic condition, price of stocks and the sustainability of the company. Debt are fund derives from external of the company. It includes the short-term liability and the long term liability. Endah (2010) in her research, stated that Long term Debt to Asset Ratio significantly influence the amount of income tax by the payment of interest expense occurred from the entity's debt which decreased the amount of profit that would be taxed, hence, decrease the income tax expense. She also stated that company can have tax benefit from the depreciation of fixed asset that can be used to reduce the amount of income tax calculated. Patar Simamora and Muhamad Ressa Mahardika Ryadi (2015) also have similar ideas that the company can manage to reduce tax paid by using the interest expense of debt that will reduce the taxable income and therefore reduce the income tax expense.

Debt can be used as a reduction to the amount of tax paid by the company. But company with capital structure full of debts will cause negative impact to the company itself and discourage the investors to add more capital to the company.

Income tax that should be paid by the company is also affected by profitability of the company, as the calculation of Income Tax comes from the profit derived by the company. Profitability should positively influence the amount of Income Tax as stated in Vinny Stephanie's result (2015). Profitability or ability to earn profit is a percentage mersure used to assess the extent to which the company is able to generate profits at an acceptable level. Profitability figures are expressed in the rate of profit before or after taxes, investment returns , earnings per share, and sales profit. The value of profitability becomes the norm of measure for the health of the company.

**Table 1.1**

**The Phenomenon of Long-Term Debt, Equity, Profit and Income Tax of  
Consumer Goods Sector of Manufacturing Company in Period 2015 – 2017**

Code	Company's Name	Year	Long-term debt	Equity	Profit	income tax
CLEO	PT. Sariguna Primatirta Tbk	2015	76,531,824,468	148,199,975,954	7,769,366,279	2,874,039,164
		2016	117,644,536,874	198,161,486,379	48,009,984,731	8,747,181,746
		2017	246,104,926,954	297,969,528,163	62,664,239,800	12,490,508,971
SKBM	PT. Sekar Bumi Tbk	2015	121,979,429,549	344,087,439,659	53,629,853,879	13,479,285,258
		2016	164,287,924,725	368,389,286,646	30,809,950,308	8,264,494,258
		2017	88,193,264,140	1,023,237,460,399	31,761,022,154	5,880,557,363
HMSP	PT. Handjaya Mandala Sampoerna Tbk	2015	1,455,990,000,000	32,016,060,000,000	13,932,644,000,000	3,569,336,000,000
		2016	1,904,785,000,000	34,175,014,000,000	17,011,447,000,000	4,249,218,000,000
		2017	2,545,109,000,000	34,112,985,000,000	16,894,806,000,000	4,224,272,000,000
KICI	PT. Kedaung Indah Can Tbk	2015	27,677,684,778	93,371,607,348	2,710,606,804	15,711,490,024
		2016	35,942,470,914	89,009,754,475	577,669,984	214,733,321
		2017	45,536,501,712	91,498,438,996	10,638,117,951	2,691,201,837

Source: Indonesia Stock Exchange (2019)

From the table 1.1, there are inconsistency of phenomenon happened in the consumer goods sector of manufacturing company listed in Indonesia Stock Exchange in period 2015 - 2017. In the table above, for PT. Sariguna Primatirta Tbk, while the long term debt increase, the income tax expense also keep increasing each year. Contradicting to this, in PT. Sekar Bumi Tbk, the long term debt from 2015 to 2016 increase, but the income tax paid decrease. And in PT Handjaya Mandala Sampoerna Tbk, from 2016 to 2017, the long-term debt increased but the income tax decreased. Therefore, there are inconsistency that happened between long term debt and the amount of tax paid.

Similar condition also happened in the equity, for PT. Sariguna Primatirta, Tbk, while the equity increased, the income tax also increased each year. But in PT. Sekar Bumi Tbk, the equity increase each year but the income tax decreased. Thus, the is inconsistency that happened between equity and the income tax.

And from the table, in PT. Sariguna Primatirta Tbk, when the profit increased, the income tax also increased. The same thing happened in PT.

Handjaya Mandala Sampoerna Tbk, while the profit increased, the income tax paid also increased, and vice versa. But contradicting to that, in PT. Sekar Bumi Tbk, while the profit increased from 2016 to 2017, the amount of tax paid decreased. Similar to this, in PT. Kedaung Indah Can Tbk, the profit of 2017 are far higher than the profit of 2015, but the amount of tax paid in 2017 are lower compared to the tax paid in 2015. Hence, there is inconsistency that happened for the relation of profit and the income tax paid.

Based on the various prior research and the contradicting phenomenon, writer is interested to do research to find more defined result about the influence of capital structure and profitability towards entity income tax. This research will be conducted on Consumer Goods Sector of Manufacturing Company that are listed in Indonesia Stock Exchange in 2015-2017. The consumer goods sector of manufacturing company is chosen because the consumer goods sector is one of the biggest contributor to the national economics.

The capital structure in this research will be measured by two ratios, which are Long term Debt to Asset Ratio (LDAR) and Debt to Equity Ratio (DER). Long term Debt to Asset Ratio is the ratio that measure the amount of company's asset which are run or paid by the long term debt. Debt to Equity Ratio shows the structure of company consisting of total debt compared to total equity. The higher the ratio, the lower funding derived from stockholder. Another variables in this research is profitability measured by Return on Asset (ROA), it shows the amount of profit derives from the operation and utilization of assets.

The things mentioned above, Long-term Debt to Asset Ratio, Debt to Equity Ratio and Return on Asset of the company are aspects that are closely related to ensure the sustainability and the development of the company and would affect the amount of income tax paid by the company. Thus, to ensure the relation between those three aspects to the income tax

of the company, the author would want to do “**The Influence of Capital Structure and Profitability towards Entity Income Tax of Consumer Goods Sector of Manufacturing Company Listed in Indonesia Stock Exchange in period 2015 - 2017**”.

### **1.2. Problem Limitation**

Problem limitation of this research which will be studied are annual financial statement on consumer goods sector of manufacturing companies listed on the Indonesia Stock Exchange. Of the capital structure, the ratio which will be used are long term debt to asset ratio and total debt to equity ratio. Of the profitability, the ratio which will be used is return on asset ratio.

### **1.3. Problem Formulation**

To raise the issues discussed in this study, the author makes the formulation of the problem as follow:

1. Does long term debt to asset ratio significantly influence income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange partially?
2. Does debt to equity ratio significantly influence income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange partially?
3. Does return on asset ratio significantly influence income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange partially?
4. Do long term debt to asset ratio, debt to equity ratio and return on asset ratio significantly influence income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange simultaneously?

#### **1.4. Objective of the Research**

In accordance with the formulation of the problem, this study aims:

1. To identify if there are any significant influences of long term debt to asset ratio to the income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange partially.
2. To identify if there are any significant influences of debt to equity ratio to the income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange partially.
3. To identify if there are any significant influences of return on asset ratio to the income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange partially.
4. To identify if there are any significant influences of long-term debt to asset ratio, debt to equity ratio and return on asset ratio to the income tax of consumer goods sector of manufacturing company that listed in Indonesia Stock Exchange simultaneously.

#### **1.5. Benefit of the Research**

This research is expected to provide benefits for various parties related to the research topic, including:

##### **1.5.1. Theoretical Benefit**

###### **1. For Author**

The result could provide evidence whether the long-term debt to asset ratio, debt to equity ratio and return on asset have any influence to the income tax of the consumer goods sector of manufacturing company listed in Indonesia Stock Exchange.

###### **2. For Readers**

The results of this study is expected to provide knowledge and in addition, to be used as reference of future research related to long-term

debt to asset ratio, debt to equity ratio return on asset ratio and income tax.

#### 1.5.2. Practical Benefit

##### 1. For company

As a reference to provide information for companies about the capital structure and profitability through long-term debt to asset ratio, debt to equity ratio and return on asset and the influence to the income tax and also as reference to make future decision regarding the capital structure with the income tax as consideration.

##### 2. For government

The result of this result could provide reference and inputs for improving regulations regarding the income tax of entity.

### 1.6. Systems of Writing

To facilitate this research, then the author compiled systems of writing consisting of the following details:

#### CHAPTER I: INTRODUCTION

This chapter describes background of study that briefly explains the issues that will be discussed in this study, limitation and formulation of the problems, theoretical and practical benefit expected from this study and system of the writing.

#### CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter discusses theoretical basis that will be used in this study to analyze the data and will be used as reference for further understanding to find results and evidence to the hypotheses, framework of thinking proposed and previous research related to this study.

### CHAPTER III: RESEARCH METHODOLOGY

This chapter contains the research design, population and research sample, data collection and data analysis method used in this study. This chapter also defines operational variable definition and variable measurement used in this research.

### CHAPTER IV : DATA ANALYSIS AND DISCUSSION

This chapter discusses the research hypothesis testing, analysis of data and test result using SPSS 25 software to identify the influence of each ratio toward entity income tax.

### CHAPTER V : CONCLUSION

This chapter concludes the results of research, the limitations in conducting this research, and suggestions that can later be used in further research.

