

CHAPTER I

INTRODUCTION

1.1 Background of the study

The Indonesia Stock Exchange (IDX) is a capital market for various long-term financial instruments that can be well managed in the form of debt and equity. The IDX plays an important role in the national economy because it has two functions, namely, an economic function and a financial function. The reason why it has an economic function is that IDX as a capital market provides facilities or tools to bring together two kinds of benefits, namely those who have excess funds and those who need them. Meanwhile, it is said to also have a financial function because the IDX provides possibilities and opportunities for fund owners to obtain unbalanced returns according to the characteristics of the chosen investment.

In this era of globalization, companies are experiencing tight competition. Both in companies from within the country or abroad that have a lot of capital. Certainly, in conditions like this, the company is led to determine the strategy that will be used to face competition between companies quickly and accurately. Decisions like this that are faced by financial managers in relation to company operations are financial decisions related to debt, preferred stock, and those commonly used in the company.

According to the Ministry of Industry and Trade of the Republic of Indonesia, the chemical and basic industrial developments are rapidly developing, related to various chemical industry products such as animal feed, cement, ceramics, glass, porcelain, chemicals, metals, and similar products, plastics, and packaging, pulp, and paper, the timber industry is expected to be able to penetrate the expected international market.

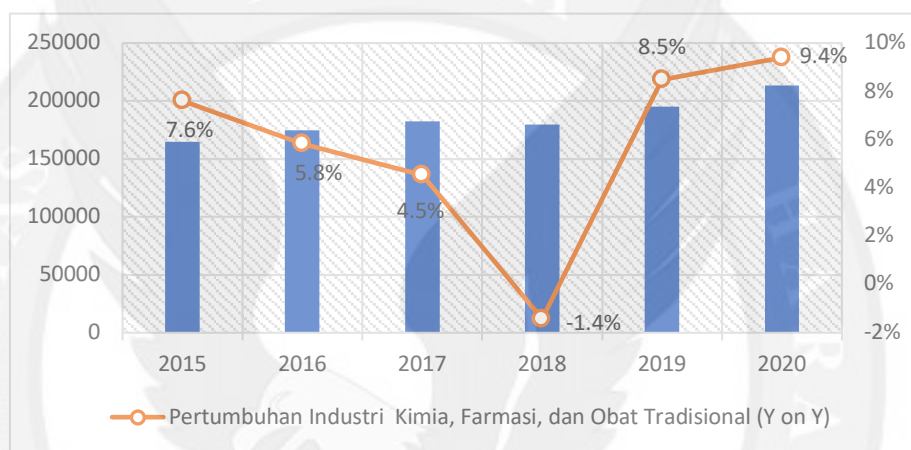


Figure 1.1 chart of growth rate in chemical, pharmaceutical and traditional medicine

Source: <https://www.dataindustri.com>

Figure 1.1 growth of the chemical, pharmaceutical, and traditional medicine industries. In 2015 the growth of the chemical, pharmaceutical, and traditional medicine industries was 7.6%. In 2016, the growth was 5.8%. In 2017, which had a growth of 4.8%. In 2018, which had a growth of -1.4%. The growth of the chemical, pharmaceutical, and traditional medicine industries experienced a very drastic decline in 2015-2018 due to the depreciation of the rupiah against the US dollar because many of the raw materials for the chemical and pharmaceutical industries come from imports, according to Sri Mulyani. Whereas in 2019, the growth of the chemical, pharmaceutical, and traditional

medicine industries was 8.5% because the pharmaceutical industry is one of the sectors that had brilliant performance and made a significant contribution to the national economy. In the following year, the growth of the chemical, pharmaceutical, and traditional medicine industries, which increased due to the pandemic period, was supported by the increasing demand for soap, hand sanitizer, and disinfectant in the country.

In research that uses Profitability, depreciation of assets, operational costs on corporate stage taxes. Profitability, which is one of the financial ratios used to measure the efficiency of a company in generating profits from sales or investment income during a certain period. Profitability is one of the benchmarks used in improving, maintaining, and improving the company to support the business. The profitability ratio is a ratio to measure the overall company and gross profit margin, operating profit margin, net profit margin, cash flow margin, ROA, ROE, and cash on assets, according to Sugiono & Untung (2018). Meanwhile, according to Pearce, John & Robison (2008), Profitability is the net result of agreements and decisions chosen by the management of an organization, assets (ROA). ROA is one of the financial indicators that shows the company's ability to produce the total assets needed by the company.

Depreciation of assets plays an important role because it is significant when compared to other balance sheet components. In general, the economic value of an asset will decrease due to usage, damage, and being out of date with economic and technical factors, so this asset requires particular management

policies, both in the use, maintenance, and accounting records, and affects an essential role in its production activities. Over time the value of a fixed asset must be depreciated or charged appropriately, and one way is to use the depreciation method. Mairuhu (2014) depreciation is defined as an accounting process in allocating the cost of tangible assets to expenses systematically and rationally during the period that is expected to benefit from using these assets.

In business activities, operational costs are closely related to the corporate income tax of a company. According to Law No. 36 Article 6 Paragraph 1 concerning Income Tax explains that costs that are allowed to be deducted in calculating the income of domestic taxpayers are costs related to business activities, one of which is operational costs. The greater the operational costs incurred by the company, the smaller the taxes that will be paid by the company.

Table 1.1 Profitability, Depreciation of Asset, Operational Cost and Corporate Tax Income of some companies in Corporate Income Tax on Manufacturing Companies in the Basic and Chemical Industry Sector for the year 2015 – 2017

Company	Year	Profitability	Depreciation of asset	Operational cost	Corporate tax income
PT Charoen Pokphand Indonesia TBK (CPIN)	2015	12.71	12.49	12.24	11.81
	2016	12.81	12.49	12.31	11.86
	2017	12.80	12.66	12.41	11.93
PT Japfa comfeed Indonesia TBK (JPFA)	2015	12.60	12.53	12.36	9.22
	2016	12.74	12.21	12.38	11.66
	2017	12.70	12.35	12.46	11.53
	2015	12.90	13.01	12.46	12.08

PT. Indocement Tunggal Prakarsa TBK (INTP)	2016	12.80	13.04	12.43	11.84
	2017	12.70	13.12	12.49	11.57

Source: Prepare by writer (2021)

From table 1.1, we can see that the average Profitability of CPIN companies in 2015-2017 has decreased. The profitability values from 2015-2017 were 12.71, 12.81, and 12.80, respectively. The highest average profitability value in 2016 was 12.81. The average value of asset depreciation at CPIN companies in 2015-2017 has increased. The depreciation value of assets from 2015-2017 was 12.49, 12.49, and 12.66, respectively. The highest average asset depreciation value in 2017 was 12.66. The average value of operating costs at CPIN companies from 2015-2017 was 11.81, 11.86, and 11.93, respectively. The highest operating cost value in 2017 was 11.93. CPIN's corporate income tax values from 2015-2017 were 11.81, 11.86, and 11.93, respectively. The highest average corporate income tax value was in 2017, which was 11.93, and the lowest average corporate income tax was in 2015, which was 11.81.

The average Profitability of JPFA companies in 2015-2017 has decreased. The profitability values from 2015-2017 were 12.60, 12.74, and 12.70, respectively. The highest average profitability value in 2016 was 12.74. The average value of asset depreciation at the JPFA company in 2015-2017 has decreased. The depreciation value of assets from 2015-2017 was 12.53, 12.21, and 12.35, respectively. The highest average asset depreciation value in 2015

was 12.53. The average value of operating costs at the JPFA company from 2015-2017 was 12.36, 12.38, and 12.46, respectively. The highest operating cost value in 2017 was 12.46. JPFA's corporate income tax values from 2015-2017 were 9.22, 11.66, and 11.53, respectively. The highest average value of corporate income tax in 2017 was 11.53, and the lowest average value of corporate income tax was in 2015, which was 9.22

The average Profitability of INTP companies in 2015-2017 has decreased. The profitability values from 2015-2017 were 12.90, 12.80, and 12.70, respectively. The highest average profitability value in 2015 was 12.90. The average value of asset depreciation at INTP companies in 2015-2017 has increased. The depreciation value of assets from 2015-2017 was 13.01, 12.04, and 13.12, respectively. The highest average asset depreciation value in 2017 was 13.12. The average value of operating costs for INTP companies from 2015-2017 was 12.46, 12.43, and 12.49, respectively. The highest operating cost value in 2017 was 12.49. INTP corporate income tax values from 2015-2017 were 12.08, 11.84, and 11.57, respectively. The highest average corporate income tax value was in 2015, which was 12.08, and the lowest average corporate income tax was in 2017, which was 11.57.

Based on the description above, the researcher is encouraged to make a study entitled "**The Effect of Profitability, Depreciation of Assets and Operating Costs on Corporate Income Tax in Manufacturing Companies in the Basic and Chemical Industry Sector**". The author believes that the

chemical industry sector is an exciting sector to study because this industry produces basic chemicals, which are growing rapidly in Indonesia.

1.2 Research limitation

The limitation of this research is as follows:

1. Companies that will be used in this study are basic and chemical industrial companies listed on the Indonesia Stock Exchange.
2. The period in this study is only from 2015-2019.
3. The independent variables used in this study are limited to Profitability, asset depreciation, and operating costs, while many factors can be used to indicate corporate income tax.
4. The dependent variable that will be used in this study is limited to corporate income tax only.

1.3 Problem Formulation

Based on the background that has been described previously, the formulation of the problems to be discussed in this study can be formulated as follows:

1. Does the influence of Profitability on corporate income tax in Basic Industry and Chemical Companies listed on the Indonesia Stock Exchange?
2. Does the influence of asset depreciation on corporate income tax in Basic Industry and Chemical Companies listed on the Indonesia Stock Exchange?

3. Does the influence of operating costs on corporate income tax in Basic Industry and Chemical Companies listed on the Indonesia Stock Exchange?
4. Does it influence Profitability, annual depreciation dan operational cost on corporate income tax in Basic Industry and Chemical Companies listed on the Indonesia Stock Exchange?

1.4 Research Objective

Based on the formulation of the problem above, the objectives of the research to be achieved in this study are:

1. To determine the effect of Profitability on corporate income tax in the Basic and Chemical Industry Sector Companies listed on the Indonesia Stock Exchange.
2. To determine the effect of assets on corporate income tax in Basic Industry and Chemical Sector Companies listed on the Indonesia Stock Exchange.
3. To determine the effect of operating costs on corporate income tax in Basic Industry and Chemical Sector Companies listed on the Indonesia Stock Exchange.
4. To determine the effect of Profitability, annual depreciation, operating costs on corporate income tax in Basic Industry and Chemical Sector Companies listed on Indonesia Stock Exchange.

1.5 Theoretical Benefit

From carrying out this research, it was agreed that several parties could take some benefits. Benefits or uses that can be taken from this study include:

1.5.1 Theoretical Benefits

The results of this research are expected to be able to support existing theories and as references or contributions about the financial management related to the research of return on assets to minimize the risk of the company's progress and investment decision-making

1. Manufacturing companies in the elemental and chemical sectors are listed on the Indonesia Stock Exchange that can be accessed (not under construction) when data collection is carried out.
2. Publish a complete Annual Report.
3. I am using reports in Rupiah.
4. Essential industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange are in a profit condition.

1.5.2 Practical Benefit

To provide an overview in gathering data and information about "**The Effect of Profitability, Depreciation of Assets, and Operational Costs on Corporate Income Tax in the Basic and Chemical Industrial Sector Listed in Indonesia Stock Exchange.**" This research is expected to be used as a reference for future scientific developments.