

CHAPTER I

INTRODUCTION

1.1 Background of study

Tax can be said as one of the biggest sources of income for the government. Tax is imposed on every income, gain or profit received by taxpayers. As tax is very important in order to increase economic welfare in the country, entity taxpayers must carry out its role to pay tax in accordance with the amount of income tax calculated. Individual or entity who fulfill the requirement as a taxpayer needs to pay tax as a mandatory contribution to the country thus it can be forced. Tax levied will be used to fund government expenditure. The more income received, the more tax is paid and in other way, the less income received, the less tax is paid. Self-assessment system is used to calculate and determine the amount of income tax in Indonesia. Self-assessment system means taxpayers calculate, determine and report the amount of tax need to paid by itself.

Directorate General of Tax stated tax revenue in the first semester of 2019 is amounted to Rp603.34 billion or grew 3.74% compared to same period last year. Its growth was recorded lower than in 2018 which grew 13.9%. Director General of Tax, Robert Pakpahan stated several types of major tax suffer in the first semester of 2019. One of it is the entity income tax which only grew 3.4% or lower than 2018 which grew 23.8%. From all of the sectors, tax revenue from mining industry and manufacturing industry were adjusted the most. The mining industry grow -14% which is far lower than the same period last year which grew 80.3% while the

manufacturing industry was adjusted to 2.6% (Simorangkir, 2019). Because of this case, the writer is interested to do a research about several factors that likely to affect entity income tax.

In this research, the writer uses several factors which can impact income tax payable, such as capital structure, profitability and liquidity. Halim (2015) in Hasudungan et al (2017) mentioned capital structure is determined to assist companies target debt and equity level strategically. Companies will issue bonds and notes if the level of loan with capital or equity is below the target, while companies will issue shares if the level of loan with capital or equity is above the target. The higher the amount of long-term debt, the higher the chances inability of the companies to pay back the long-term debt and interest. Long-term debt is usually used to improve company expansion which required large fund. Capital structure management can be used by companies to minimize tax burden.

According to Laksono (2019), profitability is used to measure how far company can obtained profit from asset and equity. Higher profitability ratio means better company performance. The profit calculated is profit before tax and interest. If company obtained larger profit generally the income tax paid also increased. In addition, it can't be avoided that tax is one of the short-term obligations that must be fulfilled. Liquidity ratio is used as a tool to see how far is the company capability to pay off its short-term obligation. According to Adisamartha and Noviari (2015), if the company have high liquidity ratio, it means company can pay off the obligation on time.

Table 1.1 Debt to equity ratio, return on asset, current ratio and current tax expense on mining companies listed on Indonesia Stock Exchange in the period of 2015-2019

Company Code	Year	DER	ROA	Current Ratio	Current Tax Expense
PTBA	2015	1.543548	0.120582	0.818999462	Rp649,261,000,000
	2016	1.655829	0.108975	0.760430347	Rp651,847,000,000
	2017	2.528703	0.20681	0.593297529	Rp1,598,336,000,000
	2018	2.378458	0.211853	0.48576427	Rp1,764,051,000,000
	2019	2.489716	0.154816	0.416615019	Rp1,302,506,000,000
KKGI	2015	2.219492	0.057562	0.283742567	Rp44,291,454,755
	2016	4.050915	0.095968	0.169400472	Rp68,339,876,136
	2017	3.540485	0.127934	0.185440281	Rp86,901,925,404
	2018	1.478215	0.004056	0.352434944	Rp12,298,973,958
	2019	2.173588	0.04285	0.353077507	Rp40,911,449,258
TOBA	2015	1.399542	0.0911	0.820364334	Rp196,036,813,793
	2016	0.967833	0.055762	0.770546131	Rp143,192,768,817
	2017	1.525614	0.118764	0.992787059	Rp257,383,184,282
	2018	1.224074	0.135669	1.327586409	Rp400,260,159,190
	2019	0.919601	0.06893	1.402668008	Rp131,228,470,097

Source: Indonesia Stock Exchange (2021)

As presented above, debt to equity ratio of PT Toba Bara Sejahtera Tbk (TOBA) in the year 2018 is lower than 2015 and 2017. However, the current tax expense calculated was far higher compared to 2015 and 2017. In another word, debt to equity ratio have inverse relationship towards current tax expense. Similar situation also happened in PT Bukit Asam Tbk (PTBA) in 2018, 2019 and PT Resource Alam Indonesia Tbk (KKGI) in 2017. On the contrary, debt to equity ratio in the other year mentioned decreased as well as current tax expense and *vice versa* compared to previous year. Therefore, inconsistency also happened between debt-to-equity ratio and current tax expense.

Return on asset of PT Bukit Asam Tbk (PTBA) in 2016 decreased compared to previous year whereas current tax expense increased. However, in another year mentioned if return on assets ratio increased, income tax payable is also increased

and *vice versa*. Therefore, inconsistency also happened between return on assets ratio and current tax expense.

Current ratio of PT Bukit Asam Tbk (PTBA) in 2019 decreased compared to previous year as well as current tax expense. On the contrary, in another year mentioned current ratio and current tax expense have inverse relationship. If current ratio increase, current tax expense is decrease and *vice versa*. Similar situation also happened in PT Resource Alam Indonesia Tbk (KKGI) and PT Toba Bara Sejahtera Tbk (TOBA). Thus, inconsistency happened between current ratio and current tax expense.

In addition, the research previously conducted by Sumarta and Intan (2020) showed capital structure and profitability had significant impact toward income tax payable whereas liquidity didn't have significant impact towards income tax payable. Similar research conducted by Simamora and Muhammad (2015) showed opposite result. Capital structure didn't have significant impact towards income tax payable. A research conducted by Dewi (2020) resulted liquidity ratio had significant impact towards income tax payable.

Based on the inconsistency of results from previous research and phenomenon above, the writer is interested to do a research about income tax payable and the reason why writer choose mining industry is because of the unstable growth from time to time. As the background of the study stated above, the writer is interested to do a research with the title **“The Impact of Capital Structure, Profitability and Liquidity toward Entity Income Tax Payable in Mining Industry Listed on Indonesia Stock Exchange”**

1.2 Problem Limitation

This research is limited to:

1. The indicator of capital structure which is debt to equity ratio (DER).
2. The indicator of profitability which is return on assets (ROA).
3. The indicator of liquidity which is current ratio.
4. Period of financial statement from the year 2015-2019.

1.3 Problem Formulation

1. Does capital structure have significant impact towards income tax payable in mining industry listed on Indonesia Stock Exchange partially?
2. Does profitability have significant impact towards income tax payable in mining industry listed on Indonesia Stock Exchange partially?
3. Does liquidity have significant impact towards income tax payable in mining industry listed on Indonesia Stock Exchange partially?
4. Do capital structure, profitability, liquidity have significant impact toward income tax payable on mining industry listed on Indonesia Stock Exchange simultaneously?

1.4 Objectives of the research

1. To know whether capital structure have significant impact towards income tax payable in mining industry listed on Indonesia Stock Exchange partially.
2. To know whether profitability have significant impact towards income tax payable in mining industry listed on Indonesia Stock Exchange partially.

3. To know whether liquidity have significant impact towards income tax payable in mining industry listed on Indonesia Stock Exchange partially.
4. To know whether capital structure, profitability, liquidity have significant impact toward income tax payable in mining industry listed on Indonesia Stock Exchange simultaneously.

1.5 Benefit of the research

The research conducted is expected to be useful for various parties as follow:

1.5.1 Theoretical benefit

This research could provide knowledge to the writer and readers about the impact of capital structure, profitability and liquidity towards income tax payable in mining industry listed on Indonesia Stock Exchange. This research is also expected to be used as a reference and bring up new ideas for further research.

1.5.2 Practical benefit

1. For company

This research is expected to give some ideas and consideration for companies regarding the impact of capital structure, profitability and liquidity towards income tax payable in mining industry. It may be used by company as a guide to manage their tax.

2. For government

The result of this research is expected to assist government as a guide to investigate about fulfillment of taxation right and obligation of a company.