CHAPTER I

INTRODUCTION

1.1 Background of The Study

Every country has its own systems and regulations, this includes how the country implements its system on keeping the economy stable, a major part of it is by collecting taxes from its residents. In Indonesia, it is mandatory for both individual and entity taxpayers to report their annual income tax return or SPT *Tahunan* to the Directorate General of Taxes. It is a civic duty to pay taxes because the taxes paid are then used to facilitate the country economically in order to develop further on all aspects. Taxes come in many forms too, they are not just income taxes from an individual or a corporation, taxes are also included in a variety of products or services, which applies to supermarkets, restaurants, hospitals, and others.

The definition of tax is the people's contribution to the treasury of the state based on the enforceable law without receiving any direct service after paying, but the money is used to fund the general expenses of the country, with any surplus after financing the expenses; the rest of the money is used for public saving which will become the main source to finance public investment (Soemitro, 2018). The first and general rules regarding tax are written in *Undang-Undang Ketentuan Umum dan Tata Cara Perpajakan (KUP)*. According to *Undang-Undang No 28*

Tahun 2007, taxes are compulsory contributions to the state that are owed by individuals or entities that are compelling based on law and are used for the sake of prosperity (Ortax, 2007).

As the country's income heavily relies on taxes, entity corporations pay a whole lot of taxes to the government depending on the amount of their taxable income. Though paying taxes is always in accordance with one's monetary ability, entities always strive to survive and come up with strategies to maximize their profit and thrive in the related industry. Financial statements of every company are used by both internal and external parties; those statements record all the financial details and information of a company for one accounting period which describes the overall performance of the company for that year, whether the company is profitable, has low return of investment, poor fundamentals, and many more calculations that can be done to determine the financial performance of the company. Financial performance is an analysis to see how well a company has implemented its financial strategies (Fahmi, 2011). There are several measuring tools that can be used to indicate the financial performance of a company, which include the profitability ratio, liquidity ratio, solvability ratio and activity ratio. In order for a company to be sustainable in generating stable or even increasing profits, the company should be able to manage its resources and increase the activity; this is a win-win solution because for as long as the company operates, they will keep contributing in paying their fair share of taxes, the higher the taxable income, more tax is paid.

Based on several other studies, one of the things that may influence the financial performance of a company is deferred tax. A company's performance can be affected by deferred tax because is included as a component in the financial income statement under the income tax expense, which reduces profit. According to Waluyo (2009), deferred tax is defined as the amount of income tax that is considered recoverable in the future that occurs as a result of temporary differences that can also be subtracted from any remaining compensated losses. Deferred tax should always be recognized and presented in financial statements to provide valid information for the users of the financial statements. Deferred tax is divided into two categories and can be seen from these two perspectives, which are deferred tax assets and deferred tax liabilities. Deferred tax assets are seen as expected benefits that can be claimed in the future from withholding taxes that have been classified as an expense in the financial income statement, meanwhile deferred tax liabilities are an estimated income taxed in the future but both have yet to be deducted for income tax purposes (Stice & Stice, 2012). Recognition of deferred tax results in either an increase or decrease of deferred tax expense.

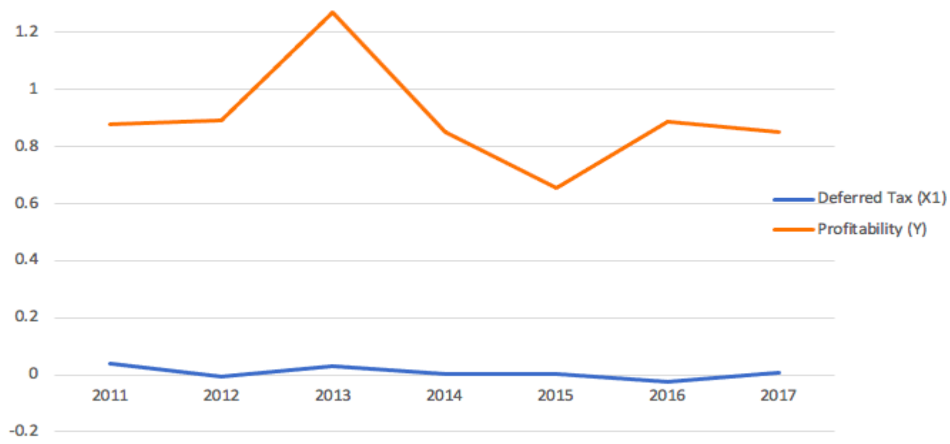

Figure 1.1 Calculated Deferred Tax and Profitability
Source: Prepared by The Writer (2021)

The graph above is the average of the deferred tax and profitability for the selected companies in the hotel, tourism and restaurant sector. Theoretically, an increase in deferred tax would mean a decrease in profitability as deferred tax in the form of an expense will lower the net income of the companies. However, the graph shows inconsistencies where for the year 2011 to 2012 deferred tax decreases and profitability increases, but for the year 2012 to 2014, the directions of deferred tax and profitability are the same, when it should have shown a relationship where if the independent variable increases then the dependent decreases or the other way around.

Furthermore, there have also been studies regarding the influence of firm size towards the financial performance of a company. According to Jogiyanto (2007), total assets can be used to measure the firm size, in which the size of the firm is calculated in the form of the logarithm of total assets. This matter has proven its inconsistency based on the results of the studies by other researchers. For example, a research done by Epi (2017), showed that the firm size as an independent variable had no effect on financial performance. Meanwhile, a study by researcher Ermawati et al. (2018) indicated otherwise, that firm size has an effect on the financial performance of a company.

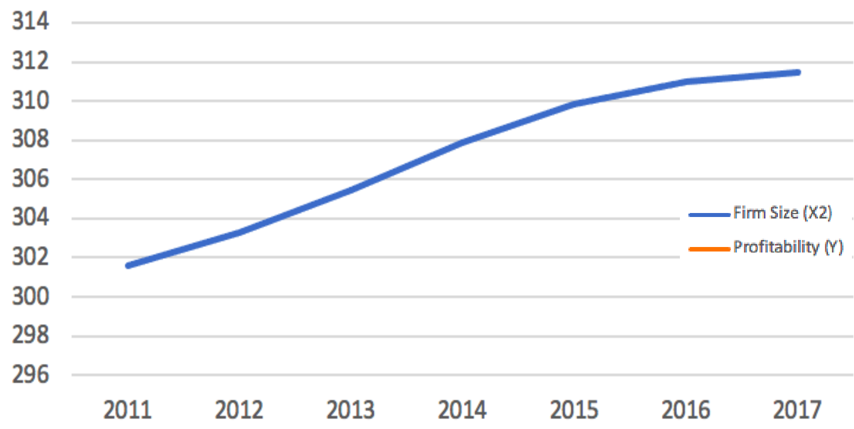

Figure 1.2 Calculated Firm Size
Source: Prepared by The Writer (2021)

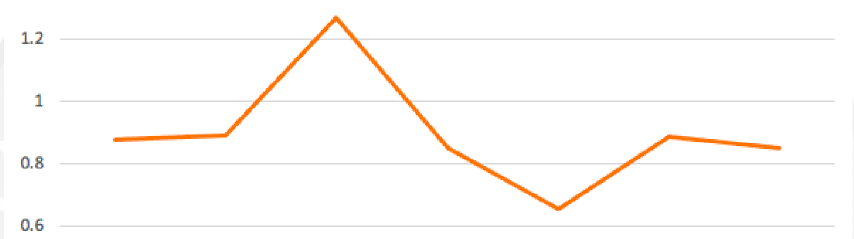

Figure 1.3 Calculated Profitability
Source: Prepared by The Writer (2021)

The two graphs above shows a detailed movement of the average of the firm size and profitability for the selected companies in the hotel, tourism and restaurant sector. Theoretically, if the firm size of a company increases, it is most likely that they can use their assets as their resources in maximizing profit, hence increasing the profitability. It is seen above that with a steady increase of total assets over the years, there were fluctuations on the profitability. This also showed an interesting result because this shows obscurity between the firm size and profitability.

Other than the deferred tax and the firm size as two of the independent variables, this research also uses earnings persistence as the moderating variable. Earnings persistence is often associated with firm size, as it is believed that bigger corporations with greater operations have more stability in their earnings compared to those of smaller size. Earnings persistence can be interpreted as sustainable earnings that can be used to predict future earnings, therefore it can be used as a measuring tool to indicate the quality of earnings because persistence in earnings leads to stable conditions (Penman, 1992). Anyone would agree that they would feel a lot safer to invest in companies with earnings persistence rather than investing in companies that show major fluctuations in earnings every year. When earnings increase and decrease in a significant manner, questions and doubts occur regarding the company.

For every accounting period, each company will make every effort to present an attractive financial report where burdens are minimized and profits are maximized. Such a thing is prepared to attract the attention of potential investors, keep investors in investing and provide information for management to decide the next step for the company. Investment is one of the most important things in keeping an operation running, as it is after all the capital to fund the company or organization. Several sectors in Indonesia like healthcare, manufacturing, mining, e-commerce and infrastructure do show greater potential for investment. However, there is another thing that has to be included, which is the Tourism, Hotel and Restaurant sector. The Ministry of Investment in Indonesia states that the government is ambitious in making Indonesia a world-class tourist destination, which evidently will increase the government's revenue. In 2014, over nine million foreigners visited Indonesia and the number nearly doubled by 2017. Such a number increases earnings and results in new job or business opportunities. Indonesia is a country made up of thousands of islands with astonishing views most people are unaware of. The top 10 tourist destinations in Indonesia spread all over from Sumatra, Java, Sulawesi, Maluku and East Nusa Tenggara. More investment for the tourism sector will also affect the hotels, restaurants and other positive chain reactions.

Based on the findings above, along with the fact that so far there has only been one journal with earnings persistence as the moderating variable, the writer is intrigued to do a research as to how deferred tax and firm size may influence the financial performance and how earnings persistence may influence the relationship between the independent and dependent variables, therefore the topic of this research is **"The Influence of Deferred Tax and Firm Size Towards The Financial Performance of The Companies in The Tourism, Hotel and Restaurant Sector Listed in Indonesia Stock Exchange with Earnings Persistence as The Moderating Variable"**

1.2 Problem Limitation

Based on the title chosen for this research and due to the limited time and resources, there are limitations in conducting this study, which are as follows:

1. As "financial performance" has a wide range of scope to be examined or investigated, the writer has decided to just use "profitability" as the chosen measurement approach for this variable, so the financial performance in this study is only limited to its profitability as an indicator.

2. In researching the previous studies for this title, the writer encountered a lack of literature access because “earnings persistence” as the moderating variable is still a very rare study.
3. With limited time and resources, the range of research years are from 2011-2017.

1.3 Problem Formulation

The problem formulations of this research are as follows:

1. Does deferred tax have an influence towards the financial performance of the companies in the tourism, hotel and restaurant sector listed in Indonesia Stock Exchange?
2. Does earnings persistence as the moderating variable influence the relationship between deferred tax and financial performance of the companies in the tourism, hotel and restaurant sector listed in Indonesia Stock Exchange?
3. Does firm size have an influence towards the financial performance of the companies in the tourism, hotel and restaurant sector listed in Indonesia Stock Exchange?
4. Does earnings persistence as the moderating variable influence the relationship between firm size and financial performance of the companies in the tourism, hotel and restaurant sector listed in the Indonesia Stock Exchange.

1.4 Objective of The Research

Based on the formulation of the problem, the objectives of this research are as follows:

1. To analyze whether deferred tax has an influence towards the financial performance of the companies in the tourism, hotel and restaurant sector listed on Indonesia Stock Exchange.
2. To analyze whether firm size has an influence towards the financial performance of the companies in the tourism, hotel and restaurant sector listed on Indonesia Stock Exchange.
3. To analyze whether earnings persistence as the moderating variable influences the relationship between deferred tax and financial performance of the companies in the tourism, hotel and restaurant sector listed on Indonesia Stock Exchange.
4. To analyze whether earnings persistence as the moderating variable influences the relationship between firm size and financial performance of the companies in the tourism, hotel and restaurant sector listed on Indonesia Stock Exchange?

1.5 Benefit of The Research

1.5.1 Theoretical Benefit

As this research will be beneficial in some way, here is the theoretical benefit of this paper:

1. This research is expected to be of usefulness for future researchers on their own work with similar topics to this paper where this can be used as a reference and guidance in further developing the depth of the topic and adding more insight to provide better quality in the results.

1.5.2 Practical Benefit

Moreover, in terms of practical benefits, here are some of the benefits that are expected:

1. Companies in the tourism, hotel and restaurant management can use this research as a reference for any decision-making activity related to the topics covered in this research.
2. This is beneficial for financial statement users and investors who wish to find more information regarding the companies or invest as this research provides.