CHAPTER I

INTRODUCTION

1.1 Background of the study

Indonesia is one of the countries currently concentrating on development in various sectors. The development that is being carried out requires a significant amount of funds and the largest source of funds that contribute to the state treasury is tax revenue.

Taxes are state treasury income utilized by the government for development or long-term operations. Taxes are also collected by the government from citizens and are used the public purposes. According to Article 1 Law Number 28 of 2007, taxes are mandatory contributions to the state owed by individuals or entities that are coercive under the law, without getting direct compensation and are used for state needs for the greatest prosperity of the people (President, 2007). According to the data from Directorate General of Taxes (DJP) in 2017, tax revenue from the Consumer goods Industry sector has a good level of income and tends to increase. The contribution of the consumer goods industry in Indonesia is recorded at around 55-57 percent of GDP. Obviously, considering the high level of corporate income, the government hopes that the tax received is proportionate to the income. Thus, the tax revenue target of IDR 1,424 trillion is a critical concern for the Directorate General of Taxes in 2018 and to find a solution that has a significant impact on tax revenue is required. According to PMK No. 255/PMK.03/2008, Income Tax payable is a calculation of the amount of income tax payments in the current tax year and must be paid by the taxpayer (Keuangan, 2008). Since the income earned by the company from its business operations is an object of tax, the company is required to pay taxes as it is a taxpayer. Tax is stated as the cause of the decrease in income received in the company's financial information report and because the taxation is based on high profits, it obviously has a high tax burden.

According to State Budget and Expenditure, type of tax that has the greatest influence on state revenue is income tax. Income tax is a type of subjective tax that is imposed on a tax subject. Seeing how important taxes are to the state, in an effort by taxpayers to fulfill the obligation to pay taxes, an appropriate tax collection system is needed. The self-assessment system is the one that is currently being implemented. This tax collection system gives authority, trust and responsibility to the taxpayer in order to calculate, pay and report their own tax payable and be accounted for in the SPT. Taxpayer in this process is expected to use this system correctly. However, in reality, errors often occur. The self-assessment system can cause tax arrears to arise (Ariyati, 2019).

There is a case that occured in 2014 according to Directorate General of Taxes through the data obtained from the directory of decisions of the supreme court of the republic of Indonesia that PT. Citra Riau Sarana which is a part of PT. Wilmar Cahaya Indonesia (CEKA) has an underpayment of income tax article 25/29. This shows that there is still a flaw in the self-assessment system, which provides taxpayers the trust to calculate, pay, and report their own tax payable. However, in practice it is still difficult to run as expected or even misused.

Companies and governments are two parties with different interests but they are linked in terms of taxation. Companies as the taxpayers aim to minimize the tax burden on their income and profits and to improve their quality, whereas the government will try to optimize the amount of taxes that can be collected from the taxpayers. Not only focusing on infrastructure development, Indonesia continues to carry out growth in the economy that focuses on the industrial sector. This study uses the consumer goods sub-sector as the research sample, which involves a lot of companies that are rapidly growing. Using several calculation methods, which include the capital structure, profitability, and firm size, has a different influence on the result of the imposition of corporate income tax payable.

As we know, one of the industries that has evolved over time is consumer goods. This is due to the fact that the consumer goods industry is in high demand since it is required to fulfill basic necessities and to ensure the continuity of all communities around the world. Consumer goods companies produce goods in large amounts and on a large scale since they are quickly consumed by the public. Obviously, because of the positive impact the companies in this sector also received a lot of attention from investors, because these companies are offering to carry out investment activities based on data growth in the capital market.

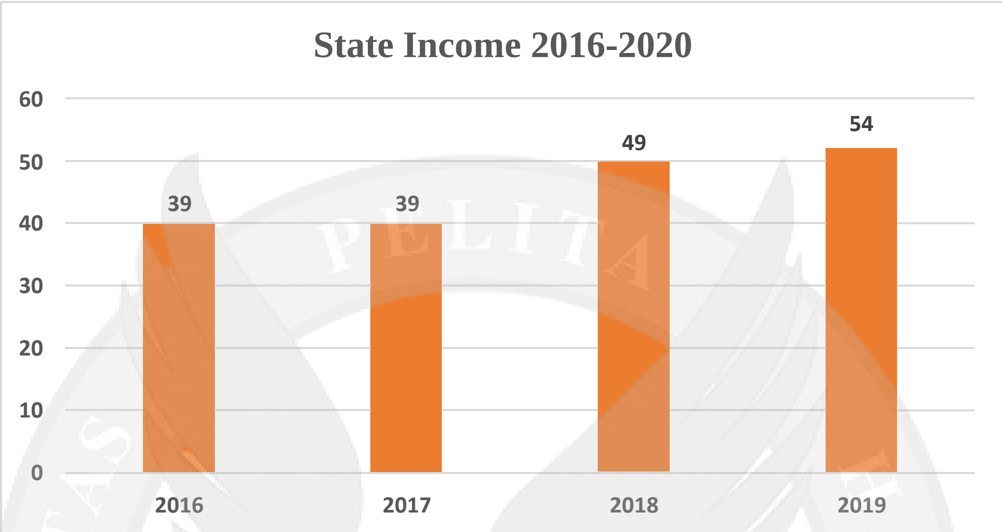

Figure 1.1 Number of companies in the Consumer Goods Sector
Source: Factbook IDX 2016-2019.

Figure 1.1 shows the number of companies in the consumer goods industry that are listed on the Indonesia Stock Exchange from 2016-2019. From 2016 to 2017, there was no increase in the number of consumer goods industry sector companies, that is 39 companies listed on the IDX, while from 2017 to 2018, there is an increase of 10 companies becoming 49 companies and from 2018 to 2019, there is an increase of 5 companies. So, in total there are 54 companies that are listed on the Indonesia Stock exchange. The increasing number of consumer goods industry sector companies listed on the IDX shows that many companies are interested in investing and developing in the consumer goods industry sector.

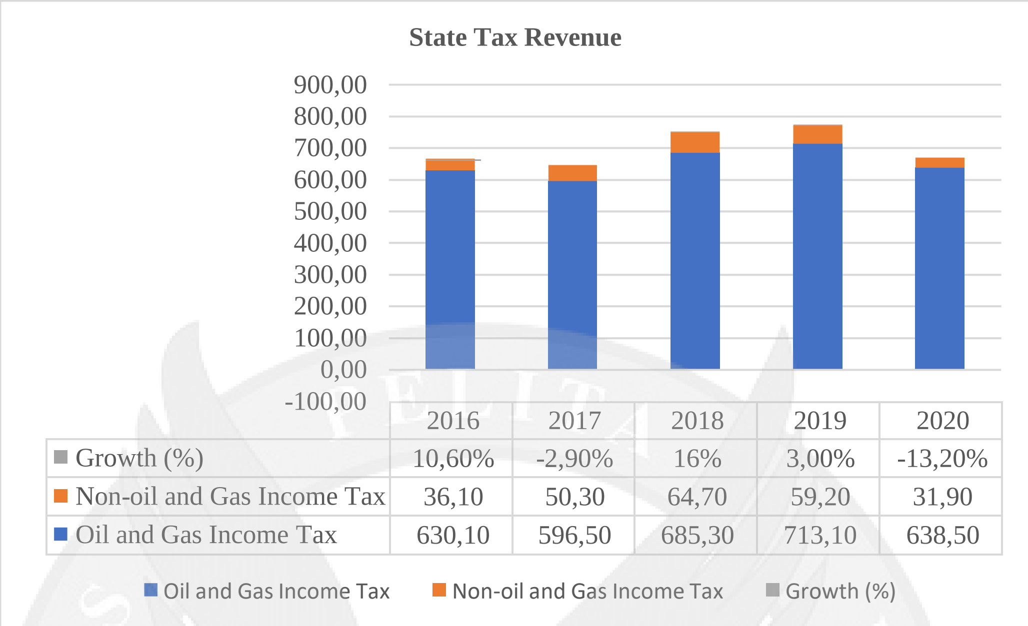

Figure 1.2 State Tax Revenue
Source: Kemenkeu, 2021.

Income tax revenue grew by an average of 5 percent in the 2016-2019 period along with economic improvement and price increase of commodities. In 2020, it contracted by 13.2 percent due to the economic downturn and Covid-19 pandemic fiscal incentives. Due to the Covid-19 pandemic, the corporate income tax rate will change in 2020. It was shown by the Government Regulation in Lieu of Law Number 1 of 2020. Where it is stated that there is a decrease in the tax rate of corporate income tax to 22% applicable in fiscal year 2020 and 2021 and 20% in fiscal year 2022 (President, 2020). Furthermore, according to the minister of finance, Sri Mulyani Indrawati in Santoso, (2021) reported that the realization of tax revenue throughout 2020 was IDR 1.070 trillion, which is 19.7 percent contraction compared to the realization in 2019, which reached IDR 1.332.7 trillion, and the realization of tax from income of the company was stated to be minus in year 2021. The reason for this is because of the Covid-19 impact, which has put pressure on all sectors without exception (Santoso, 2021). Corporate income tax revenue fell by 54.44 percent in 2021 compared to the same period last year. The percentage is quite low when compared to the same period last year, which was minus 29.32 percent.

This research uses Capital Structure, Profitability, Firm Size on Corporate Income Tax and with the four-year period of research in order to remain relevant and significant. The capital structure of a company is related to its utilization of long-term expenditure by comparing the proportion of long-term debt to its own capital. The capital structure is all finance originating from long-term financing or a particular amount of debt utilized for corporate funding operations, which are part of the financial structure that the company evaluates when making corporate capital decisions to increase company value. The difference between debt and equity Debt to Equity ratio (DER) shows how much capital is able to cover the company's debt and the comparison of long-term debt with asset Long Debt to Asset Ratio (LDAR) on the level of corporate income tax. If the debt is higher, the higher use of debt to purchase the company assets will occur (Laksono, 2019). Therefore, in financing existing assets, it is important to pay close attention to the composition. The capital structure, good or bad, will surely have a direct impact on the company's financial position, especially if there is a large amount of debt that will be a burden towards the company.

The amount of the company's profit and its relation to debt payments will almost certainly have a significant impact on the amount of tax to be paid on the company's income. Although taxes are not the most important aspect to consider when deciding on a company's capital structure, corporate tax payable is the one that cannot be avoided by anyone, including companies that go public.

Profitability is often described as a company's ability to make profits as defined by the profitability ratio. According to Fahmi (2014) in Firdiansyah et al. (2018) stated that profitability ratio is a ratio used to measure the performance of a company including its gross profit margin, operating profit margin, net profit margin, cash flow margin, ROA, ROE, and cash on assets. According to Firdiansyah et al., (2018), the better the company's performance and ability to make profits. Thus, a company's profitability is also a measure of company's own performance.

In order to maximize profits, the company aims to improve the value or profitability, which might provide benefits to their investors or shareholders. Among the methods that may be used such as the utilization of interest expense on debt, which is a business expense that may be utilized as a deduction factor for income, this has an influence on the company's taxable profit to be decreasing, resulting in the amount of income tax that must be paid by the company will be decreasing. The level of net profit margin obtained when gross profit is followed by high commercial expenses. As a result, the gross sales ratio might increase. The increase of Gross Profit Margin (GPM) resulted in increasing operational costs, leading to large profits for the company. If profits earned are decreasing, the level of income tax on earnings before taxes paid will certainly decrease and vice versa (Salamah et al., 2016).

Firm Size indicates the size of a company as defined by the total assets, total sales, average level of sales, average total assets of the company. Larger companies often can easily access the capital market and it results in obtaining investment would be easier. Meanwhile, companies that are still startups or small companies may experience difficulties in accessing the capital market. Because of this convenience, it may be assumed that large companies have a higher level of flexibility and the ability to get funds more conveniently. The larger the company, the more risk should be considered in terms of managing the tax burden.

Based on the background and description above, the author is interested and agrees to make a study entitled **"The Influence of Capital Structure, Profitability and Firm Size Towards Corporate Income Tax in The Consumer Goods Sector".**

1.2 Research Limitation

The limitation of this research is as follows:

a. Companies that will be used in this study are consumer goods companies that listed on the Indonesia Stock Exchange.
b. The period in this study is only from 2016-2019.

Due to the Covid-19 pandemic, the corporate income tax rate change in 2020. It was shown by the Government Regulation in Lieu of Law Number 1 of 2020. It is stated that there is a decrease in the tax rate of corporate income tax to 22% applicable in fiscal year 2020 and 2021 and 20% in fiscal year 2022 (President, 2020). That is why the author chose a four-year research period in order to remain relevant and more significant to the research since it will be more accurate and proportionate for the research if it adopts the same rate.

c. The independent variables that will be used in this study are limited to capital structure, profitability, and firm size, while many factors can be used to indicate corporate income tax.
d. 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 describe previously, the formulation of the problems to be discussed in this study can be formulated as follows:

a. Does Capital Structure partially have any influence toward Corporate Income Tax in the consumer goods sector listed on Indonesia Stock Exchange?

b. Does Profitability partially have any influence toward Corporate Income Tax in the consumer goods sector listed on Indonesia Stock Exchange?

c. Does Firm Size partially have any influence toward Corporate Income Tax in the consumer goods sector listed on Indonesia Stock Exchange?

d. Does Capital Structure, Profitability, and Firm Size have any influence toward Corporate Income Tax in the consumer goods sector listed on 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:

a. To determine the influence of capital structure on corporate income tax in the consumer goods sector companies that is listed on the Indonesia Stock Exchange.

b. To determine the influence of profitability on corporate income tax in the consumer goods sector companies that is listed on the Indonesia Stock Exchange.

c. To determine the influence of firm size on corporate income tax in the consumer goods sector companies that is listed on the Indonesia Stock Exchange.

d. To determine the influence of capital structure, profitability, and firm size on corporate income tax in the consumer goods sector companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the research

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

This research is quite beneficial in terms of adding insight, experience, and understanding the factors that have an influence on corporate income tax.

1.5.2 Practical Benefit

To provide an overview in gathering data and information about **"The Influence of Capital Structure, Profitability, and Firm Size Towards Corporate Income Tax in The Consumer Goods Sector Listed on Indonesia Stock Exchange."** This research is expected to be used as a reference for future scientific developments.