CHAPTER I

INTRODUCTION

1.1 Background of The Study

A country's welfare is determined by how it generates revenue, just like how a company does. The revenue received by a country is usually used to fund the development of the country, and to maintain the balance for the national economy. 80% of Indonesia's revenue comes from tax which is paid by its citizens. It is a must for citizens to pay tax, since tax is compulsory. By paying tax, citizens boost the country's growth and stability. In Indonesia, there are several types of tax, namely income tax, value-added tax (VAT), and luxury tax which have their own rules and proportions that a taxpayer must pay to the government.

Tax contributions made by companies are always bigger than individuals, because logically companies generate more revenue than individuals. Since Indonesia applies the Self-Assessment System which allows the taxpayer to count, pay and report the tax themselves for its taxation system, companies need to fulfill their bookkeeping and have their financial statement to calculate the entity income tax that they need to pay during the following tax year.

When a company operates, it generates income which can't be ignored from its tax obligations. The more income an entity made, the more income tax that the entity should pay to its country and *vice versa*. Infrastructure, utility, and transportation companies are categorized as one of the sectors which generate a large proportion of income in Indonesia, which means that they also contribute a large amount of tax to the government. The infrastructure, utility, and transportation is chosen in this research because this sector ranked the third on "The Business Sector which was Most Affected during COVID-19 Pandemic".

Figure 1.1 The Business Sector which was Most Affected during COVID-19 Pandemic

No	Name of Sector	Percentage
1	Accommodation, Food and Beverages	92.47
2	Other Services	90.9
3	Infrastructure, Utility, and Transportation	90.34
4	Construction	87.94
5	Processing Industries	85.98
6	Trading	84.6

Source: Databoks (2020)

When a company generates income, it can't be separated from profit and expense. Profit is what remains after a company pays all expenses directly related to revenue generating, such as manufacturing a product, and other expenses associated with the conduct of commercial activities. Profit can be used to measure how long a company will last, how well is the company doing, and how the company will develop in the future.

Profitability ratios show the ability of a company to earn profit. One of the profitability ratios which will be discussed by writer in this research is operating profit margin ratio. It indicates the amount of revenue remaining after all variable or operating expenses are covered. In other words, this ratio indicates the percentage of revenues available to cover non-operating expenses and shows whether the operation is running smoothly and the income received will be able to support the company.

As mentioned above, as a company generates revenue, it also generates expenses. The type of expenses which are related to the operation of a company are called as operating expenses. Basically, operating expenses are the costs of keeping the company running. Rents, wages, material costs are the examples of operating expenses. Operating expenses are inevitable while the company is running.

Expense could affect the amount of income tax which should be paid by a company. There are also deductible and non-deductible expenses which has been regulated on Tax Law Number 36 Year 2008 Article 6. In an operation, more expense means less net profit generated by a company, which could cause the company to pay less income tax. This contradicts the statement "the more income a company generates, the more tax the company should be paid and *vice versa*".

As this research is done by observing infrastructure, utility, and transportation companies listed on the Indonesia Stock Exchange, below is the table of phenomena of infrastructure, utility, and transportation companies:

Table 1.1 Phenomena of infrastructure, utility, and transportation companies listed on the Indonesia Stock Exchange from 2017 - 2020

Code	Year	Debt to Equity Ratio	Operating Profit Margin Ratio (%)	Operating Expense	Entity Income Tax
BALI	2017	1.1849	78.8196%	42,521,207,792	8,916,509,178
	2018	0.6931	79.4425%	55,900,939,513	13,243,025,913
	2019	1.0295	82.5348%	58,801,501,351	13,151,754,701
	2020	1.1341	85.5255%	61,193,829,525	22,887,993,519

Code	Year	Debt to Equity Ratio	Operating Profit Margin Ratio (%)	Operating Expense	Entity Income Tax
BULL	2017	0.9686	39.9992%	329,842,688,562	1,385,486,220
	2018	0.7025	17.4113%	286,280,158,640	211,828,068
	2019	0.7652	21.0443%	854,690,199,389	1,940,873,342
	2020	1.3655	19.2163%	400,481,576,836	1,683,627,226
TOWR	2017	1.7910	62.9371%	743,493,000,000	702,822,000,000
	2018	1.8581	64.5904%	535,898,000,000	728,070,000,000
	2019	2.1580	60.8539%	718,669,000,000	551,341,000,000
	2020	2.3631	61.3347%	819,545,000,000	205,301,000,000
IBST	2017	0.4720	34.6301%	287,843,596,001	113,970,371,750
	2018	0.4796	29.7459%	351,374,137,590	8,663,961,632
	2019	0.5326	24.0518%	402,613,734,566	3,170,390,779
	2020	0.6790	16.5938%	543,332,347,679	24,990,246,564
AKSI	2017	0.3892	53.7808%	12,988,201,164	9,097,850,104
	2018	1.5045	58.1917%	28,418,770,480	9,299,207,509
	2019	1.5022	57.5632%	33,644,913,925	11,387,841,389
	2020	1.8008	28.2686%	40,842,723,692	3,306,481,309

Source: Prepared by the writer (2022)

The table provided above shows that there are some inconsistent phenomena happened in the infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange which represent the interrelation among debt to equity ratio, operating profit margin ratio, operating expense and income tax.

As seen from the table above, the debt to equity ratio of PT. Bali Towerindo Sentra Tbk (BALI) in 2017 was 1.1849, and it was decreasing to 0.6931 in 2018. Its entity income tax was Rp. 8,916,509,178 in 2017 and it increased to Rp. 13,243,025,913.

Meanwhile, the situation for PT. Buana Lintas Lautan Tbk (BULL), its debt to equity was decreasing from 2017 to 2018, which was 0.9686 to 0.7025, but its entity income tax was decreasing from Rp. 1,385,486,220 to Rp. 211,828,068. Digdowiseiso et al. (2021) stated that debt to equity ratio has a positive significant effect on entity income tax. Meanwhile Rohmah et al. (2019) and Vindasari (2019) stated that debt to equity has negative significant effect on entity income tax. Therefore, there is an inconsistency on the relationship of debt to equity ratio and entity income tax.

The operating profit ratio of the PT. Sarana Menara Nusantara Tbk (TOWR) declined from 2018 to 2019 from 64.5904% to 60.8539%, together with its entity income tax from Rp. 728,070,000 to Rp. 552,341,000. But, the entity income tax of PT. Mineral Sumberdaya Mandiri Tbk (AKSI) increased from 2018 to 2019, which were from Rp. 9,299,207,509 to Rp. 11.387,841,389, which contradicted with its operating profit ratio that decreased from 58.1917% to 57.5632%., which proves out that the higher income that an entity received doesn't always make the entity pay higher income tax. On the result of previous research conducted by Aini, Dona and Susanti in 2020, debt to equity ratio does not make any significant effect on the entity income tax. On the other hand, Pamungkas et al. (2020) stated that debt to equity ratio makes a significant effect on the entity income tax. Therefore, there is an inconsistency regarding to the influence of operating profit margin ratio towards entity income tax.

In the financial statement of PT. Inti Bangun Sejahtera Tbk (IBST) year 2019, it is stated that the entity's operating expense throughout the year was Rp. 402,613,734,566 with the entity income tax paid by the entity was Rp. 543,332,347,679 which increased in 2020. In 2020, the entity's operating expense was Rp. 3,170,390,779 and its entity income tax was Rp. 24,990,246,564. Meanwhile, for PT. Mineral Sumberdaya Mandiri Tbk (AKSI), its operating expense in 2019 was Rp. 33,644,913.925 and it was increased to Rp. 40,842,723,692 in 2020, but the income tax paid by the entity in 2019 was Rp. 11,387,841,389 and it was decreased to Rp. 3,306,841,309. Satini et al. (2021) stated that operating expense has significant effect towards entity income tax. This contradicts the result of research done by Aini et al. in 2020 which stated operating expense doesn't have significant effect towards entity income tax. Thus, there were inconsistency occurred between the operating expense and the entity income tax.

Therefore, based on the inconsistency of the phenomena explained above, this research is done to test and explain the influence of debt to equity ratio, operating profit margin ratio, and operating expense toward entity income tax. This research also aims to clear up some false thinking that people have about entity income tax. Thus, in accordance with the explanation, this research will take the title: "**The Influence of Debt to Equity Ratio, Operating Profit Margin Ratio, and Operating Expense Toward Entity Income Tax of Infrastructure, Utility and Transportation Companies Listed on the Indonesia Stock Exchange.**"

1.2 Problem Limitation

The main point of this research is limited to only analyzing the annual financial statements from each infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange from 2017 to 2020. Furthermore, operating profit margin ratio which is part of profitability ratio will be used in this research. The influential elements which will be taken from the financial statements into account in completing the calculation of the related variables are the net sales, operating profit, administration and general expense, selling expense, total liabilities, total equity, and the income tax.

1.3 Problem Formulation

From the issues discussed above, the problem formulation of this research will be as follows:

1. Does debt to equity ratio partially have significant influence towards entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange?
2. Does operating profit margin ratio partially have significant influence towards entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange?
3. Does operating expense partially have significant influence towards entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange?
4. Do debt to equity ratio, operating profit margin ratio and operating expense simultaneously have significant influence toward entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the problem formulation, this research aims to provide explanation and understanding on:

1. To analyze if the debt to equity ratio partially has significant effect towards entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange.

2. To analyze if the operating profit margin ratio partially has significant effect towards entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange.
3. To analyze if the operating expense partially has significant effect towards entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange.
4. To analyze if the debt to equity ratio, operating profit margin ratio and operating expense simultaneously have significant effect toward entity income tax of infrastructure, utility and transportation companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This research is supposed to give better understanding and explanation as below:

1.5.1 Theoretical Benefit

a) For Author

This research is designed to inform the author about the impact of debt to equity ratio, operating profit margin ratio, and operating expense on the entity income tax of infrastructure, utility, and transportation companies that are listed on the Indonesian Stock Exchange.

b) For Readers

The outcome of this research is expected to increase readers' knowledge and awareness of the concept of entity income tax as it relates to various factors, including debt to equity ratio, operating expense, and operating profit margin ratio.

Additionally, the outcome of this research is expected to enlighten on how those factors may affect the entity income tax of infrastructure, utility, and transportation companies registered on the Indonesian Stock Exchange.

1.5.2 Practical Benefit

a) For the Company

This research is intended to provide as a reference for the impact that the debt-to-equity ratio, operating expense, and operating profit margin ratio may have on the entity's income tax. Thus, the company may utilize it as a guide to ensure that its tax rights and obligations are met.

b) For the Government

The government may utilize this research to determine the integrity of a company's financial information on its income tax contributions. Additionally, the government may use this as a guidance to ensure that a company is complying with its taxation rights and obligations.