CHAPTER I

INTRODUCTION

1.1 Background of The Study

Indonesia began to rely on tax as the main income by the results of the economic performance of taxpayers. Tax law is the collection of formal and written regulations governing the relationship between the government as tax collectors and entities and individuals as the taxpayer. Taxes are compulsory contributions to a nation by persons or entities of a coercive nature based on law. The subject which in this case is private persons or entities. Where tax is income received or earned in a tax year. An entity that subsequently earns income is called a corporate taxpayer (Maulida, 2018).

As stated by Suandy (2010) in Atina et al. (2017) income tax is a tax levied to tax subjects such as taxpayers and corporate taxpayers on the income that received or earned in a tax year if subjective tax liability commences or ends in the tax year. The calculation of tax expense can be calculated through the income earned by corporate deducted with the expense of the company, then the value of this result is referred to as taxable income. Furthermore, taxable income will be multiplied by installments of corporate income tax that had been listed in tax law.

The institution that is authorized to collect taxes from the public in Indonesia is called the Directorate General of Tax (DJP) which they have parameters to evaluate how well the roles and tasks mandated by the central government have been carried out well. DJP as an institution authorized to collect taxes from the public has 16 *IKU*, such as optimal tax revenue, fulfillment of public services, high taxpayer compliance, and competitive human resources. *Indikator Kinerja Utama* (*IKU*) is a measure or performance indicator of an agency, especially in achieving certain goals and objectives. Every government agency is obliged to formulate key performance indicators and make this a top priority.

Table 1.1 IKU achievement "Optimal Tax Revenue" DJP 2015-2019

Description	**2015**	**2016**	**2017**	**2018**	**2019**
Target	1.294,26	1.335,20	1.283,57	1.424,00	1.577,56
Realization	1.061	1.105,73	1.151,03	1.315,51	1.332,06
Achievements	81,96%	81,59%	89,67%	92,23%	84,44%

Source : (Febranta, 2020)

Based on table 1.1, it can be seen that the tax revenue target from year to year has increased in direct proportion along with the realized revenue. Where in 2015 the target of tax revenue reached 1.294,26 trillion rupiahs while the realized revenue reached 1.061 trillion rupiahs which were 81,96% from the target and ended in 2019 where the target of tax revenue reached 1.577,56 trillion and realized revenue reached 1.332,06 trillion rupiahs which were 84,44% from the target. (Febranta, 2020)

Meanwhile, if we look from the table above, it can be seen that the percentage of tax revenue showed fluctuation, wherein 2015 reached 81,96%, up to 92,23% in 2018 then decreased in 2019 to 84,44%. (Febranta, 2020)

The tax revenue that has been collected will be used by the government to fulfill its duties to run the government. This is also supported by the theory by Andriani (2013) in Lombogia (2016), where taxes are public contributions to the state owed by the obligator who is obliged to pay according to general revenue without getting a return that can be directly appointed and whose use is to finance general expenses related to the state duties to run the government.

The profit of a company becomes an assessment of the success or failure of management in operating the company. It becomes a measure of the success of the companies in increasing and maintain business continuity. Every company wants to increase their profit growth. The growth of a company depends on business continuity and profitability. The existence of profit growth can be a measuring indicator of management success to manage the resources owned by the company effectively and efficiently. According to Kenton (2020) profit describes the benefit realized when the revenue generated from business activities exceeds the expenses, costs, and taxes involved in sustaining the activity in question. Any profits earned funnel back to business owners, who choose to either pocket the cash or reinvest it back into the business. Profit is calculated as total revenue deducted from total expenses.

As stated by Irfan (2012) in Sanjaya (2018), the profitability ratio is used to measure overall management effectiveness addressed by its size that can be determined by the level of profit earned in relation to sales as well as investment. Profitability is generally defined as the company's ability to acquire profit as measured by the profitability ratio. This ratio shows a measure of the level of management effectiveness in managing the assets of a company Kasmir (2018) in Assofi Rizanul and Syafrida (2017). In a big company, the amount of expense and profit/loss can affect the profitability of the company. In this case, the company will tend to manage its cost as effective as possible so that the company can maximize the profit to maintain the level of profitability of the company remains good. The amount of tax depends on the profit of the company. The greater the profit, the greater also tax will be levied on the company, therefore the company needs tax planning in order to pay tax efficiently. Gustia & Padnomo (2014) in Lestari (2019)

According to Jurnal.id (2021), the profitability ratio can be determined by using the return on asset ratio. This ratio is the ratio used to measure net profit on total assets. Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA provides information on how efficient a company's management on using assets to generate income.

Apart from the total profitability of the company, the operational cost can also affect the corporate income tax rate. According to Jusuf (2014) in Susilawati *et al.* (2018), commercial cost or operational cost is a cost that has a big role and influences the success of a company to achieve its goals. Paragraph 1 article 6 of law number 36 of 2008 income tax explains costs that are allowed to be deducted in calculate the income of a taxpayer.

According to Kemenperin.go.id (2017), the mining sector is included in one of the sectors with large tax contributions with the contribution of 31,66 trillion rupiahs of tax. According to lokadata.id (2021), it turns out that from 2016 to 2019, the government provided tax facilities to the mining sector. Such as in 2016, the mining sector was awarded import duty tax remission and value-added tax on imported goods for coal contracts of work agreements. In 2018, the government provides tax remission for mining companies that build refining facilities. And in 2020, guarantee of extension for the work contract holder.

However, the abundance of tax facilities does not guarantee the tax contribution by mining sector companies. According to Hartomo (2021), the mining industry is one of the sectors that causes low tax revenues in the first semester of 2019. This is because the tax revenue from the mining sector is minus 14% from the target.

Indonesia Stock Exchange becomes a platform for companies to get funding where in this platform, it brings together buyers and sellers who seek additional funds to operate their companies for trading securities between them. The following will be presented profit and operational cost and corporate income tax incurred by the company of 3 mining companies in the mining industry sector in million rupiahs listed on the Indonesia Stock Exchange which can describe the phenomenon that happens, as follows:

Table 1.2 Phenomena Table

Company's Name	Year	Profitability Ratio (ROA)	Operational Cost	Corporate Income Tax
PT. Elnusa Tbk (ELSA)	2015	0.1151982989	3,301,410	90,774
	2016	0.0754162058	3,197,577	41,371
	2017	0.0693683631	4,632,995	11,362
	2018	0.0666070743	6,241,421	12,099
	2019	0.0523842853	7,847,261	35,397
PT. Radiant Utama Interinsco Tbk (RUIS)	2015	0.1416062058	1,442,092	17,098
	2016	0.1032138670	1,213,390	14,133
	2017	0.0829324530	1,114,330	12,500
	2018	0.0893704588	1,207,727	11,343
	2019	0.0789415011	1,495,570	11,536
PT. Mitrabara Adiperdana Tbk (MBAP)	2015	0.3338402206	2,050,020	90,643
	2016	0.239795918	1,688,999	82,238
	2017	0.3646954185	2,058,862	274,919
	2018	0.2899561406	2,426,654	204,819
	2019	0.2513881170	2,485,832	122,430

Source: Compiled by the Writer (2021)

According to table 1.2, can be seen that the ROA (Return on Asset) ratio is unstable, in which this ratio depends on the profit of the company each year. The increase or decrease of company profits will have an impact on the increase as well as a decrease that occurs in the tax expense in the company, this is supported by the theory stated by Horne and Wachowics (2013) in Atina, Harimurti and Kristianto (2017) which stated that if the gross profit margin does not change over time, but its net profit margin decreased over the same period due to higher sales, general and administrative costs in comparison with sales or high tax rates.

In other conditions, the operational cost from year to year is going on the upward trend from the table above, also can be concluded that the corporate income tax is unstable, which can be increase and decrease. This means that the increase of operational cost will reduce the profit and the corporate income tax that needed to be paid by the company.

From previous research conducted by Salamah, Pamungkas and Yogi, (2016) profitability and operational cost have a significant effect towards corporate income tax. The same result achieves by research conducted by Vindasari (2019) which stated that operational cost has a significant impact towards corporate income tax. Another research conducted by Nisa, Khanifah and Alfie (2018) stated that profitability has a significant impact towards corporate income tax. As well as research conducted by Atina, Harimurti and Kristianto (2017) and research conducted by Nursasmita *et al.* (2021) stated that profitability and operational cost have a significant effect towards corporate income tax.

Based on the previous research stated above, the writer is motivated to perform research on the relationship between profitability and operational cost on corporate income tax, the writer is interested in digging deeper into the relationship and the impact of the existence of these variables in the mining sector. The conveniences indicate that to examine the impact of profitability and operational cost to corporate income tax. The purpose is to analyze whether these variables have a significant effect on corporate income tax in the mining sector. Hence the title of this research is **"The Impact of Profitability and Operational Cost on Corporate Income Tax in Mining Industry Companies Listed in Indonesia Stock Exchange".**

1.2 Problem Limitation

This research will only focus on mining sector companies listed in Indonesia Stock Exchange from the year of 2015-2019. The dependent variable in this research is corporate income tax and the independent variable are profitability and operational cost. The reason the researcher chooses the mining sector as the object is due to mining sector receives tax facilities in the form of tax import and value-added tax. On the other hand, this sector shows less contribution to the tax revenue.

1.3 Problem Formulation

Based on the background of the study, the writer problem formulations are as follows:

1. Is there any significant impact of profitability towards corporate income tax in mining industry companies listed in the Indonesia Stock Exchange?
2. Is there any significant impact of operational cost towards corporate income tax in mining industry companies listed in the Indonesia Stock Exchange?
3. Is there any significant impact of profitability and operational cost towards corporate income tax in mining industry companies listed in the Indonesia Stock Exchange?

1.4 Objective of The Research

As a portrayal of the detailing over, this research is conducted with the purpose as follow:

1. To determine whether there is any significant impact of profitability towards corporate income tax.
2. To determine whether there is any significant impact of operational cost towards corporate income tax.
3. To determine whether there is any significant impact of profitability and operational cost towards corporate income tax.

1.5 Benefit of The Research

The research conducted by the writer as it would be beneficial for the management of the companies the writer and further academicians to have a deeper understanding about taxation. These benefits are divided into two which are:

1.5.1 Theoretical Benefit

1. For the writer, this research is expected to provide a deeper understanding of the impact of profitability and operational cost on corporate income tax.
2. For management, this research is expected to be taken into consideration in making decisions about the impact of profitability and operational cost towards corporate income tax.
3. To emphasize more detail information due to the impact of profitability and operational cost towards corporate income tax

1.5.2 Practical Benefit

1. For the company, this research is expected to provide an insight about the impact of profitability (Return on Assets) and operational cost (as ongoing costs incurred from daily operations of the companies) towards the increment or decrement payment of corporate income tax in the related companies. The results of this research are expected to provide consideration for companies in making decisions related to the tax planning of corporate income tax.
2. For the government, this research is expected to give insights about how profitability and operational cost gives impact on corporate income tax.
3. For future researchers, this research could be used as a reference and increase knowledge about the impact of profitability and operational cost on corporate income tax.