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Effect of Capital Structure, Profitability and Operating Costs on Corporate Income Tax Payable

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Abstract : Previous research or relevant research is very important in a research or scientific article. Previous research or relevant research serves to strengthen the theory and penomena relationship or influence between variables. This article reviews the factors that affect Corporate Income Tax payable, namely capital structure, profitability and operating costs, a study of Tax Accounting literature. The purpose of writing this article is to build a hypothesis of the influence between variables to be used in further research. The results of this literature review article are: 1) capital structure affects Corporate Income Tax payable; 2) profitability affects Corporate Income Tax payable; and 3) operating costs affect Corporate Income Tax payable.

Keywords: Corporate Income Tax payable, capital structure, profitability and operating costs.

Introduction

Background of the Problem

The optimism reflected in the state revenue target for fiscal year 2023 of Rp2,463 trillion is an indicator of Indonesia's recovering economic conditions. The contribution of state revenue is mainly obtained from tax revenue, which is projected to grow by 5% from 2022 to Rp2,021.2 trillion (Ministry of Finance Team, 2023). Tax revenue consists of Income Tax (PPh), Value Added Tax (VAT), Land and Building Tax (PBB) and Other Taxes, where one of the largest contributors is corporate income tax deposits (Jubaedah et al., 2022).

From the history of the achievement of Corporate Income Tax revenue in Indonesia during the period 2018 to 2022, it is known that only in 2022 the realization of Corporate Income Tax deposits managed to exceed the predetermined target.

Table 1. Historical Data of Corporate Income Tax Revenue (In Trillion Rupiah)

PPh Badan	2018	2019	2020	2021	2022
Target	269.36	311.55	224.54	215.09	257.38
Realisasi	254.02	256.74	158.04	198.55	340.81
Capaian	**94.31%**	**82.41%**	**70.38%**	**92.31%**	**132.42%**

Source: Directorate General of Taxes Performance Report 2018-2022

The fluctuation of revenue is influenced by various factors. This paper will present several articles that discuss matters affecting Corporate Income Tax payable from the perspective of entities or companies. This aims to make it easier for lecturers, students, researchers, and other functional personnel to find relevant articles to strengthen the theory under study, in order to see the relationship or influence between variables and determine hypotheses. This article will discuss the effect of capital structure, profitability, and operating costs on Corporate Income Tax payable, a literature review study in the field of tax accounting.

Problems

Based on the background, it can be formulated the problems that will be discussed in order to build hypotheses for further research, namely:

1. Does capital structure affect Corporate Income Tax payable?
2. Does profitability affect Corporate Income Tax payable?
3. Do operating costs affect Corporate Income Tax payable?

Theoretical Review

Corporate Income Tax

In Article 1 paragraph (1) of Law of the Republic of Indonesia Number 6 of 1983 concerning General Provisions and Procedures for Taxation as amended several times lastly by Law of the Republic of Indonesia Number 7 of 2021, tax is defined as "a mandatory contribution to the state owed by individuals or entities that are compelling based on the Law, with no direct reward and used for state purposes for the greatest prosperity of the people".

According to Article 1 and 2 paragraph (1) of Law of the Republic of Indonesia Number 7 of 1983 concerning Income Tax as amended several times lastly by Law of the Republic of Indonesia Number 7 of 2021, it is stated that Income Tax is imposed on individual tax subjects, undivided inheritances, corporations, and permanent establishments on income received or earned in the tax year. Corporate Income Tax is a tax imposed on income received or earned by the Agency (Sucipto & Hasibuan, 2020).

Capital Structures

Brealey in Dongoran (2022) defines capital structure as the funding mix of long-term debt and equity. It is further explained that the capital structure consists of short-term funding, long-term funding, and equity (Dongoran, 2022). Sudana in Hazanah (2022) states that the capital structure related to long-term spending in a company can be calculated by comparing the company's long-term debt with its own capital. Own capital structure aims to combine permanent sources of funds used by the company for its operations which will maximize the value of the company itself (Wulandari & Anjelika, 2019).

The indicator that is often used to proxy the capital structure is the Debt to Asset Ratio (DAR) which shows the total use of corporate debt from investors or creditors used to fund the company's assets (Nursasmita, 2021) and the Debt to Equity Ratio (DER) which is used as an indicator to see the extent of debt in funding the company when compared to the capital owned by the company (Jubaedah et al., 2022).

Profitability

Profitability according to Firdiansyah et al in Anggreni (2022) is the ability to earn profits by a company in its business related to total assets, sales, or its own capital. The profitability ratio is reflected in the company's performance results in the income statement.

There are several indicators that can be used to measure profitability, including gross profit (Gross Profit Margin) which is used to measure the efficiency of calculating the cost of goods or production costs (Wulandari & Anjelika, 2019). In addition, there is an operating profit (Operating Profit Margin) which refers to the profit earned or received by the company after deducting all operating costs from gross profit (Jubaedah et al., 2022). Then, another proxy that is often used is net profit or Net Profit Margin which shows the amount of profit after tax obtained for a certain level of sales (Simanjuntak et al., 2023).

Operating Cost

Operating costs are costs related to company operations outside of production costs (Winda & Sari, 2023). These costs can be grouped into two groups, namely direct costs, which are costs that occur or the benefits can be identified to a specific object or cost center and indirect costs, which are costs that occur or the benefits cannot be identified to a specific object or cost center (Wulandari & Anjelika, 2019).

Murhadi & Wermer in Kusnanto (2021) state that operating expenses are defined as financing related to operations, which include financing maintenance, repairs, depreciation, advertising, administration and overall sales costs for a company. So it can be concluded that operating costs are the sum of marketing costs and administrative and general costs (Kusnanto et al., 2021).

Table 1
Previous relevant research

No	Author (Year)	Results of Previous Research	Similarities with this Article	Differences with this Article
1	(Nursasmita, 2021)	Capital structure proxied by Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) is concluded to have a negative influence on Corporate Income Tax. Profitability proxied by the Net Profit Margin (NPM) ratio is positively correlated with Corporate Income Tax. Operating Costs are concluded	Capital structure, Profitability and Operating Costs have an effect on Corporate Income Tax.	-

		to have a positive effect on Corporate Income Tax		
2	(Dongoran, 2022)	Capital Structure has a negative effect on Corporate Income Tax Payable Profitability has a positive effect on corporate income tax payable Operational costs have no effect on corporate income tax payable.	Capital structure and profitability have an effect on corporate income tax.	Operating Costs have no effect on Corporate Income Tax
3	(Hazanah & Hasanuh, 2022)	Capital Structure proxied by DER has no significant effect on Corporate Income Tax. Operating costs partially have a significant effect on corporate income tax payable	Operating costs have an effect on corporate income tax	Capital structure partially has no effect on corporate income tax payable.
4	(Winda & Sari, 2023)	Profitability has a positive and significant effect on corporate income tax. Operating costs have a positive effect on corporate income tax	Profitability and operating costs affect corporate income tax	-
5	(Salamah et al., 2016)	Gross Profit Ratio has a significant effect on Corporate Income Tax Operating Profit Ratio has an effect on Corporate Income Tax Operating costs have a dominant effect on corporate income tax	Gross Profit Ratio and Operating Profit Ratio (profitability indicators) as well as operating costs have an effect on corporate income tax	-
6	(Simanjuntak et al., 2023)	Capital Structure proxied by DER has no positive and insignificant effect on Corporate Income Tax. Profitability (GPM) has a positive and significant effect	Profitability affects corporate income tax	Capital structure has no effect on corporate income tax

		on Corporate Income Tax.		
7	(Andoko & Angeline, 2023)	DER has a direct and significant effect on corporate income tax payable. Operating Profit Margin Ratio is negatively correlated (inverse) and insignificant to Corporate Income Tax payable. Operating Expense has a direct and significant effect on corporate income tax payable.	DER (capital structure indicator) and operating expenses have an effect on corporate income tax payable.	Profitability has no effect on corporate income tax
8	(Anggraeni & Arief, 2022)	Profitability proxied by GPM has a significant positive effect on Corporate Income Tax. Operating Costs have a significant influence with a positive relationship direction on Corporate Income Tax. Earnings management does not have a significant effect with a negative relationship on Corporate Income Tax.	Profitability and operating costs have an effect on corporate income tax	Profit management has no effect on corporate income tax
9	(Sumarta & Intan, 2020)	Net sales affect corporate income tax Liquidity ratio has no effect on corporate income tax	Profitability affects corporate income tax	Capital structure and operating expenses have no effect on corporate income tax Net sales affect corporate income tax Liquidity ratio has no effect on corporate income tax
10	(Hani, 2007)	Deferred tax proxied by the use of accounts receivable		Deferred tax affects corporate

		allowance method, inventory valuation method (FIFO and average) and fixed asset depreciation method (straight line and declining balance) affect corporate income tax.		income tax

Method

The method of writing this scientific article is with qualitative methods and library research. Examine theories and relationships or influences between variables from books and journals both offline in the library and online sourced from Mendeley, Scholar Google and other online media.

In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions asked by the researcher. One of the main reasons for conducting qualitative research is that the research is exploratory, (Ali & Limakrisna, 2013).

Discussions

Based on theoretical studies and relevant previous research, the discussion of this literature review article in the concentration of tax accounting is:

1. Effect of capital structure on Corporate Income Tax payable

Research Capital structure proxied by Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) negatively affects corporate income tax payable on companies (Nursasmita, 2021). The results of this study are supported by (Dongoran, 2022) which states that capital structure has a negative effect on corporate income tax payable on Liquid 45 (LQ45) companies listed on the IDX for the 2016-2020 period.

Rodoni in Dongoran (2022) states that according to the pecking order theory, if internal financial conditions are insufficient, the company will sequentially use internal funding first, issue debt and finally issue shares. It can be concluded that companies have a tendency to go into debt rather than issue shares when the company's financial condition is not good. With the increasing amount of debt owned by the company, it will have an impact on the increase in loan interest expense which will reduce taxable income and corporate income tax payable.

However, research (Simanjuntak et al., 2023), (Hazanah & Hasanuh, 2022), and (Sumarta & Intan, 2020) found that capital structure has no effect on corporate income tax payable. This can be explained by the argument that the Directorate General of Taxes in Article 2 paragraph (1) of the Minister of Finance Regulation Number 169 / PMK.010 / 2015 has regulated that the ratio between debt and capital used for the calculation of Income Tax is set at a maximum of four to one (4: 1). Therefore, the increase in the company's DER does not necessarily affect the Corporate Income Tax due to the DER limit of 4:1. If the company records DER> 4, then the difference in borrowing costs must be made a positive fiscal correction and cannot be calculated on the basis of income tax calculation.

2. Effect of profitability on Corporate Income Tax Payable

The results of the study concluded that profitability explained by the Gross Profit Ratio and Operating Profit Ratio indicators has an effect on Corporate Income Tax payable

(Salamah et al., 2016). Some studies that support the relationship between profitability and Corporate Income Tax payable include (Nursasmita, 2021), (Dongoran, 2022), (Winda & Sari, 2023), (Simanjuntak et al., 2023), (Anggraeni & Arief, 2022), and (Sumarta & Intan, 2020).

The results of this study indicate that companies that earn high profits will also fulfill income tax better (Dongoran, 2022). Efforts to increase sales volume or efficiency in operating costs will increase operating profit, which in turn will have a positive correlation with the increase in Corporate Income Tax deposited to the state (Salamah et al., 2016).

Research results with different conclusions were submitted by (Andoko & Angeline, 2023) which stated that profitability proxied by Operating Profit Ratio is negatively correlated (inverse) and insignificant to Corporate Income Tax payable. This is due to the existence of (negative) fiscal corrections that reduce fiscal net income in infrastructure and transportation services companies that are the sample of the study.

3. Effect of operating costs on Corporate Income Tax Payable

Research shows that operating expenses affect Corporate Income Tax payable (Hazanah & Hasanuh, 2022). Operating costs are actually a deduction in the calculation of fiscal profit, but on the other hand, operating costs will correlate with the amount of sales volume along with the profit earned at a certain time (Salamah et al., 2016). So, it can be concluded that the higher the amount of costs will tend to increase sales volume which has an impact on increasing profits and corporate income tax payable (Nursasmita, 2021). The results of this study are in line with research conducted by (Nursasmita, 2021), (Salamah et al., 2016), (Andoko & Angeline, 2023), and (Anggraeni & Arief, 2022).

Different conclusions resulted from research conducted by (Dongoran, 2022) and (Sumarta & Intan, 2020) which concluded that operating costs have no effect on corporate income tax. The results of this study are explained by using agency theory, where agents will prioritize the interests of owners who want large profits by minimizing costs caused by operating activities, especially the corporate income tax payable (Dongoran, 2022).

Conceptual Framework

Based on the formulation of the problem, theoretical studies, relevant previous research and discussion of the influence between variables, the framework of this article is obtained as below:

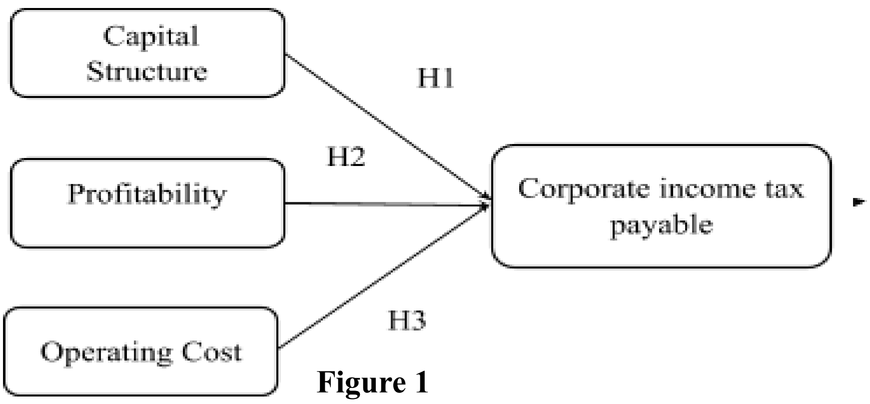

Figure 1
Conceptual Framework

Based on the conceptual framework above, capital structure, profitability, and operating costs affect Corporate Income Tax payable. Apart from these three exogenous variables that affect Corporate Income Tax payable, there are still many other variables that affect it, including:

a) Earnings Management: (Anggraeni & Arief, 2022)
b) Net Sales: (Sumarta & Intan, 2020)
c) Liquidity Ratio: (Sumarta & Intan, 2020)
d) Deferred Tax: (Hani, 2007)

Conclusion and Suggestions

Conclusion

Based on theory, relevant articles and discussion, hypotheses can be formulated for further research:

1. Capital Structure affects Corporate Income Tax payable.
2. Profitability affects Corporate Income Tax payable.
3. Operating Costs affect Corporate Income Tax payable.

Suggestions

Based on the above conclusions, the suggestion in this article is that there are many other factors that affect Corporate Income Tax payable, apart from capital structure, profitability, and operating costs at all types and levels of organizations or companies, therefore further studies are still needed to find what other factors can affect Corporate Income Tax payable apart from the variables examined in this article. Other factors such as earnings management, net sales, liquidity ratios, deferred taxes, and other factors such as earnings management, net sales, liquidity ratios, and deferred taxes.

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