

CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia was undergoing a serious economic crisis as a consequence of the current COVID-19 pandemic, which has spread across the country since Q1-2020.

According to Nuraini (2020):

“Dua Warga Negara Indonesia (WNI) yang berdomisili di Depok diketahui positif mengidap virus SARS Cov-2. Ini merupakan kasus pertama yang ditemukan di Indonesia. Kedua pengidap Covid-19 itu memiliki riwayat berinteraksi dengan WN Jepang yang diketahui lebih dulu menderita penyakit tersebut. Saat ini, kedua WNI itu, yang merupakan ibu dan anaknya, tengah menjalani perawatan di ruang isolasi RSPI Dr Sulianti Saroso, Jakarta. Temuan kasus Covid-19 pertama di Indonesia itu disampaikan langsung oleh Presiden Joko Widodo, Senin (2/3/2020), di Jakarta.”

It can be explained as: Two Indonesian citizens (WNI) who live in Depok are known to have tested positive for the SARS Cov-2 virus. This is the first case found in Indonesia. The two Covid-19 sufferers have a history of interacting with Japanese citizens who are known to have suffered from the disease. Currently, the two Indonesian citizens, who are the mother and child, are undergoing treatment in the isolation room of the RSPI Dr Sulianti Saroso, Jakarta. The findings of the first Covid-19 case in Indonesia were conveyed directly by President Joko Widodo, Monday (2/3/2020), in Jakarta.

According to the data gained from Indonesia's Central Bureau of Statistics (*Badan Pusat Statistics/BPS*), Indonesia had experienced negative economic growth since Q2-2020 and slowly recover. On Q1-2020, Indonesia had recorded economic growth of 2.97% (y-on-y) which was showing a decreasing economic growth compared to previous period. This declining was going into negative zone

since Q2-2020 until Q1-2021. The detail of Indonesia's economic growth data can be seen on Figure 1.1.

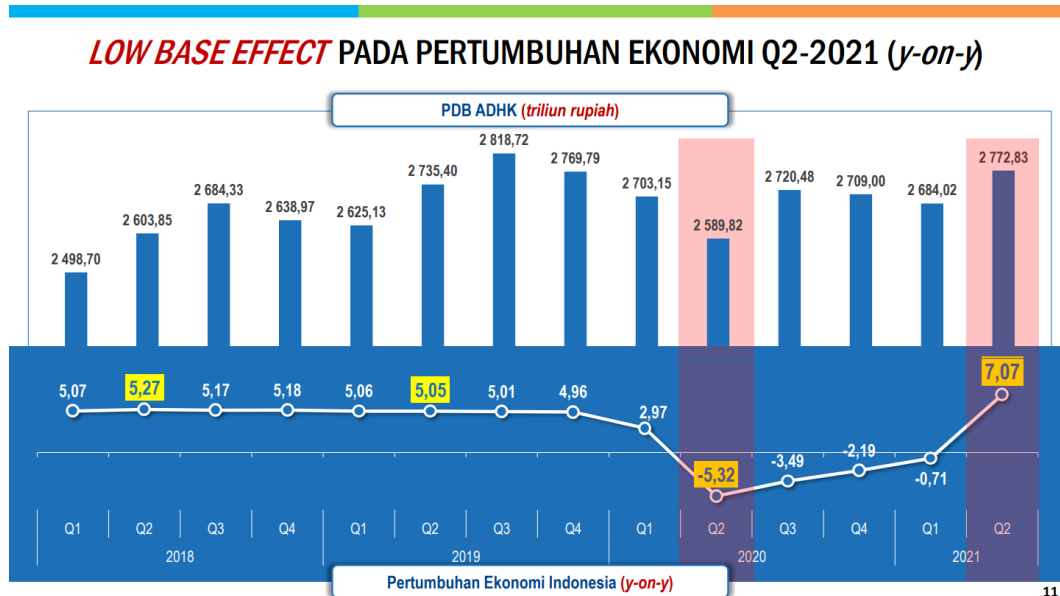


Figure 1.1 Economic Growth of Indonesia

Source: *Badan Pusat Statistik (2021)*

As a result from this COVID-19 outbreak, Indonesia's Minister of Finance, Sri Mulyani, has implemented number of steps to increase the country's overall economy level and to ensure people's survival, which one of its policy is to issue more debt. Some of the debts are as follows:

1. CNN Indonesia (2020) titled "*Sri Mulyani Rinci Utang Rp1.439,8 T untuk Penanganan Corona*" states that:

"Menteri Keuangan Sri Mulyani merinci kebutuhan utang Rp1.439,8 triliun untuk membiayai penanganan pandemi virus corona. Menurut dia, utang didominasi oleh penerbitan Surat Berharga Negara (SBN) sebesar Rp1.289,3 triliun ditambah penarikan pinjaman Rp150,5 triliun."

The definition can be explained as: Finance Minister Sri Mulyani detailed the need for a debt of IDR 1,439.8 trillion to finance the handling of the corona virus pandemic. According to her, the debt was dominated by the issuance of Government Securities (SBN) amounting to Rp1,289.3 trillion plus loan withdrawals of Rp150.5 trillion.

2. CNN Indonesia (2021) titled "*Tangani Pandemi, RI Tambah Utang Rp7,18*

T ke Bank Dunia" states that:

"Bank Dunia memberi pinjaman utang senilai US\$500 juta atau setara Rp7,18 triliun (kurs Rp14.375 per dolar AS) kepada Indonesia untuk program penanganan pandemi virus corona atau covid-19, termasuk penguatan sistem kesehatan dan program vaksinasi gratis dari pemerintah."

The definition can be explained as: The World Bank provided a debt loan of US\$500 million or equivalent to Rp7.18 trillion (exchange rate of Rp.14,375 per US dollar) to Indonesia for programs to deal with the corona virus or covid-19 pandemic, including strengthening the health system and free vaccination programs from the government.

It is necessary to repay the debt. Indonesia must also generate income in order to be able to meet one of its financial commitments to pay the debt acquired.

Taxation provides a source of money for the state.

In Indonesia, the income tax legislation governs the application of income tax on tax subjects based on income received or generated during the tax year. the term "taxpayer" refers to a person who gets income under the income tax law.

In order to determine the corporate income tax burden, each firm's revenue is deducted from the expenses spent by the business, yielding the company's taxable income, which is then multiplied by corporate income tax rates to determine its net profit of the year. The magnitude of the tax burden imposed on a company is decided by the amount of earnings and expenses realized or incurred by the firm in the course of its operations.

Tax payments is one of the inescapable duties of a corporation. However, taxes are a drag on businesses, eroding earnings. Where there are conflicts of interest between the government as a tax collector and businesses as taxpayers, it is

unavoidable that there be evidence of activities by businesses as taxpayers to avoid paying high taxes.

There are a variety of things that businesses may do to lawfully reduce their tax burden while still being compliant with the relevant tax laws and regulations. One of them is by utilizing a profitability strategy defined by net profit margin (NPM) and return on assets (ROA), as well as a leverage strategy defined with debt to equity ratio (DER).

Prior to doing income tax computation, each company must prepare the financial statement that will be used to submit the income tax return (*Surat Pemberitahuan/SPT*), which is required by law. Financial statements are used in the preparation of the income tax return because they are a source of data that show the company's profit or loss to the calculation of the amount of tax owed. The success of a firm is dependent on the continuity and profitability of its operations.

Financial ratios can be used to evaluate a company's financial performance over a certain period of time. As a result, the business will strive to control the expenses spent as efficiently as possible in order to maximize profits and maintain a high level of profitability. The greater the degree of profitability, the better the company's performance and capacity to produce profits will be, as well as its ability to attract and retain employees and investors.

Based on the research done by Vindasari (2019), return on assets has significant effect towards entity income tax payable while debt to equity ratio does not have significant effect towards entity income tax payable. On the contrary, the

research done by Widyaningsih and Horri (2019) states that return on assets and debt to equity ratio has partial significant effect towards entity income tax payable.

Taking into account the distinctions established by earlier studies and according to the context given above, the writer decided to conduct research titled **“The Effect of Return on Assets, Net Profit Margin and Debt to Equity Ratio toward Income Tax Payable in Industrials Sector Companies Listed on Indonesia Stock Exchange”**.

1.2 Problem Limitation

The problem limitation of this research consists of:

1. The variable used in this research consists of return on assets (ROA), net profit margin (NPM), debt to equity ratio (DER) and income tax payable which will be examined from every company financial statements.
2. Companies used in this research are industrials sector companies listed on Indonesia Stock Exchange.
3. Period used in this research on year 2017 – 2020.

1.3 Problem Formulation

The problem formulation of this research consists of:

1. Does return on assets have significance effect towards income tax payable in industrials sector companies listed on Indonesia Stock Exchange?
2. Does net profit margin have significance effect towards income tax payable in industrials sector companies listed on Indonesia Stock Exchange?

3. Does debt to equity ratio have significance effect towards income tax payable in industrials sector companies listed on Indonesia Stock Exchange?
4. Does return on assets, net profit margin and debt to equity ratio simultaneously have significance effect toward income tax payable in industrials sector companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

This research has some objectives such as follows.

1. To discover the effect of return on assets toward income tax payable in industrials sector companies listed on Indonesia Stock Exchange.
2. To discover the effect of net profit margin toward income tax payable in industrials sector companies listed on Indonesia Stock Exchange.
3. To discover the effect of debt to equity ratio toward income tax payable in industrials sector companies listed on Indonesia Stock Exchange.
4. To discover the simultaneous effect of return on assets, net profit margin and debt to equity ratio toward income tax payable in industrials sector companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research is intended to provide insight and understanding regarding the factors of return on assets, net profit margin, and debt to equity ratio in relation to Income Tax Payable. Additionally, this research will contribute to a better

knowledge of the theory of each variable and may be used to establish new references in the area of scientific inquiry in the future, which will be beneficial.

1.5.2 Practical Benefit

For companies, the information on return on assets, net profit margin, and debt to equity ratio will be used as input material and will be made available to company practitioners. return on assets, net profit margin, and debt to equity ratio can be used as an alternative in improving the financial performance of a company through taxation.

For researchers, receiving new information about the relationship between return on assets, net profit margin, and debt to equity ratio in relation to Income Tax Payable This research also contributes to the researcher's pursuit of a bachelor's degree at the Universitas Pelita Harapan Medan Campus.

For academics, the findings of the research are anticipated to be helpful to everyone, particularly as references for future research into the variables that influence the amount of Income Tax Payable.