

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The financial accounts of public sector organizations are a critical component in establishing public sector accountability. The increasing demands for public accountability implementation have repercussions for public sector management in terms of providing information to the public, one of which is accounting information in the form of financial reports. The ultimate purpose of public sector accounting, however, is not financial information. Financial information is used to offer a foundation for decision making. Accounting information is a tool for properly implementing public sector accountability, not its final purpose. The income statement, which provides a company's income, costs, taxes, and net income for a certain period, contains information on the company's financial performance. (Kawatu, 2019)

If viewed from the type of central tax, Income Tax (PPh) is a type of tax that contributes a large amount of tax revenue. Based on Law no. 36 of 2008 concerning Income Tax. Income Tax is a tax levied on income earned by the taxpayer in one tax year. Tax subjects consist of individuals, inheritance that has not been divided as a unit to replace those who are entitled, entities, and Permanent Establishments or *Bentuk Usaha Tetap* (BUT). The permanent establishment is a tax subject whose tax treatment is the same as that of a corporate tax subject. Based on Law Number 36 of 2008 concerning Income Tax,

not all company expenses can be deducted by income. There is a classification of expenses that can be used as income deductions or deductibles and cannot be used as income deductions or non-deductibles which will affect the amount of corporate income tax payable.

Income (revenue) is very important in the company. The level of income tax burden paid by the company depends on the income earned. Likewise with costs, the correct assignment of costs is the main thing that must be known by the company. Many costs incurred by the company, but cannot be used as income tax deductions. Companies and the government are two parties that have different interests in taxation. Taxation is perceived by taxpayers as an expense that reduces profits. Taxpayers will seek to minimize their tax burden in order to maximize their earnings and boost their efficiency and competitiveness, while the government will seek to maximize the taxes that may be collected from them. Optimizing taxpayer earnings can aid in the achievement of company goals, both short-term and long-term. As a result, the level of company income has a direct impact on the amount of income tax paid to the government.

Operating costs can also affect the corporate income tax rate. The total cost of sales or marketing and administrative and general costs is the company's operational costs or the company's commercial costs. The company's operational costs are costs that are continuously incurred by entities that are not directly related to the product but are related to daily activities. Operational costs can be interpreted as costs incurred in relation to operations carried out by the company and are measured in units of money, where operating costs are often referred to as

operational costs or business costs. The company's operational costs are related to corporate income tax because in the Taxation Law paragraph 1 of Law no. 36 of 2008 states that "costs that are allowed to be deducted in calculating the income of domestic taxpayers are costs related to business activities". Thus, it can be said that the level of the company's operating costs will directly affect the amount of income tax paid to the government.

The Indonesia Stock Exchange (IDX) has become an important part of an Indonesian economy. In addition to funding obtained from the mining sector, the capital market on the Indonesia Stock Exchange can be an alternative funding for all corporate sectors in Indonesia which allows investors to be able to make a choice of a desired investment according to the risk and level of profit as well as income tax burden which are issued.

**Table 1.1 The Phenomenon of Revenue, Operating Expense and Income Tax Expense of Mining Companies Listed on Indonesia Stock Exchange**

Company	Year	Revenue	Operating Expense	Income Tax Expense
GEMS	2018	US\$ 1.045.058.516	US\$ 589.576	US\$ 34.982.119
	2019	US\$ 1.107.464.101	US\$ 351.647	US\$ 33.574.303
	2020	US\$ 1.061.409.877	US\$ 241.568	US\$ 31.276.094
MYOH	2018	US\$ 241.114.622	US\$ 8.651.923	US\$ 10.518.865
	2019	US\$ 254.454.591	US\$ 9.168.592	US\$ 8.826.683
	2020	US\$ 173.471.808	US\$ 7.557.558	US\$ 6.476.126

Source: Prepared by the writer (2022)

Based on table 1.1 above, it can be seen that GEMS has an increasing revenue in 2018-2019 from US\$ 1.045.058.516 to US\$ 1.107.464.101. However, the income tax expense is decreasing in those years from US\$ 34.982.119 to US\$ 33.574.303. Another same case can be seen in MYOH which has an increasing revenue in 2018-2019 from US\$ 241.114.622 to US\$ 254.454.591 and also an increasing of operating expense from US\$ 8.651.923 to US\$ 9.168.592.

However, the income tax expense is decreasing in those years from US\$ 10.518.865 to US\$ 8.826.683. This phenomenon shows that the increasing of revenue and operating expense is not always followed by the increasing of income tax expense.

Based on the description above, the writer interested to do a research entitled **“The Influence of Revenue and Operating Expenses Toward Income Tax Expense on Mining Companies Listed on Indonesia Stock Exchange”**.

## **1.2 Problem Limitation**

In order to make this research to be more focused and does not expand from the discussion in question, the researcher limits it to the scope of the research including independent variables which consist of Revenue ( $X_1$ ), Operating Expense ( $X_2$ ) and dependent variable which is Income Tax ( $Y$ ). This research will be conducted on mining companies listed in Indonesia Stock Exchange. The financial statement that will be used in this research is 3 (three) years financial statement from year 2018 – 2020.

## **1.3 Problem Formulation**

Based on the description on the background of study above, the problem formulations in this study are as follows:

1. Does revenue have a significant influence on income tax expense on mining companies listed on Indonesia Stock Exchange?

2. Does operating expense have a significant influence on income tax expense on mining companies listed on Indonesia Stock Exchange?
3. Does revenue and operating expense simultaneously have a significant influence on income tax expense on mining companies listed on Indonesia Stock Exchange?

#### **1.4 Objectives of the Research**

Based on research formulation stated above, the research objective in this study are as follows:

1. To analyze whether revenue have influence toward income tax expense on mining companies listed on Indonesia Stock Exchange.
2. To analyze whether operating expense have influence toward income tax expense on mining companies listed on Indonesia Stock Exchange.
3. To analyze whether revenue and operating expense have influence toward income tax expense on mining companies listed on Indonesia Stock Exchange.

#### **1.5 Benefit of the Research**

##### **1.5.1 Theoretical Benefit**

Theoretically, the results of this study are expected to be useful to strengthen the theory in about accounting, especially about the impact of revenue and operating expense toward income tax expense in public companies. This research will provide a deeper understanding for further researchers in researching related theories.

### 1.5.2 Practical Benefit

Based on the research objective, the research is expected to generate practical benefits as follows:

1. For the investor

The research is expected to be used as reference with empirical evidence that guide to investing decision and to understand about the influence of revenue and operating expense toward income tax expense in a company.

2. For the company

The results of this study can be used as a reference and source to provide financial statement in time.

