

# Firm Size and Profitability on Corporate Income Tax (Empirical Study on Mining Company Listed in Indonesia Stock Exchange Period 2016-2018)

Citra Mariana\*, Yati Mulyati  
Widyatama University, Indonesia  
\*citra.mariana@widyatama.ac.id

**Abstract-** This study aims to reveal firm size and profitability on corporate income tax in the Mining Company Listed in Indonesia Stock Exchange in 2016-2018. The method used in this study is explanatory. This research was conducted on data in the form of financial statements. To analyze the research data, multiple linear regression analysis was used. Based on the results of multiple linear regression analysis shows that. Firm size and profitability partially influence corporate income tax in the Mining Company Listed in Indonesia Stock Exchange in 2016-2018.

**Keywords:** Corporate income tax, firm size, profitability.

## I. Introduction

Taxes in the company get significant attention because for tax companies it is a burden that will reduce the amount of net profit that the company will receive so that the company pays the lowest possible tax. Meanwhile, the government considers taxes to be quite important state revenues so that the government will collect the highest tax. Realization of state revenue for 2018 based on the State Revenue and Expenditure Budget shows that 78.14% of total state revenue comes from the tax sector. This shows that tax revenue is the largest and most important source of state revenue.

Realization of Income Tax Revenue (in Trillion Rupiah)

No.	Type of income tax	Period					
		2013	2014	2015	2016	2017	2018
1	Individual income tax	4,7	5,6	8,3	5,3	7,8	7,3
2	Corporate income tax	149,3	148,4	183,0	169,7	206,6	230,6

Source: Ministry of Finance's State Revenue and Expenditure Budget Financial Note

Corporate income tax realization during 2013 - 2018 experienced a fluctuating trend. Realization of corporate income tax in 2014 has decreased, in 2015 it has increased and in 2016 it has decreased again. The decrease in corporate income tax revenue can be caused by several reasons, one of which is the mismatch of corporate income tax payments made by the company.

One of the tax cases related to the mismatch of corporate income tax payments that occurred in Indonesia, one

of which occurred in companies engaged in the mining sector. PT Adaro Energy is indicated to move its income and profits abroad so that it can reduce the tax that should be paid to the Indonesian government. This is done by selling coal at a low price to a subsidiary of PT Adaro Energy in Singapore, namely Coaltrade Services International, to be resold to other companies at a higher price. Through this company, Global Witness discovered the potential for paying taxes that were lower than it should have been valued at the US \$ 125 million to the Indonesian government (Trirto.id, 2019).

Financial reports are a form of management accountability to provide financial information to interested parties as material for making economic decisions. Profitability describing the ability to generate profits during a certain period in a company (Maharani & Suardana, 2014). Several financial ratios are used to determine the company's profitability, but what will be used in this study is only the operating profit margin.

Operating profit margin is a ratio that shows the level of operating profit earned and the company's effectiveness in managing operational costs. the greater the operational costs incurred by the company, the lower the operating profit, so that the lower the taxes paid by the firm (Suandy, 2011).

There are several ways that a company can minimize its effective tax rate, one of which is by utilizing the Firm Size. Firm size is a scale grouped based on the size of a company. Porcano in Noor et al. (2010) explained that large-scale companies have more resources that can be used for tax planning and political lobbying. But there is also research that states that large-scale companies pay more tax than small-scale companies, this is due to the political cost which causes the amount of tax burden paid by large companies to be higher than it should be (Zimmerman, in Noor et al., 2010)

### **Agency Theory**

Scott (2009), namely Agency theory is a branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent's interests would otherwise conflict with those of the principal.

Agency conflict can affect the level of tax avoidance treatment. This is because on the one hand management wants to increase compensation through high profits while the other hand shareholders want to reduce tax costs through low profits. So in order to bridge the agency problem, tax avoidance behavior arises in order to optimize both interests.

### **Income Tax**

According to Resmi (2005), Income Tax is a tax is imposed on the tax subject on the income received or earned in a tax year. Based on Law Number 36 In 2008, income tax is a tax imposed against individuals and entities based on the amount of income received for one year. Corporate income tax is a tax imposed on income received or obtained by an entity as referred to in the General Tax Provisions and Procedures Law.

### **Firm Size**

Firm size is a grouping into several groups, including large companies, medium-sized companies, and small companies. The firm size can be calculated from total net sales, total assets, total debt, and total equity of the current year up to the next few years (Brigham & Houston, 2009).

Firm size can describe the size of the firm as indicated by total assets, sales, and market capitalization. Asset size is used to measure the firm size, is measured using log.of total assets (Jannah & Mildawati, 2017). Firm

Size = Ln (Total Assets) The greater the number of firm assets, the greater the size of the firm.

Porcano in Noor et al. (2010) explained that large-scale companies have more resources that can be used for tax planning and political lobbying. But there is also research that states that large-scale companies pay more taxes than small-scale companies, this is due to the political cost which causes the amount of tax burden paid by large companies to be higher than it should be (Zimmerman, in Noor et al., 2010). This theory is in line with research conducted by (Aphophia 2014; Salamah, et al., 2016) which states that firm size affects Corporate income tax .

H1: Firm size influences corporate income tax

### **Profitabilitas**

According to Kasmir (2016), the profitability ratio is a ratio to assess a firm's ability to seek profit. This ratio also provides a measure of the level of management effectiveness of a firm. This is indicated by the profit from sales and investment income.

The profitability ratio used in this study is the operating profit margin. The operating profit margin ratio is a measure of profitability to assess the effectiveness of a company in terms of managing operational costs (Kuswadi, 2006). Operating profit ratio is calculated by the formula:

$$\frac{\text{Operating Profit}}{\text{Net Sales}} \times 100\%$$

The greater the operating costs incurred by the company, the lower the operating profit so that the lower the taxes paid by the firm (Suandy, 2011). According to the research conducted by Aphophia (2014) and Salamah, et al. (2016), which state that profitability has an effect on Corporate income tax. OPM is used to measure the efficiency of a company's operations which is calculated from operating profit divided by sales or revenue. Which the higher this ratio the better (Nurianika, et al., 2015). With this high ratio, it will show the company's high ability to generate profits. The amount of profit earned by the company is directly proportional to the amount of Income Tax Payable. Therefore, the greater the profit the company gets, the greater the Income Tax Payable that the company must bear. According to the research conducted by (Laksono 2019; Salamah, et al., 2016; Nisa et al., 2018; Widani et al., 2019) which states that profitability affects Corporate income tax.

H2: Profitability influences corporate income tax

## **II. Methodology**

This research method is an explanatory method. The object in this study is the firm size, profitability, and corporate income tax. The sampling technique used in this study was purposive sampling, total sample is 33. The variables in this study are:

Independent variable (X1) is the Firm Size with the formula:

$$\text{Firm Size} = \text{Ln Total Asset}$$

The independent variable (X2) is the Profitability, was measured using operating profit margin with the

formula:

$$\frac{\text{Operating Profit}}{\text{Sales}} \times 100\%$$

(Syamsudin, 2009)

Dependent variable (Y) is Corporate income tax with formula:

$$\text{Corporate income tax} = \text{Taxable Income} \times \text{Tax Rate}$$

(Law No. 36 of 2008 concerning Income Tax)

### III. Results and Discussion

#### Descriptive analysis

The following are the results of descriptive analysis of the data of each variable:

	Minimal	Maximal	Average
Firm Size	15.63	22.68	19.95
Profitability	0.02	0.30	0.17
Corporate income tax	2,010	6,167,043	860,477

The average of firm size is 19.95. The lowest of firm size is 15.63 namely PT. Citatah Tbk. in 2016, the highest firm size is 22.68 namely PT. Adaro Energy Tbk. in 2018.

The average of profitability is 0.17. The lowest profitability is 0.02, namely PT. Resource Alam Tbk. in 2018, the highest profitability is 0.30, namely PT. Bukit Asam Tbk. in 2017.

The average of corporate income tax is Rp.860,477. The lowest corporate income tax of Rp.2,010 namely PT. Citatah Tbk. in 2017, the highest corporate income tax was Rp.6,167,043, namely PT. Adaro Energy Tbk. in 2018.

#### Multiple Regression Analysis

Table Multiple Linear Regression Test Results

Model	B	Sig.
Constant	-7,453,413	0.003
Firm Size	359,835	0.007
Profitability	6,551,986	0.047

The regressions that explain the Effect of firm size and profitability on corporate income tax based on the regression coefficient in the table are as follows:

$$Y = -7.453.413 + 359,835X_1 + 6,551,986X_2$$

$$Y = \text{Corporate income tax}$$

X1 = Firm Size  
 X2 = Profitability

Based on the linear regression equation above can be explained as follows:

1. If  $\alpha$  = constant of -7,453,413 means that if an independent variable firm size and profitability is considered constant (worth 0), then the dependent variable that is the corporate income tax will be value -7,453,413.
2. If the coefficient value of the firm size is 359,835 means that if the firm size increases by (one) unit, while the other independent variable that is profitability is considered constant (worth 0), then the dependent variable that is the corporate income will increase by 359,835.
3. If the coefficient value of the profitability is 6,551,986 means that if the firm size increases by (one) unit, while the other independent variable that is firm is considered constant (worth 0), then the dependent variable that is the corporate income will increase by 6,551,986.

### Determination Coefficients

R Square	Sig.
0.439	0.000

States that R Square is 0.439 or 43.9%. It can be concluded that the Influence of firm size and profitability on corporate income tax is 43.9% and the remaining 56,1% is influenced by other factors that are not included in the variables tested.

### Partial Test

Following are the partial test results:

#### Partial Test (t Test)

Model	Coefficients	Significant
Firm Size	359,835	0.007
Profitability	6,551,986	0.047

### The Influence of Firm Size on Corporate income tax

T-test results (partial) obtained a significance value of firm size variable of 0.007 which means that the value of prob. smaller than the level of significance ( $0.007 < 0.05$ ). Based on these results that means H1 was accepted. This means that firm size influence the corporate income tax. A positive coefficient of firm size means that the bigger the firm size, the higher the corporate income tax.

Large companies have large assets so that the company can generate high profits. When a company receives a high profit, it will increase the income tax that will be imposed on the company, this is because the company income tax will be charged based on the amount of income received by the company.

Research supports the results of research conducted by (Aphophia 2014; Salamah, et al., 2016) which states that firm size affects Corporate income tax.

### **The Influence of Profitability on Corporate income tax**

T-test results (partial) obtained a significance value of the variable profitability of 0.047 which means that the value of prob. smaller than the level of significance ( $0.047 < 0.05$ ). Based on these results it that means H2 is accepted. This means that profitability influences the corporate income tax. A positive coefficient of profitability means that the higher the profitability, the higher the corporate income tax.

Operating Profit Margin is used to measure the efficiency of a company's operations which is calculated from operating profit divided by sales or revenue. Which the higher this ratio the better (Nurianika, et al., 2015). The high profitability ratio shows the company's high ability to generate profits, the greater the profit the company gets, the greater the Income Tax Payable that the company must bear. This research is by the research conducted (Laksono, 2019; Salamah, et al., 2016; Nisa et al., 2018; Widani et al., 2019) which states that profitability affects Corporate income tax.

### **IV. Conclusions**

The conclusion is that firm size and profitability partially influences corporate income tax. The higher the firm size, the higher the corporate income tax. The higher the profitability, the higher the corporate income tax.

This research is expected to contribute to the company to increase firm size and profitability and optimize the corporate income tax. For the government, this research can be taken into consideration in making policies and the right rules regarding firm size and profitability to encourage increased tax revenue.

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