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THE INFLUENCE OF CAPITAL STRUCTURE, PROFITABILITY, AND OPERATING COSTS ON CORPORATE INCOME TAX PAYABLE

(An Empirical Study on Consumer Goods Companies Listed on the Stock Exchanges of ASEAN Countries)

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Abstract

The ASEAN region is experiencing economic growth due to increased business activities. The consumer goods sector is important for growth in local and international markets. Companies in this sector face financial challenges such as managing capital and income tax. Corporate income tax can affect overall financial performance. Governments depend on corporate income taxes to fund public goods. It is important for businesses and policymakers to understand what factors affect the amount of corporate taxes owed. Capital structure, profitability, and operational costs can impact tax liabilities and the financial stability of firms in competitive markets. The main goal of this study is to analyze the impact of capital structure, profitability, and operational costs on the level of corporate income tax payable. A quantitative approach is utilized, with information gathered from businesses listed on the ASEAN stock exchanges over a five-year period. The sample selection process involved purposive sampling, resulting in the inclusion of 50 companies and 250 data sets. The examination of the information requires the use of statistical techniques, traditional assumption checks, and testing of hypotheses. The study aims to shed light on the relationship between capital structure, profitability, operational costs, and corporate tax obligations within the ASEAN region.

Keywords: *Debt Equity Ratio (DER), Profitability, Operational Cost*

1. INTRODUCTION

Law No. 16 of 2009 states that tax is a compulsory payment to the government that individuals or organizations must make, as defined in Article 1(1) of the fourth amendment to Law No. 16 of 1983 on general taxation provisions and procedures. This payment is required by law without any form of direct reimbursement and is intended for the benefit of the state and the well-being of its inhabitants (Mardiasmo, 2016).

Taxes are crucial for generating funds for the government to cover daily costs and support progress at a national level. The government continues to strive to increase tax revenue through extensional and intensification efforts, such as improving the Income Tax (PPh) and Value Added Tax (PPN) regulations (Resmi, 2019).

The start of tax reform occurred in 2008 when changes were made to Law No. 36 of that year, resulting in decreased tax rates. In response to the Covid-19 pandemic, the government decided to lower the corporate Income Tax (PPh) rate from 22% to 20% in 2020-2021. However, by 2022, the government reinstated the Income Tax rate back to 22%, as specified in the Directorate General of Taxes (DPJ) letter No. S-14/PJ.7/2023 of the HPP Law, Article 17, paragraph 1, letter b.

Table 1. Tax Rates for VAT (PPN) and Corporate Income Tax (PPh) in ASEAN Countries

No	Country	Rate	
		PPN	PPh
1	Indonesia	11%	22%
2	Malaysia	10%	33%
3	Singapore	8%	17%
4	Philippines	25%	12%
5	Thailand	20%	7%
6	Brunei Darussalam	18,50%	-
7	Vietnam	15-17%	10%
8	Laos	24%	10%
9	Myanmar	25%	0-8%
10	Cambodia	20%	10%

Table 1 shows the comparison of VAT (PPN) and Corporate Income Tax (PPh) rates in ASEAN countries. Indonesia sets the VAT at 11% and Corporate Income Tax at 22% as an implementation of Law No. 7 of 2022 concerning the Harmonization of tax regulations. Other countries such as Malaysia, Singapore, the Philippines, Thailand, and Brunei have different tax policies.

The revenue performance of Indonesia in 2022 showed the highest growth among Southeast Asian countries. In the first semester of 2022, Indonesia's revenue grew by 50.7%, up from 9.2% the previous year. Corporate Income Tax revenue as of February 2023 grew by 33.8% due to contributions from the industrial sector, financial services, and insurance.

The corporate income tax payable is an expense calculated from the company's income after deducting relevant costs. Companies can minimize corporate income tax through more effective tax planning, including utilizing interest expenses as deductions from taxable income (Setiadi & Resnawati, 2021).

The combination of long-term borrowing and ownership share known as the capital structure plays a critical role in a company's operational efficiency and tax obligations. Measures like the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) help evaluate the balance of debt compared to the company's equity. Profitability ratios are also important in deciding profit levels and tax liabilities.

Prior studies have demonstrated a correlation between the structure of capital, profit margins, and operational expenses on the amount of income tax that corporations owe, though the findings have been inconsistent. The aim of this study is to investigate the relationship between the capital structure and the corporate tax obligations of publicly traded companies in the ASEAN region from 2018 to 2022.

2. LITERATURE REVIEW

2.1. Agency Theory

This theory introduced by Meckling and Jensen (1976) which suggests that the principal and the agent have conflicting interests. It posits that the connection between the two owners of a business is primarily formed based on their shared objectives. The

discrepancies in interests between the owners of the business and the managers of the business, referred to as agency costs, can be categorized into three: 1) The principal bears the responsibility of overseeing expenses, 2) The agent must cover the costs of guaranteeing their performance, 3) There is a specific focus on the remaining losses that may occur. The fundamental assumptions of this theory involve individual interests, cognitive limitations, and managers' aversion to risk (Hamdani, 2016).

2.2. Tax Theory

Tax theory encompasses several perspectives on the nature and purpose of taxation: the Insurance Theory views taxes as premiums for state protection; the Interest Theory posits that taxes are based on individual interests in government duties; the Ability-to-Pay Theory advocates for fair taxation adjusted to individual capacity; the Absolute Tax Obligation Theory asserts the state's right to collect taxes based on citizens' obligations; and the Purchase Power Theory sees taxes as a mechanism for the state to manage purchasing power for societal welfare.

2.3. Corporate Income Tax (PPh)

Corporate income tax is a fee placed on the profits made by businesses in a given financial period. Entities subject to this tax are Limited Liability Companies (PT), State-Owned Enterprises (BUMN), and cooperatives, and the taxable items are revenues from operations, investments, and more. The general corporate income tax rate is 25%, with some exceptions for public companies that meet certain criteria, where the rate can be reduced to 22% through Government Regulation No. 30 of 2020 pertaining to the decrease in income tax percentages for local tax-paying individuals who own limited liability companies (Kasmir, 2017).

2.4. Capital Structure

Capital structure includes company financing through equity and debt. The capital structure is used to generate the company's profits. Factors influencing capital structure include profitability, taxes, control, management attitudes, sales stability, company size, growth rate, financial flexibility, and market conditions. This ratio is used to determine each amount of equity that is used as collateral for debt.

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

2.5. Profitability

Profitability is a way to gauge how successful a company is in earning a profit, taking into account factors such as profit margin, Return on Assets (ROA), Return on Equity (ROE), and earnings per share. These ratios indicate the effectiveness level of a company and are essential measures of a company's success that must be monitored to ensure profit and earnings (Hasan & Septiningrum, 2023; Kasmir, 2017).

$$Return\ On\ Asset\ (ROA) = \frac{Net\ Income}{Total\ Assets}$$

2.6. Operating Costs

Operating costs are the expenses required to run a company's operational activities. There are two types of operating costs: 1) selling costs and 2) general and administrative costs, both factors are essential in influencing the overall profits of the business. Operating costs are related to income tax because they are deductions from taxable income, such as selling costs, promotional expenses, and administrative costs (Hasan & Septiningrum, 2023).

$$Operating\ Costs\ = \\ Cost\ of\ Goods\ Sold + Selling\ Expenses + Administrative\ Expenses$$

2.7. Framework

The Ratio of Debt-to-Equity (DER) is used to assess the amount of debt a company holds compared to its equity. This measure is crucial in analyzing the company's financial structure. According to Laksono (2019), a higher use of debt can reduce the tax burden because interest expenses on debt can be deducted from taxable income, as per Article 6, paragraph 1(a) of Law No. 17 of 2000. The lower the amount of corporate income tax payable, the higher the DER becomes, according to this statement. Previous research by Sucipto and Hasibuan (2020) provided evidence that shows a strong correlation between DER and the amount of corporate income tax that needs to be paid.

The company's profitability is determined by how efficiently it generates profits compared to the capital it uses. Evaluating this ratio is crucial for making investment choices. The interaction between the principal and agent is influenced by their dynamics, where the agent often has a deeper understanding of the company. Research by Aisyah (2017) found that the amount of profit a company earns greatly influences the taxes it is required to pay to the government.

Operating costs are a key component in financial reports that affect profits and the success of the company. According to Law No. 36, Article 6 (1), operating costs can be deducted in calculating taxable income. The agency relationship also affects this, as these costs are used to limit the actions of agents that may be detrimental. Research by Afni (2021) indicates that operating costs significantly affect corporate income tax payable.

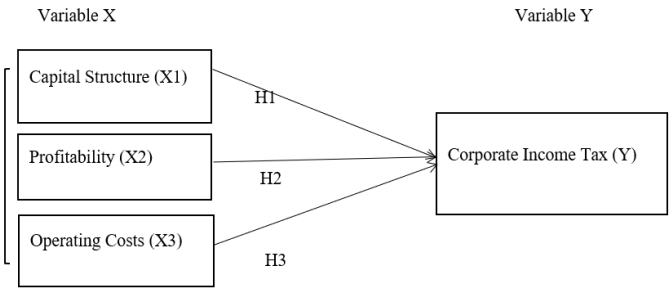

Figure 1. Framework

2.8. Hypothesis

H1: Capital structure affects corporate income tax payable.
H2: Profitability affects corporate income tax payable.
H3: Operating costs affect corporate income tax payable.

3. RESEARCH METHODS

This research involves a causal investigation to establish the link between various variables. The goal is to explore how independent variables impact the dependent variable, classifying it as a descriptive analysis. The study uses a quantitative method to analyze data and statistics taken from financial and annual reports obtained from the official stock exchange websites of ASEAN countries. The data analyzed provides a clearer picture of the research object, and the research results will be concluded through statistical analysis, including classical assumption tests and hypothesis testing (Sugiyono, 2018).

3.1. Research Population and Sample

The research subjects within a particular scope and time frame make up the population. Purposive sampling is utilized to select the sample, whereby specific criteria are the basis for determining the sample. This study focuses on Consumer Goods Industry businesses that have shares available for purchase on the stock market exchanges of ASEAN countries between 2018 and 2022. The sample consists of 50 companies, with the research spanning 5 periods.

4. RESULTS AND DISCUSSION

4.1. Research Results

4.1.1. Descriptive Statistics Test

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
X1	250	-2.1273	4.2250	0.811472	.8735961
X2	250	-0.1092	0.6073	0.071512	.0958351
X3	250	0.0000	32.4261	25.891988	.0958351
y	250	0.0000	29.0867	19.619343	10.4648351
Valid N (listwise)	250				

Descriptive statistics are summarized in Table 2. For Variable (X1), the range is -2.1273 to 4.2250, with a mean of 0.811472 and a standard deviation of 0.8735961. Variable (X2) ranges from -0.1092 to 0.6073, with a mean of 0.071512 and a standard deviation of 0.0958351. Variable (X3) ranges from 0.000 to 32.4261, with a mean of 25.891988 and a standard deviation of 0.0958351. Finally, Variable (Y) spans 0.0000 to 29.0867, with a mean of 19.619343 and a standard deviation of 10.4648351. These results illustrate the data diversity in the study.

4.1.2. Classical Assumption Tests

a. Normality Test

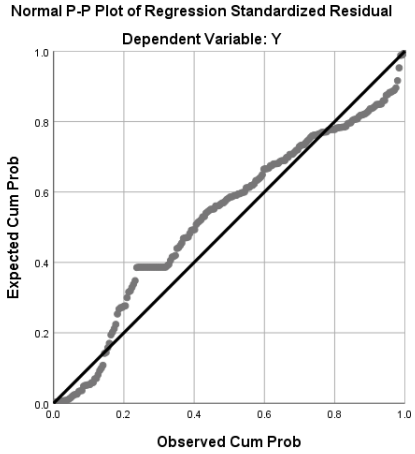

Figure 2. Normality Test Result

The normal probability plot in the image shows that the data points in this research are concentrated near the diagonal line, indicating that the data follows a normal distribution.

Table 3. One-Sample Kolmogorov-Smirnov Test

Unstandardized Residual		
N		250
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	6.30405948
Most Extreme Differences	Absolute	.151
	Positive	.084
	Negative	-.151
Test Statistic		.151
Asymp. Sig. (2-tailed)		.069[c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

The information in the table suggests that the significance value (sig) is 0.069, which is higher than the alpha level of 0.05. Therefore, it can be inferred that the data examined follows a normal distribution pattern.

b. Heteroscedasticity Test

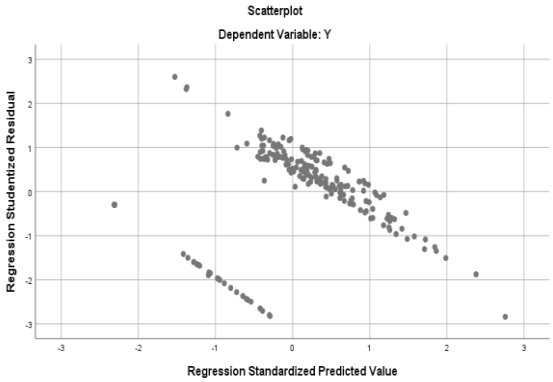

Figure 3. Heteroscedasticity Test Result

The visual representation above demonstrates that the data points are distributed in a haphazard manner, rather than following a distinct pattern, suggesting that heteroscedasticity problems are absent in the data utilized for this research.

c. Multicollinearity Test

Table 4. Multicollinearity Test Results

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	I	Sig	Tolerance	VIF
1	(Constant)	1.833	1.369		1.340	.182		
	X1	-2.139	.870	-.120	-2.458	.015	.767	1.303
	X2	74.164	6.687	.508	11.092	.000	.868	1.152
	X3	.572	.059	.490	9.744	.000	.722	1.152

a. Dependent Variable: Y

The information presented in the chart indicates that the VIF values, which are below 10, suggest that there are no problems with multicollinearity in the data analyzed for this research.

d. Autocorrelation Test

Table 5. Autocorrelation Test Results

Model Summary[b]

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.781[a]	.610	.604	6.3480930	1.276

a. Predictors: (Constant), X3, X2, X1

b. Dependent Variable: Y

The information provided in the chart indicates a Durbin-Watson value of 1.276, which falls within the range of -2 to +2. Therefore, it can be inferred that there are no signs of autocorrelation in the data analyzed for this research.

4.1.3. Hypothesis Test

a. Coefficient of Determination (R^2) Test

Table 6. Coefficient of Determination (R^2) Test Results

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781[a]	.610	.604	6.3480930

a. Predictors: (Constant), X3, X2, X1

The table shows an R square value of 0.610, indicating that the independent variables can explain 61% of the variability in the dependent variable. 39% of the variance is due to other factors not included in this study.

b. T-Test

Table 7. T-Test Results

Coefficients[a]

		Unstandardized coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig
1	(Constant)	1.833	1.369		1.340	.182
	X1	-2.139	.870	-.120	-2.458	.015
	X2	74.164	6.687	.508	11.092	.000
	X3	.572	.059	.490	9.744	.000

a. Dependent Variable: Y

Based on the data presented in the table, it can be observed that variable (X1) exhibits a level of significance at 0.015, which falls below the threshold of 0.05. Conversely, variables (X2) and (X3) display significance levels of 0.000, also below 0.05. Thus, it can be inferred that each of the variables - X1, X2, and X3 - hold significant influence on the dependent variable (Y), thus supporting the initial hypothesis.

c. F-Test

Table 8. F-Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	13460.616	3	4486.872	111.342	.000[b]
	Residual	8623.833	214	40.298		
	Total	22084.449	217			

a. Dependent Variable: Y

b. Predictors: (Constant), X3, X2, X1

The result indicated a significance level of 0.000, suggesting that the combined independent variables have a notable impact on the dependent variable Y.

d. Multiple Linear Regression Analysis

Table 9. Multiple Linear Regression Analysis Results

Coefficients[a]						
		Unstandardized coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig
1	(Constant)	1.833	1.369		1.340	.182
	X1	-2.139	.870	-.120	-2.458	.015
	X2	74.164	6.687	.508	11.092	.000
	X3	.572	.059	.490	9.744	.000
a. Dependent Variable: Y						

The constant value of 1.833 suggests that there is a clear connection between the independent factors and the dependent factor. Put simply, keeping all independent factors the same or at 0 will result in a 1.833 increase in the corporate income tax payable. This implies that when the independent variables increase, the corporate income tax payable will also rise.

4.2. Discussion

4.2.1. The Impact of Debt Equity Ratio (DER) on Corporate Income Tax Payable

This research discovered that X1 has a significance level of 0.015, which is below 0.05, suggesting that X1 has a noteworthy impact on Y. The negative coefficient of X1 is -2.139, pointing to a reverse correlation between capital structure and corporate income tax payable. Consequently, alterations in capital structure will result in a reduction in corporate income tax payable.

4.2.2. The Impact of Profitability on Corporate Income Tax Payable

The research revealed that X2 has a significance level of 0.000, indicating a strong impact on the variable Y. The positive coefficient of X2, at 74.164, suggests a direct correlation between profitability and corporate income tax owed. As profitability rises, so too will the amount of corporate income tax owed.

4.2.3. The Impact of Operational Costs on Corporate Income Tax Payable

This research discovered that the variable X3 is highly significant with a p-value of 0.000, suggesting a strong impact on variable Y. The positive coefficient of X3 at 0.572 reveals a direct correlation between operational costs and corporate income tax. Hence, a rise in operational costs will result in a higher corporate income tax liability.

5. CONCLUSION

The study aimed to examine the influence of capital structure, profitability, and operational expenses on the corporate income tax liability. The study uncovered a number of important discoveries. Initially, it was found that capital structure plays a significant role in determining the corporate income tax owed, indicating that adjustments to the ratio of debt to equity can influence tax responsibilities. Additionally, profitability was shown to have a noteworthy effect on corporate income tax payable, suggesting that an increase in profits leads to a corresponding rise in tax liabilities. Finally, operational costs were identified as another factor that has a substantial impact on corporate income tax payable, with higher operational expenses translating to higher tax obligations. Collectively, these findings underscore the importance of capital structure, profitability, and operational costs in shaping a company's tax responsibilities.

Companies need to improve their capital structure for better tax efficiency by finding the right mix of debt and equity, as this greatly affects their tax bills. Smart profit management, like reinvesting in growth or engaging in tax-deductible activities, can lower tax costs. It's also crucial for businesses to keep operational expenses in check to lessen tax liabilities. By streamlining operations, companies can handle their tax responsibilities more efficiently. Consulting with tax advisors and financial experts can help create effective tax strategies that align with business goals. Policymakers should think about updating corporate tax rules and offering incentives for sustainable practices to encourage growth and responsible finances. These actions can help businesses manage their tax duties and boost their competitiveness in the ASEAN region.

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