

The Effect of Effective Tax Rate, Profitability and Debt to Past Liabilities

Septian Abdiansyah

Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta
Jalan Kayu Jati Raya No. 11A, Rawamangun, Jakarta Timur
abdiansyah_2009@yahoo.co.id

Abstract—The purpose of this research is to know and analyze the effect of effective tax rate on liabilities, to know and analyze the effect of profitability on liabilities, to know and analyze the effect of past debt on liabilities and to know and analyze the effect of effective tax rate, profitability, and past debt on liability. The method used in this study is a linear regression model using the help of Eviews version 10 software with testing details as follows: classic assumption test (normality, multicollinearity, and heteroscedasticity), multiple linear regression test, determination coefficient test (adjusted R²), hypothesis test (test t) and Hypothesis Test (Test F). The results of this study are effective tax rate variables with the proxy of current effective tax rate have no significant effect on the dependent liability variable seen the probability value $0.8003 > 0.05$. Profitability variable with proxy ROA has a significant effect on the dependent variable liability with a probability value of $0.0007 < 0.05$. Past debt variable with past debt to asset proxy the previous year has a significant effect on the dependent variable liability with a probability value of $0.0002 < 0.05$. Variable effective tax rate, profitability and past debt simultaneously affect the liability of this case can be seen from the F table value is greater than F calculated that is the value of $2.67 < 27.20076$.

Keywords—: effective tax rate, profitability, past debt, liabilities

INTRODUCTION

Indonesia is a developing country and has a large population. Indonesia itself has abundant natural wealth and lies in strategic geographical conditions, not surprisingly many domestic and foreign companies in Indonesia. Such conditions can benefit the government in the state revenue from the tax sector.

With the magnitude of the potential for natural wealth in Indonesia, it should be balanced with the magnitude of the increase in the level of income per capita received by the Indonesian people. The increase in the level of per capita income in each

region is certainly different. The high revenue of the company will certainly increase the corporate tax burden [23] so that revenue from state revenue from taxes will increase

On the other hand there are efforts to minimize taxes such as tax avoidance. Understanding Tax Avoidance is an effort to ease the tax burden by not violating existing laws [2]. While the illegal method is Tax Evasion is an attempt to minimize the tax of a company, but violates the applicable tax law Both methods are obstacles faced in increasing their income in the taxation sector.

Existing phenomena from the Directorate General of Taxation data state that the number of registered business entities is 5 million, while those registered as taxpayers are only 1.9 million, and those who pay taxes or report the Notification (SPT) are only 520,000 business entities with a ratio of SPT 10, 4% [27]. Tax loss carry forward is the loss that can be compensated to the profit of the next year for the next five years so that the company can delay the payment of taxes on profits compensated for the next five years. One way to measure how well a company is in managing taxes is to see its effective rates. Price Waterhouse Coopers (PWC) in 2011 formulated effective tax rates as total tax payable income divided by income before tax. The total tax payable income is the tax expense paid in the current year [7].

Companies with sales growth are certainly expected to be followed by an increase in profit (profitability) so that retained earnings (retained earnings) will also increase. Of retained earnings (retained earnings) if not used to pay dividends, companies tend to use the retained earnings as an addition to investment funds and do not need to add liabilities. Therefore, an increase in profitability is negatively related to the addition of liabilities in accordance with research [21] [16]. While the different studies conducted by [11] conducted

research on the Indonesia Stock Exchange with the results of research that profitability has a positive relationship with liabilities.

Companies that are able and experienced to obtain large amounts of liabilities in the past are companies that are trusted by financial institutions (banks) to obtain new liabilities. So the experience of past liabilities (Past Debt) has a positive effect on the current level of liability [19].

[13] argue that companies that have a liability ratio (leverage) will have a higher value than companies without liabilities. Furthermore [10] states that companies use liabilities (leverage) will reduce the weighted cost of capital.

Liability in the sense of business refers to the use of assets and sources of funds by companies in which the use of assets or funds will be used to increase company profits or profits. A high level of ratio means companies use high debt as well and increase profitability, but on the other hand high debt will generate a large risk [9].

[4] states that with debt can cause a tax reduction due to the interest costs arising from the debt. Then with the high profitability, if a company fulfills the company's funding using capital based on debt, the company does not need to worry about the big risk, because of course a large risk of interest payments the company would feel able to pay for using assets the cash.

LITERATURE REVIEW

Tax and Effective Tax Rate (ETR)

According to [26] Article 1 explained that, "Tax is a compulsory contribution to the state that is liable by an individual or a body that is compelling based on the Act, by not getting compensation directly and used for state purposes for the greatest prosperity of the people".

Meanwhile, according to Sumitro in the book [14]

"Tax is the contribution of the people to the state treasury based on the Act (which can be imposed) by not getting lead services (counter Achievement) which can be directly shown and used to pay general expenses."

An effective tax rate (ETR) is basically a percentage of the tax rate borne by the company. Effective tax rate is calculated or assessed based on financial information generated by the company so that effective tax rate (ETR) is a form of calculation of corporate tax rates.

[25] defines an effective tax rate (ETR) as the ratio (in percentage) of taxes paid by a company based on total income before accounting income tax so that it can determine how much percentage change

pays actual taxes to commercial profit obtained by the company.

Current ETR is an effective tax rate based on the amount of corporate income paid by the company in the current year by dividing current tax expense or current tax with Pretax Income or pre-tax income [8].

Profitability according to [12] is as follows: "Profitability is the ratio to assess the company's ability to seek profit".

Whereas profitability according to [5] is as follows: "Profitability measures the effectiveness of management as a whole which is indicated by the size of the level of profit with sales and investment".

In the case in Indonesia companies that are able and experienced to obtain large amounts of liabilities in the past are companies that are trusted by financial institutions (banks) to obtain new liabilities, so that other banks are also interested in taking over existing liabilities by adding liabilities that bigger [19]. From the institutional aspect, companies related to loan agreements with financial institutions (banks) do not easily transfer their liabilities to other institutions (banks) or change their liability levels. So it can be concluded that the experience of past liabilities (Past Debt) affects the present liabilities.

According to PSAK No. 57 of 2014 which is effective as of January 1, 2015 concerning Provisions, Liabilities, Contingencies and Contingency Assets explaining. Liabilities are the entity's current obligations, arising from past events whose settlement can result in an outflow of entity resources that contain economic benefits.

Effect of Liabilities Against Effective Tax Rate (ETR)

Research conducted by [23] conducted a study entitled The Influence of Size, Leverage, Profitability, Capital Intensity Ratio and Activity Ratio Against the Effective Tax Rate (ETR) of companies listed in the LQ-45 company for the period 2011-2015. with leverage independent variable and dependent effective tax rate variable (ETR). The results of this study. Leverage has no significant positive effect on the effective tax rate (ETR).

[17] conducted a study entitled The Effect of Leverage and Capital Intensity Ratio on the Effective Rate: Moderated by Profitability Empirical Study on manufacturing companies listed on the Stock Exchange in 2011-2013 with leverage independent variables while the effective tax rate dependent variable was moderated by profitability. The results of this study can be concluded that there is no influence between leverage and effective tax rate.

While there is an influence between leverage and effective tax rate which is moderated by profitability.

Effect of Profitability on Liabilities

[3] conducted a study entitled The Influence of Asset Structure, Profitability and Dividend Policy Against Liability Policies on coal sub-sector mining companies listed on the IDX 2011-2013 with independent variables of profitability and dependent variable on liability policy. The results of this study are that profitability in a negative direction does not affect the liability policy.

[18] conducted a study entitled The Influence of Company Growth, Profitability, Liquidity, and Asset Structure on Leverage on Corporate Finance Textile and Garment Subsector on the IDX 2006 - 2013 period with independent variables of profitability and dependent leverage variable. The results of this study found that profitability has a significant effect on leverage.

Past Debt Effect on Liabilities

[15] conducted a study entitled "The Influence of Tax Factors and Other Factors Against Leverage on Manufacturing Companies Listed on the Indonesia Stock Exchange with the dependent leverage variable and the past debt independent variable. The results of this study indicate that past liabilities have a significant positive effect on leverage.

Effect of Effective Tax Rate (ETR), Profitability, and Past Debt on Liabilities

To distinguish from research - previous research researchers tested the effective tax rate, and profitability as an independent variable and liability as the dependent variable. For the independent variable past debt, the researcher added this variable because the variable was rarely used in Indonesia, the research that the researcher got above 2010 was only the last conducted by [15] which explained that past liabilities had a significant positive effect on leverage.

From previous researchers researchers will propose several hypotheses. This study has several hypotheses from some of the variables studied including the following:

H1: Effective tax rate has a significant effect on liabilities.

H2: Profitability has a significant effect on liabilities.

H3: Past Debt has a significant effect on liabilities.

H4: Effective tax rate, profitability and past debt have a significant effect on liabilities simultaneously.

RESEARCH METHOD

This research data basically uses all manufacturing companies listed on the Indonesia Stock Exchange (IDX). Based on the data that has been collected, there are 45 consumer sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) but only 21 companies used this research or the number of observations was 147. To obtain the data needed in this study the authors used documentation observation techniques with view financial statements, notes to financial statements and annual reports of sample companies.

The selection of samples in this study is non-probability sampling with purposive sampling technique. According to [28] purposive sampling technique is a technique for determining research samples with several specific considerations that aim so that the data obtained can be more representative. The sample in this study was taken based on the following criteria.

Table 1
Operationalization of Variables

Variable	Definition	Indikator	Skala
Liability (Y)	Long Term Debt to Equity Ratio is a ratio that measures the share of part of your own capital that is used as collateral for long-term debt measured by dividing long-term liabilities with your own capital [1].	Long Term Debt to Equity Ratio = $\frac{\text{Long-Term Liability}}{\text{Long-Term Liability} + \text{Equity}}$	Ratio
Current Effective Tax Rate (CETR) (X1)	Current ETR is an effective tax rate based on the amount of corporate income paid by the company in the current year by dividing current tax expense or current tax with Pretax Income or pre-tax income [8]	Current Effective Tax Rate (ETR) = $\frac{\text{Total Current Tax}}{\text{Profit Before Tax}}$	Ratio
Profitability (X2)	Profitability can be measured using the return on assumption (ROA) ratio. Return on Asset is a description of management's ability to gain profit (profit). ROA can be measured by the comparison between net income and total assets at the end of the period, which is used as an indicator of the company's ability to generate profits [22]	ROA = $\frac{\text{Net Profit}}{\text{Total Assets}}$	Ratio
Past Debt (X3)	[19] in his research calculates past debt (Past Debt) which can affect leverage by the ratio of total debt of the previous year (TDt-1) compared to total assets / previous year (Tat-1).	Past Debt = $\frac{\text{Total debt of the previous year (TDt-1)}}{\text{Total Assets of the previous year (TAt-1)}}$	Ratio

Testing this hypothesis is done using multiple linear regression analysis method which aims to examine the relationship of the influence of one variable on another variable. Affected variables are called dependent or dependent variables, while the influencing variables are called independent or independent variables. The equation model can be described as follows:

$$Lit = + \beta_1 litX1 + \beta_2 litX2 + \beta_3 litX3 + \alpha + \varepsilon$$

Remarks in Y1:

Lit: Liability

X1: Effective Tax Rate

X2: Profitability

X3: Past Debt

α : Constants

βx : Regression coefficient

ε : Error

RESULTS AND DISCUSSION

This test is used to determine the effect, effective tax rate, profitability, and past debt on leverage on manufacturing companies that are partially listed on the IDX for the 2010-2016 period.

Table 2
Hasil Uji Hipotesis Secara Parsial (Uji-T)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.31026	5.668080	2.348284	0.0205
X1_CETR	0.038375	0.151406	0.253459	0.8003
X2_ROA	-0.576087	0.164843	-3.494755	0.0007
X3_PASTDEBT	0.268547	0.070173	3.826942	0.0002

Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.835697	Mean dependent var	15.87116	
Adjusted R-squared	0.804974	S.D. dependent var	14.50749	
S.E. of regression	6.406765	Akaike info criterion	6.700868	
Sum squared resid	5048.736	Schwarz criterion	7.189102	
Log likelihood	-468.5138	Hannan-Quinn criter.	6.899243	
F-statistic	27.20076	Durbin-Watson stat	1.298577	
Prob(F-statistic)	0.000000			

Source: Secondary data results and output Eviews 10

The explanation of the table above is as follows

- Variable effective tax rate by using the CETR symbol on the output of E-Views 10 with a probability value of 0.8003 > 0.05 and a positive coefficient of 0.038375. So that the hypothesis Ha is rejected, Ho is accepted. This shows that the independent effective tax rate variable partially has a positive but not significant effect on the dependent leverage variable on the consumption

sector manufacturing companies listed on the Stock Exchange in the period 2010-2016.

- The profitability or ROA variable is denoted by ROA in the output of E-Views 10 with a probability value of 0.0007 < 0.05 and the coefficient is negative at -0.576087. So that Ho's hypothesis is rejected, Ha is accepted. This shows that the independent profitability variable partially has a negative and significant effect on the dependent leverage variable on the consumption sector manufacturing companies listed on the Stock Exchange in the period 2010-2016.
- Past debt variable denoted by PAST_DEBT on E-Views 10 output with probability value 0.0002 < 0.05 and positive coefficient of 0.268547. So that Ho's hypothesis is rejected, Ha is accepted. This shows that the past debt independent variable has a positive and significant effect on the dependent leverage variable on the consumption sector manufacturing companies listed on the Stock Exchange in the period 2010-2016.

Table 3
Simultaneous Hypothesis Test Results (Test-F)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.31026	5.668080	2.348284	0.0205
X1_CETR	0.038375	0.151406	0.253459	0.8003
X2_ROA	-0.576087	0.164843	-3.494755	0.0007
X3_PASTD EBT	0.268547	0.070173	3.826942	0.0002

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.835697	Mean dependent var	15.87116
Adjusted R-squared	0.804974	S.D. dependent var	14.50749
S.E. of regression	6.406765	Akaike info criterion	6.700868
Sum squared resid	5048.736	Schwarz criterion	7.189102
Log likelihood	-468.5138	Hannan-Quinn criter.	6.899243
F-statistic	27.20076	Durbin-Watson stat	1.298577
Prob(F-statistic)	0.000000		

Source: Secondary data results and output Eviews 10

The results in the table above show the value (F-statistic) of 27,20076

With a value of 2.67 < 27.20076 means F Table < F Calculate or F-Statistic

So, the figure shows Ho is rejected and Ha is accepted, so the results have a significant effect on

current effective tax rate, profitability (ROA), and past debt on leverage simultaneously in the consumption sector manufacturing companies listed on the IDX for the period 2010-2016.

CONCLUSIONS AND RECOMMENDATION

Based on the results of research that has been conducted that examines the effect of effective tax rate, profitability, and past debt on the liabilities of consumption sector manufacturing companies listed on the Indonesia Stock Exchange in the period 2010-2016 can be summarized as follows:

1. The effective tax rate has no significant effect on liabilities, this shows the size of the tax ratio represented by the effective tax rate will not affect the value of the company's liabilities represented by the liability. This also means that the trend of bank lending does not consider the tax effectiveness factor when financial institutions (banks) will give their debts.
2. Profitability has a significant effect on liabilities, this shows that profitability is a factor that affects the size of the liability. The relationship between profitability and liability can be explained that companies that have high profitability will be able to pay off their debts so that financial institutions will be more confident to provide debt to companies that have high profitability
3. Past Debt has a significant effect on liabilities, this means that managers of companies listed on the Stock Exchange in making funding decisions in increasing new debt should pay attention to debt factors, namely past debt. This means that companies in Indonesia that are experienced in getting big debt at this time are companies that are trusted by financial institutions (banks) to get debt in the past.
4. Effective tax rate, profitability, and past debt simultaneously affect liabilities, this shows a mutual influence between effective tax rate, profitability, and past debt on liabilities. So that effective tax rates, profitability and past debt must be considered in determining liabilities in financial statements. The company also when making a decision to add new debt should consider the effective tax rate, profitability, and past debt factors.

Suggestion

Operational Advice

1. For company management, with this research, it is expected that investors can know the factors that influence liabilities, namely effective tax rate, profitability, past debt. With these factors known management can determine the choice of

capital sources through liabilities or through own capital.

2. For the government, with the results of this study, especially for the Directorate General of Tax this research is useful as a reference for tax audits to anticipate allegations of tax evasion conducted by taxpayers by considering the effective tax rate.

Science Development Advice

1. For further researchers, this research should add more research years to better reflect actual data, so that the research conclusions will be more updated and comprehensive.

2. For further researchers, it is also possible, if you want to do research related to liabilities, you should not take variable effective tax rates because based on this research there is no effect on liability and should develop other significant variables such as profitability and past debt.

References

- [1] Ross, A. S., Randolp W. W., and Brandford D. J. 2006. *Fundamental of Corporate Finance*. New York : Mc Graw-Hill Irwin.
- [2] Budiman, J. dan Setiyono. 2012. Pengaruh Karakter Eksekutif Terhadap Penghindar Pajak (Tax Avoidance), *Simpodium Nasional Akuntansi XV*.
- [3] Condro, R., dan Yuliandhari, W. S. 2015. Pengaruh Struktur Aktiva, Profitabilitas dan Kebijakan Dividen Terhadap Kebijakan Utang (Studi Pada Perusahaan Pertambangan Subsektor Batubara yang Tercatat di BEI Tahun 2011 – 2013). *e-Proceeding of Management*, 2: 3084 – 3091.
- [4] Darmadi, I. N. H. 2013. Analisis Faktor Yang Mempengaruhi Manajemen Pajak Dengan Indikator Tarif Pajak Efektif. *Skripsi*. Semarang: Fakultas Ekonomika dan Bisnis Universitas Diponogoro.
- [5] Fahmi, I. 2012. *Pengantar Manajemen Keuangan*. Bandung: Alfabeta.
- [6] Ghozali, Imam, 2013. *Aplikasi Analisis Multivariat dengan Program IBM SPSS 21*. Edisi 7. Semarang : Penerbit Universitas Diponegoro.
- [7] Handayani, D. dan Arfan, T. Pengaruh Transaksi Perusahaan Afiliasi Terhadap Tarif Pajak Efektif. *Jurnal Akuntansi Keuangan dan Bisnis*, 7.
- [8] Hanlon, M. & Heitzman, S. 2010. A review of tax research. *Journal of Accounting and Economics*, 50 (40): 127 -178.
- [9] Hanum, H. R. dan Zulaikha 2013. Pengaruh Karakteristik Corporate Governance Terhadap Effective Tax Rate. *Journal of Accounting Diponogoro*, 2.
- [10] Weston, J. F. dkk . 1997. *Manajemen Keuangan*, Edisi Sembilan. Jakarta: Penerbit Bina Rupa Aksara.
- [11] Kartika, D. dkk, 2012. Analisis Pengaruh ROA, NPM , DER, dan Size Terhadap Praktik Perataan Laba Pada Perusahaan Yang Terdaftar Di Perusahaan Bursa Efek Indonesia, *Jurnal Manajemen*, 1: 172-180.
- [12] Kasmir. 2013. *Analisis Laporan Keuangan*. Jakarta: PT. Raja Grafindo Persada.
- [13] Modigliani, L. ,et all. 1958. "The Cost of Capital, Corporation Finance and The Theory of Investment". *The American Economic, Review* 47- 3: 261-297.

- [14] Mardiasmo. 2011. *Perpajakan Edisi Revisi*. Yogyakarta: Penerbit Andi.
- [15] Pardosi, F. 2013. Pengaruh Faktor Pajak dan Faktor-Faktor Lain Terhadap Leverage Pada Perusahaan-Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. *Jurnal Tekun*, IV: 128 – 142.
- [16] Rajan, R. G. dan Zingales, I. 1995. What do we about capital structure ? Some evidence from international data, *Journal of Finance*, 50: 1421-1460
- [17] Rofiah, N. 2015. Pengaruh Leverage dan Capital Intensity Ratio Terhadap Effective Tax Rate: Dimoderasi oleh Profitability (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2011– 2013). *Jom FEKON*, 2: 1 – 13.
- [18] Rosita, D., dan Wiksuana, I. G. 2015. Pengaruh Pertumbuhan, Profitabilitas, Likuiditas, dan Struktur Aktiva Terhadap Leverage Keuangan Perusahaan Subsector Textile and Garment di BEI. *E-Jurnal Manajemen Unud*, 4: 2722 – 2748.
- [19] Setiawan, A. 2006, “Dampak Penentuan Struktur Modal terhadap Permasalahan Moral Hazard pada Perusahaan di Indonesia sebelum dan selama Krisis Ekonomi, *Paper Konferensi Nasional, Prasetya Mulya Business School*. PPI-39
- [20] Santoso, Singgih. 2012. *Panduan Lengkap SPSS Versi 20*. Jakarta : PT. Elex Media Komputindo
- [21] Titman, S. dan Roberto, W., 1988, The Determinant of Capital Structure Choice, *The Journal of Finance*, 43 (1): 1-19.
- [22] Kurniasih, T. dan Sari. 2013. Pengaruh Profitabilitas, Leverage, Corporate Governance, Ukuran Perusahaan, dan Kompensasi Rugi Fiskal pada Tax Avoidance. *Buletin Studi Ekonomi*, 18: 58 - 66.
- [23] Khusniyah, T., dan Diana, N. 2017. Pengaruh Size, Leverage, Profitability, Capital Intensity Ratio dan Activity Ratio Terhadap Effective Tax Rate (ETR) (Studi Empiris pada Perusahaan LQ-45 Yang Terdaftar di BEI Selama 2011 - 2015). *E-Jurnal Riset Akuntansi*, 06: 13-26.
- [24] Waluyo. 2014. *Perpajakan Indonesia*. Jakarta : Salemba Empat.
- [25] Wibowo, A. 2012. Faktor – Faktor yang Mempengaruhi Tarif Pajak Efektif (Studi pada Perusahaan Publik di Indonesia). *Tesis*. Universitas Gajah Mada : Yogyakarta
- [26] Undang – Undang Ketentuan Umum Perpajakan No. 28 Tahun 2007 Pasal 1.
- [27] www.pajak.go.id accessed on March 5, 2014
- [28] Sugiyono. 2013. *Metode Penelitian Pendidikan*. Bandung:Alfabeta