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The Influence of Capital Structure and Dividend Payments on Corporate Income Tax Expenses Payable to Manufacturing Companies Listed on the IDX

Desmiwerita¹, Amalina Maharani²

¹ Indonesian Academy of Accountancy, Padang, Indonesia, desmiwerita03@gmail.com

² Jambi University, Jambi, Indonesia, maharani.amalina94@gmail.com

Corresponding Author: desmiwerita03@gmail.com

Abstract: Manufacturing companies need capital for business expansion and are companies that require management in paying taxes owed to maximize profits. This research examines the influence of capital structure and dividend payments on the corporate income tax burden payable to manufacturing companies listed on the Indonesia Stock Exchange in 2010-2014. The method used in this research is *purposive sampling* and uses multiple linear regression. Data obtained from financial reports at manufacturing companies. The research results show that capital structure has a significant effect on the income tax burden payable, dividend payments do not have a significant effect on the income tax burden payable and capital structure and dividend payments together have a significant effect on the income tax burden payable.

Keywords: Capital Structure, Dividend Payments, Income Tax Burden .

INTRODUCTION

The development of business in the form of share trading on the capital market makes information about the condition of *public companies* (issuers) valuable for investors and potential investors. The presence of the stock exchange as a capital market supporting institution has played a role in supporting the development of companies in one country. Any relevant information about the issuer is quickly absorbed by the market and the market quickly expresses it in the form of prices or changes in share prices.

public companies (issuers) is valuable for investors, one of which is information about the capital structure and value of the company in a certain period or time which is a form of fundamental information. Investors use this information as a basis for assessing share prices (*returns*), decisions to buy or sell shares (Handayani, 2008:11).

Through the stock exchange, it allows a company to issue securities in the form of shares. Every company that issues shares generally aims to increase the price or value of its shares in order to maximize the wealth or prosperity of its shareholders. Apart from that, it is also a source of funding for the company which is one of the capital structures contained in the company.

Capital structure policy is a policy regarding the mix of all long-term funding sources used by the company. Understanding the basics of capital structure theory is very important, because selecting the funding *mix* is the strategic core of the business as a whole. Capital structure policy will have a positive effect on share value through creating a mix or combination of funding sources (long-term debt and own capital) so as to maximize share value.

Under certain conditions a company can meet its funding needs by prioritizing sources from within the company, but there are also times when funds have increased so much due to company growth, and all internal funds have been used, so there is no other choice but to use funds that come from outside. company in the form of *debt* . The use of debt in a company will increase the value of shares, due to an increase in taxes which is a deduction post for the cost of debt, but at a certain point the use of debt can reduce the value of shares due to the influence of bankruptcy costs and interest costs arising from the use of debt.

Dividend policy is a policy regarding how much profit is distributed as dividends. The decision to determine how much dividend should be distributed to shareholders, especially in companies that *go public* , will have an influence on the company value as reflected in the share price. If a company has a profit every year, then the company will think about whether it will give all of the profits it earns or whether some or all of it will be retained to be reinvested.

This problem is actually not an ordinary problem, because it will have implications for the rise and fall of the company's share price. Because of this, it is necessary to have careful arrangements regarding how to determine the profits earned and allocated to dividends and profits that must be paid. Dividend policy will have a positive effect on share value, by creating a balance between current dividends and retained earnings so as to maximize share value. If the company in question implements a policy of distributing additional cash, it will tend to increase share prices, but if the value of cash dividends increases, there will be less funds available for reinvestment so that the company's expected growth rate for the future will be low, and this will reduce share prices. .

For this reason, capital structure decisions and dividend policies must always be evaluated on the basis of their impact on the value or share price. Even though the price or value that occurs in the market when capital structure decisions and dividend policies are announced, is not the only guideline used for decision making, however, every company must be aware that the value or share price that occurs in the market is an important guideline. to evaluate company decisions, namely to evaluate whether the capital structure policy and dividend policy can maximize the share price.

Regarding investment and its influence on capital structure, this requires companies to have a policy in making dividend payments. According to Eduardus (2001), one of *the returns* that investors can obtain is dividends. Dividends are shareholders' rights to profits generated by the company for its business activities. So, dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance future investments (Agus, 2001). Shareholders have a negative view of companies that reduce dividends, because reducing dividends can be linked to financial difficulties in a company which of course affects the value of the company. A decrease in dividend payments will be seen as a bad company prospect, and vice versa.

Companies that are successful in making a profit will distribute dividends to their shareholders, where in the dividend payment policy it is determined how much will be issued and paid to shareholders and reinvested by the company (Brigham, 2006), the company's dividend policy is reflected in the dividend payout ratio (*Dividend Payout Ratio*).), where the company's dividend policy is the level of return on investment on the investor's side.

Apart from dividend payments, debt payments on a company also affect the value of the company in front of investors' eyes. This is related to company profits which will be used as payment of obligations/debts and dividend payments. According to Eduardus (2001), companies with a capital structure filled with debt will tend to be shunned by investors because high debt is a burden that will be borne by investment and also companies with high debt have a high risk of liquidation due to the inability to pay off all their obligations. Under these conditions, investors will react negatively to debt levels and of course this will affect the value of the company. In other words, a high capital structure is indicated to reduce company value.

Financial Management Debt aims to *leverage* or boost the company's financial performance. If a company only relies on its capital or equity, of course it will be difficult for the company to expand its business which requires additional capital. This is where the role of debt really helps the company to carry out this expansion. However, if the amount of debt exceeds the amount of equity owned, the company's risk in terms of financial liquidity will also be higher. For this reason, a special ratio is needed to see this performance. *Debt to Equity Ratio* (DER) is a ratio that compares the amount of debt to equity. This ratio is often used by analysts and investors to see how much debt a company has compared to the equity owned by the company or its shareholders. The higher the *Debt to Equity Ratio* (DER) number, it is assumed that the company has a higher risk to the company's liquidity. *Debt to Equity Ratio* (DER) indicates: The greater the amount of assets financed by debt. The smaller the number of assets financed by capital. The higher the company's risk of settling long-term obligations. The higher the debt interest burden that the company must bear

The greater this ratio shows the greater the company's level of dependence on external parties (creditors) and the greater the debt costs that the company must pay. As the ratio increases, this has an impact on decreasing profits obtained by the company, because some of it is used to pay loan interest (Hardinugroho, 2012).

The conclusion that can be seen from this explanation is that debt and dividends are related and influence each other. An increase in debt will in turn affect the size of the net profit available to shareholders including dividends to be received, because these liabilities are higher, the company's ability to distribute dividends will be lower.

To see whether the *Debt to Equity Ratio* (DER) is significant to the *Dividend Payout Ratio* (DPR) using a statistical test with a partial test using the *Debt to Equity Ratio* (DER) value of a company and the *Dividend Payout Ratio* (DPR) value and using SPSS in the processing, obtained the results that the *Debt to Equity Ratio* (DER) had a significant effect on the *Dividend Payout Ratio* (DPR) (Danica: 2008). So DER has a negative influence on the *Dividend Payout Ratio*.

Talking about debt and dividends, one big factor that influences it all is taxes. The size of the company's profits and their relationship to debt payments and dividends certainly greatly influence the size or size of the tax that will be paid on the company's income. Even though tax is not the main factor that is considered for funding decisions in a company, basically tax is something that cannot be avoided by anyone, including companies. This happens because profits that are worth sharing with shareholders are profits after the company fulfills all its permanent obligations, namely interest and tax expenses, dividends paid to shareholders are taken from the net profits obtained by the company, the greater the profits obtained, the greater it will be. also the company's ability to pay dividends.

The Income tax rate (*Corporate Tax Rate*) in Indonesia in accordance with Law Number 36 of 2008 concerning Income Tax is a progressive tax rate, namely a rate imposed in stages on taxable income, the greater the company's profit, the higher the tax it must pay. If the company has been charged the marginal rate, the company tends to make efficient calculations of the tax that will be paid by increasing the maximum possible costs that can be deducted in calculating tax deductible income (*tax deductible*).

The approach used by Weston & Copeland, (1995) to determine whether to use debt or increase owner's capital is a comparison of company value. The difference in excess value when compared to the increase in owner's capital lies in the smaller income tax burden due to interest which can be deducted as an expense.

According to Choi (2003) that companies with high marginal tax rates have more incentives to raise debt because they can take advantage of reduced interest. In accordance with the Income Tax Law, loan interest is an expense that can be deducted for tax purposes (*tax deductible*), and this deduction is very valuable/meaningful for companies that are subject to high (*marginal*) taxes.

Taxes in companies receive quite significant attention, because for companies taxes are a burden that will reduce the amount of net profit that the company will receive so that as much as possible the company pays as low a tax as possible. This is different from the government which considers taxes to be state revenue which is important enough so that the government will collect the highest taxes possible. The difference in views between the government and company management regarding taxes causes many companies, when they experience a tax burden that is felt to be too heavy, to encourage management to overcome it in various ways, one of which is by manipulating company profits (Wulandari, et al, 2004).

Efforts to reduce the tax burden generated by companies can be done in various ways, such as tax planning, tax *avoidance* and *tax evasion*. Various policies can be taken by companies to reduce the amount of tax burden that must be paid by the company, including choosing accounting methods so that they can reduce the effective tax amount. Measuring effective tax planning can be done using effective tax rates (*ETR*). As stated by Karayan and Swenson (2007), one way to measure how well a company manages its taxes is to look at its effect rates.

Tax planning is the first step in tax management. Tax management itself is a means of fulfilling tax obligations correctly, but the amount of tax paid can be reduced to a minimum to obtain the expected profit and liquidity.

Research on capital structure in relation to taxes was previously carried out by Yulianti in 2008 on retail trading companies listed on the Indonesia Stock Exchange. In her research, Yulianti uses *Debt to Equity Ratio* (DER) and *Debt to Asset Ratio* (DAR) as independent variables and corporate income tax payable as the dependent variable.

The next research that is relevant to researchers is the influence of capital structure on corporate income tax payable by PT. Wiharta Pramental Gresik conducted by Erna Dewi Sofiani in 2014. In this research it can be concluded that the company is less effective in choosing funding. Most of the assets were purchased with debt so that capital turnover was less effective for the company. In her research, Erna uses *Debt to Asset Ratio* (DAR) *Debt to Equity Ratio* (DER) as the independent variable and corporate income tax payable as the dependent variable.

And another factor that influences corporate taxes is dividend financing, one of the capital obtained by the company is from selling company shares to investors, and the profits obtained by investors are in the form of dividends received by investors every year or according to the provisions of the GMS, in research Mathilda (2012) found that taxes have no effect on dividend payments.

Looking at this explanation, it is very closely related to the capital structure and its relation to profits that will be taxed and it is the company's obligation to pay them to the State. This is the basis for researchers wanting to know whether or not there is an influence of capital structure on the company's corporate income tax payable. In this case, researchers chose manufacturing companies as research objects because manufacturing companies are one of the business sectors in a country that really need to evaluate their decisions in order to maximize the value of their shares. Bearing in mind that manufacturing sector companies

have been listed on the stock exchange, and have raised funds by issuing shares, and manufacturing companies are long-term investments that are full of risk and uncertainty.

This is the basis for researchers wanting to know whether or not there is an influence of capital structure and dividend payments on the income tax burden owed by manufacturing companies listed on the IDX in the year (2010-2014).

METHOD

The type of data from this research is secondary data, secondary data is data that has been collected by researchers, data published in statistical journals and others, and information available from published or non-published sources both within and outside the organization, all of which can be useful from researcher (Sekaran, 2011).

The data source for this research was obtained from the Indonesia Stock Exchange from 2010-2014 or from each company's website regarding the company's annual reports which have been audited and published by the company.

Regression analysis is basically the study of the dependence of a dependent (dependent) variable on one or more independent variables (independent variables), with the aim of estimating and predicting the population average or average value of the dependent variable based on the known values of the independent variables.

According to Ghozali (2011), the accuracy of the sample regression function in estimating the actual value can be measured from *the Goodness of fit* , which can be statistically measured from the coefficient of determination value, the F statistical value and the t statistical value. The analysis model uses multiple regression analysis with SPSS version 21.

RESULTS AND DISCUSSION

Results

1. Regression Analysis

This research uses a multiple linear regression model. A multiple linear regression model is said to be a good model if the model assumes normality of data and is free from classical statistical assumptions, both multicollinearity and autocorrelation.

$$Y = a + b_1 X_1 + b_2 X_2 + e$$

Research model used:

Where :

- Y = corporate income tax payable
- a = Constant
- b1,b2, = Regression Coefficient
- X1 = DER
- X2 = DPR
- e = Nuisance variable (standard error)

And we get the following equation:

$$Y = 0,097 + 0,205X_1 + -2,065X_2$$

The variable coefficient *for the Debt to Equity Ratio* (DER) is 0.205, thus every increase in *the Debt to Equity Ratio* (DER) value by 1 unit will increase the corporate income tax payable by 0.205 units. Furthermore, the regression coefficient *for the Dividend Payout Ratio* (DPR) variable is -2.065, indicating that every increase in *the Dividend Payout Ratio* (DPR) by 1 unit will reduce the value of corporate income tax payable by -2.065.

2. Coefficient of Determination (R²)

The coefficient of determination test in multiple linear regression analysis is used to determine the percentage influence of the independent variables (X₁, X₂,.....X_n) simultaneously on the dependent variable (Y). The results of testing the coefficient of determination using the SPSS program can be seen in the table below:

Table 1. Coefficient of Determination Test (R²)

Model Summary b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,066a	,004	,060	691903,42876

- a. Predictors: (Constant), DPR, DER
- b. Dependent Variable: Corporate Income Tax Due

The coefficient of determination value is between zero and one. A small R² value means that the ability of the independent variables to explain variations in the dependent variable is very limited. In general, the coefficient of determination for cross- section data is relatively low due to large variations between each observation, whereas time series data usually have high coefficient of determination values.

3. Simultaneous Significance Test (F Statistical Test)

To test this hypothesis, the F statistic is used with the following decision making criteria:

- a. If the significant value is > α (0.05), it means that the hypothesis is not proven or rejected, so it can be concluded that the independent variable does not have a significant effect on the dependent variable simultaneously.
- b. If the significant value < α (0.05) means the hypothesis is proven or accepted so it can be concluded that the independent variable has a significant effect on the dependent variable simultaneously

Table 2. F Test Statistics ANOVAa

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	395455674659,438	2	197727837329,719	,249	,039b
1 Residual	89522576333662,580	187	478730354725,468		
Total	89918032008322,020	189			

- a. Dependent Variable: Income Tax
- b. Predictors: (Constant), DPR, DER (Source: SPSS Output)

From the ANOVA test or F test, the calculated F value was 0.249 with a probability of 0.039. Because the probability is smaller than 0.05, in the regression model it can be said that the debt to equity ratio (DER) and dividend payout ratio (DPR) together have a significant influence on the corporate income tax payable.

4. Significant Test of Individual Parameters (T Statistical Test)

The results of the statistical t test can be seen in the table below:

Table 3. Statistical t test Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,097	,010		9,595	,000

1	DER	,205	,002	,007	,101	,020
	DPR	-2.065E-005	,022	-,069	-,942	,347

(Source: SPSS output)

This statistical t test is used to determine whether in the regression model the independent variables (X_1, X_2, \dots, X_n) partially have a significant effect on the dependent variable (Y). The t test is carried out to find out which of the two independent variables has an influence on the company's corporate income tax payable. To test this hypothesis, t statistics are used with the following decision making criteria:

- a. If the significant value is $> \alpha$ (0.05) it means that the hypothesis is not proven or rejected so it can be concluded that the independent variable has no significant effect on the dependent variable partially.
- b. If the significant value $< \alpha$ (0.05) means the hypothesis is proven or accepted so it can be concluded that the independent variable has a significant effect on the dependent variable partially.

It can be seen that the DER variable has a Sig value. $0.020 < 0.05$, it can be concluded that the company's *debt equity ratio* (DER) has a significant effect on the corporate income tax payable from the company itself. The DPR variable has a value of $0.347 > 0.05$, which means that dividend payments, namely *the Dividend Payout Ratio* (DPR), do not significantly affect the corporate income tax payable from the company.

Discussion

Based on the presentation of research data and its processing sourced from the financial reports of companies listed on the Indonesia Stock Exchange, the discussion of research results in accordance with the problems raised is:

The first hypothesis of this research states that *the Debt to Equity Ratio* (DER) influences the corporate income tax (PPh) owed by the company. The research results are shown by the Sig value. 0.020 so it can be concluded that the first hypothesis is accepted, the greater the company's *Debt to Equity Ratio* (DER), the higher the company's corporate income tax payable. This is in accordance with the results of Endah's (2010) research which states that there is a positive relationship between *the corporate tax rate* and debt levels. This indicates that *the Debt to Equity Ratio* (DER) ratio can be used as *an indicator* of how much corporate income tax a company must pay. Tirsono (2008) in Endah (2010) said that there is a positive relationship between *the corporate tax rate* and debt levels. The application of high tax rates will encourage companies to save on tax payments, one of which is by increasing debt. However, it is different from Yulianti (2008) in Endah (2010). Yulianti obtained results where *the Debt to Equity Ratio* (DER) had a negative effect on the corporate income tax (PPh) payable. This can happen because the companies studied are different in different time periods. The results of this research indicate that *the Debt to Equity Ratio* (DER) ratio can also be used as *an indicator* for a company to determine how much income tax it must pay. In this research, companies with a low *Debt to Equity Ratio* (DER) will also pay low Income Tax (PPh), and vice versa.

Debt to Equity Ratio (DER) reflects the company's ability to fulfill all its obligations, which is indicated by some portion of its own capital used to pay debts (Prihantoro, 2003). Therefore, the lower *the Debt to Equity Ratio* (DER), the higher the company's ability to pay all its obligations. The greater the proportion of debt used in a company's capital structure, the greater the amount of its liabilities. An increase in debt will affect the size of the net profit available to shareholders, including dividends that will be received, because these obligations take priority over dividend distribution. In other words, if the proportion of company

liabilities is high which causes a low value of a company's net profit, the tax imposed on the company will also be low, this is related to the value of the company's profit also decreasing.

The second hypothesis of this research also states that *the Dividend Payout Ratio* (DPR) does not affect the company's corporate income tax (PPh). Based on the results of the regression analysis, it is shown by the Sig. 0.347 so it can be said that the second hypothesis is not accepted. So it can be said that *the dividend payout ratio* (DPR) does not affect the amount of corporate income tax (PPh) the company owes. In their research, Samuel and Inyada in Mathilda (2012) for their study on the influence of corporate income tax on dividend policy at financial institutions in Nigeria. The research results show that there is a positive correlation between taxes and dividends. If the value of *the dividend payout ratio* (DPR) increases, the value of corporate income tax (PPh) will also increase, and vice versa.

According to Husnan and Pudjiastuti (1998) in Hadiwidjaja (2007), tax is a factor that needs to be considered in determining dividend policy. Because investors also pay income tax. Individual taxpayers or investors may prefer not to receive dividends (because they have to pay tax) and choose to enjoy *capital gains*. If the tax rates for dividends and *capital gains* are the same, investors tend to prefer to receive *capital gains* rather than dividends because *capital gains tax* is only paid when the shares are sold and the profits are recognized/enjoyed. In other words, investors gain more because they can postpone tax payments. Investors prefer if companies set a low *dividend payout ratio* (DPR), reinvest profits and increase company value or share prices (Atmaja, 2008). However, regarding the effect of dividends on a company's corporate income tax, in this case manufacturing companies as the object of research, dividends do not have a significant effect, because dividend payments, as we know, are carried out after the payment or calculation of corporate income tax is made on company profits. This is also supported by the results of calculations by SPSS, where the significance of *the dividend payout ratio* (DPR) is above 0.05, which results in the conclusion that *the dividend payout ratio* (DPR) has no significant effect on corporate income tax.

In the third hypothesis, which states that *the Debt to Equity Ratio* (DER) and *Dividend Payout Ratio* (DPR) have a significant positive effect, where if the value of both increases, the value of corporate income tax (PPh) will also increase. After carrying out simultaneous testing, it was found that *the Debt to Equity Ratio* (DER) and *Dividend Payout Ratio* (DPR) values did significantly influence the income tax (PPh) value. Researchers see the company's efforts to make existing funds more efficient for additional company capital. These funds are used to further increase income, so that the available funds are not used much in the proportion of debt financing and dividends. This has of course been studied more deeply by the company, because it concerns the convenience of shareholders and creditors. But behind all that, if this is successful without any complaints from other parties, the company value or the condition of the company's capital gets better, of course this attracts a lot of attention from potential investors who see this as a reason to invest in this company.

The theory put forward by Modigliani and Miller's states that no matter how much debt is used, it will not affect share prices and company value. This is because the use of debt will cause the cost of equity to rise at the same rate as the level of income generated. Another thing is also because in the Indonesian capital market the movement of share prices and the creation of added value for companies is caused by market psychological factors so that they do not pay too much attention to the size of the debt, but investors pay more attention to how the company management uses the funds from the debt effectively and efficiently in order to create value. added to the company. Likewise with dividends, many shareholders prefer the funds prepared for dividend payments to be turned back into additional capital. This is because shareholders will be subject to additional tax on income from dividends, in addition to the personal income tax (PPh) they incur on income other than dividends. Therefore, the company's policy of reusing financing for a better company appearance will provide more positive value to investors for the company's sustainability.

CONCLUSION

Based on the results of research on the influence of *Debt to Equity Ratio* (DER) and DPR on Corporate Income Tax payable in 38 manufacturing companies listed on the IDX from 2010 to 2014 and the results of the analysis and discussion in the previous chapters, the following conclusions can be drawn:

1. To find out whether capital structure has an effect on corporate income tax (PPH) payable. Researchers compared the value of the *Debt to Equity Ratio* (DER) or debt to equity ratio and found that *the Debt to Equity Ratio* (DER) debt ratio had a negative effect on corporate income tax (PPH) payable. So it can be concluded that an increase in *the Debt to Equity Ratio* (DER) will reduce the amount of corporate income tax (PPH) owed by the company, and vice versa.
2. To find out whether dividend payments affect the corporate income tax (PPH) payable. Researchers found that *the Dividend Payout Ratio* (DPR) or dividend payment ratio was able to significantly influence corporate income tax (PPH) payable, which means the hypothesis was accepted. So it can be concluded that the greater the *Dividend Payout Ratio* (DPR), the amount of corporate income tax (PPH) owed by the company will decrease, and vice versa.
3. To find out whether the capital structure and dividend payments together have an effect on the corporate income tax (PPH) payable. Simultaneous testing shows that *the Debt to Equity Ratio* (DER) and *Dividend Payout Ratio* (DPR) together are unable to influence the company's corporate income tax (PPH).

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