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## ABSTRACT

**Christine Natalia (0903100087), Analysis of the changing affect of corporate income tax rate on dividend policy and capital structure of the companies which are registered in Indonesia Stock Exchange from 1998 to 2005, *xii* + 90 pages + 12 tables + 4 graphs + 5 addition + 49 bibliography (1961-2006)**

Since economics crisis that occurred ten years ago has shown positive growth, the investment climate that has been going on in Indonesia is not yet stable consistently. In order to create conducive investment climate the government made the Law of Income Tax No. 17 in 2000 with reduced income tax. Even though the tax is not always being the concerning factor in making a funding decision in a company, however the tax is inevitable.

Modigliani and Miller (1963) stated with the tax, a company which adding the debt in its capital structure will maximize its firm value. The advantage of the tax arises as a result of paying the interest. From dividend policy point, the reduced income tax increases the proportion to earnings after tax which is distributed to the shareholder.

The purpose of the research is to find the changing affect of corporate income tax rate the company dividend policy and capital structure. This research uses methodology of panel data. The sample characteristic of the research is companies which are registered in Indonesia Stock Exchange and distributed the cash dividend from 1998 to 2005. The result was 23 companies had been chosen from 388 population as research sample.

The result has indicated that reduced corporate income tax affects significantly positive to dividend policy but negative to capital structure. When the corporate income tax decreases the total dividend ratio on the earnings after tax increase but the usage level of debt based on the value of the company book equity decrease. The factors which affecting the debt usage level based on the book value equity are assets, non debt tax shield, profitability, and dividend payout ratio in two years. Moreover, the factors which affecting the dividend total ratio on the earnings after tax are non debt tax shield, dividend and dividend payout ratio in one year.