# Chapter 1

# INTRODUCTION

## 1.1 Research Background

Tax is one of the tools used by the government to achieve a goal which is to obtain income, either directly or indirectly through taxpayers (individuals) or entities, carried out to pay the economic costs of society and finance expenditures and national development that is coercive and still based on regulations. In the view of the economy, tax is the transfer of sources of funds from companies or the private sector to the public sector, so that the transfer of funds can have an influence on spending power or purchasing power through the private sector (Yunika, 2017).

Tax revenue itself has a very large contribution to increasing the rate of growth in the field of development and various other advances in Indonesia. The government places great emphasis on taxpayers to make regular tax payments determined, because tax can be relied upon, which is very large for its contribution to state revenue. The amount of revenue through taxes generated can be stated to be far from what is expected according to the Revised State Revenue and Expenditure Budget (APBN).

Based on The Central Statistics Agency (BPS), target and realization of tax revenues in 2018-2021 are as follows:

**Table 1.1 Target and Realization of Tax Revenues in 2018-2021**

| Target & Realization of State Tax Revenue 2018 - 2021 (In Billion Rupiah) | | | |
|---|---|---|---|
| **Year** | **Target** | **Realization** | **Percentage** |
| 2018 | 1.618,1 | 1.521,4 | 93,86 |
| 2019 | 1.786,4 | 1.546,1 | 86,50 |
| 2020 | 1.404,5 | 1.285,1 | 91,50 |
| 2021 | 1.546,1 | 1.547,8 | 107,15 |

data taken from kemenkeu.go.id (data processed by the author)

Based on the table above, it shows that the target of state tax revenue and its realization resulted in getting a percentage increase in 2021 and the 2019 percentage of tax revenue decreasing. The decline was also due to several factors, including in 2019 almost all countries experienced the Covid-19 Pandemic. Many companies have been affected by the pandemic, so state revenues have also experienced a very significant decline. In addition, the decline can also be caused by different points of view between the company and the government, the company has a tax view that is by diverting the resources obtained by the company to the government (Ambarukmi & Diana, 2017). In addition, to the low compliance of taxpayers is another factor that causes a decrease in tax revenue in a country. Therefore, the government should make the significantly improving the quality and quantity of tax audits. The regulation Number 28 of 2007 inform that the General Provisions and Tax Procedures Article 1 paragraph (1) under which tax is a mandatory contribution to the state owed by individual taxpayers and corporate taxpayers, which is coercive under established laws and regulations and does not receive direct compensation and is used as a state need in improving the welfare of its people (Muliasari and Hidayat, 2020).

The impact of coercive tax collections and tax collections that apply in Indonesia is a self-assessment system, which is a system that requires taxpayers themselves to calculate the amount of tax owed so that it can lead to fraud and tax violations that try to avoid or fight taxes (Mulyani , Darminto and Endang, 2014). Along with economic development, a company is trying very hard to maintain profits and provide attractive financial reports and tax reports, of this encourages the companies to minimize taxes through efforts that do not violate tax laws, by taking advantage of the imperfections of the rules that have been set (Sanchez, 2018). It can cause many the personal and corporate taxpayers who tax avoidance.

Tax avoidance is a restructuring scheme for the benefit of taxpayers which aims to reduce tax value owed and is carried out legally (Hashimzade & Epifantseva, 2018). It can be interpreted that tax avoidance allowed because it takes advantage of the gray area or the weaknesses of the tax law itself (Nugraha

& Mulyani, 2019). Tax avoidance can also occur due to agency conflicts as a result of differences in interests between company owners (principals) and managers (agents), which the owner is more interested in maximizing the return on his investment, in contrast managers are more interested in maximizing bonuses or compensation for their performance (Pertiwi & Pratama, 2012). Managers will try their best to pay taxes as little as possible and try to avoid taxes (Syafruiyad, 2016). However, the methods that must be carried out are under the applicable rules, otherwise the company will be subject to sanctions and will get a bad image from the public and this will be borne by the company owner (Sirait, 2014). The number of cases of tax avoidance that occurs has an impact on the lack of tax revenue which will cause losses for Indonesia, as well as cause non- optimal national development and unique welfare and prosperity of the people.

PT Toyota Motor Manufacturing Indonesia (TMMIN) is an the Directorate General of Taxes considers that PT Toyota Motor Manufacturing Indonesia has carried out transfer pricing to avoid tax. Transfer pricing is a pricing policy for the sale of goods and services within a company or a group of companies. PT Toyota Motor Manufacturing Indonesia is to make sales using the transfer pricing method outside the principles of fairness and business practice to its affiliated companies located in Singapore, because the tax in Singapore is lower than Indonesia. Indonesia applies a 25 percent tax, while Singapore only has 17 percent.

The Directorate General of Taxes corrected the sales value and royalty payments of TMMIN's for the tax report in 2008. In its tax report, TMMIN's reported that the sales value Rp. 32.9 trillion, but the Directorate General of Taxes corrected the value to Rp. 34.5 trillion or there was a correction of Rp. 1.5 trillion, as a result TMMIN's underpaid Rp. 500 billion and it must pay to the state.

Based on the case of PT Toyota Motor Manufacturing Indonesia, there are many more cases of tax avoidance practices carried out by well-known companies and foreign investment companies in Indonesia, including PT. RNI, PT. Adera Energi, Global Financial Integrity, 2000 multinational companies, Google Indonesia, PT. Asian Agri Group, etc.

The inconsistency of the results of previous studies is also the basis for submitting this research, based on studies that have been carried out related to tax avoidance. Several factors influence a company in carrying out its tax obligations including profitability, leverage, and liquidity.

Profitability is one of the financial ratios described by the calculation of Return On Assets (ROA). Profitability with ROA calculation will reflect the company's performance, the higher the resulting ROA value, the better the company's performance (Kurniasih & Sari 2013). The higher the company's profit, the higher the tax burden, so that the company's profit becomes less. This can impact on shareholders because they will get little dividends and the company will find ways to pay less tax burden (Hastian, 2019). Companies that have high profitability tend to practice tax avoidance. Meanwhile, according to research conducted by Mulyati, Subing, Fathonah, & Prameela (2019), Kimsen, Kismanah and Masitoh (2018) and Artinasari & Mildawati (2018).

Tax avoidance is also influenced by leverage which is a ratio to test the extent to which companies use borrowed debt. Tradeoff's capital structure theory also states that companies will try to reduce taxes by increasing their debt ratio. The bigger the debt, the smaller the taxable profit because the tax incentives on debt interest are getting bigger. The higher interest costs will have the effect of reducing the company's tax burden. Therefore, the higher the leverage ratio, the lower the tax rate.

Results of previous research by (Arianandini and Ramantha's, 2018) reveals that leverage does not have a significant effect on tax avoidance, this is because companies with high levels of leverage have high interest expenses and high risk, so if they use debt from outside the company a lot, the company's profits will be reduced. not optimal and institutional ownership has no significant effect on tax avoidance this is due to the lack of quality resources from institutional owners so that they are not able to properly supervise and control the decisions taken by managers. The results of this research are inversely proportional to the results of research conducted by Fauzan, Wardan, Nurharjanti (2019), Mulyati, Subing, Fathonah & Prameela (2019), which states that disclosure of leverage has an effect on tax avoidance.

Tax avoidance can also be affected by liquidity (Urrahmah & Mukti, 2021) According to (Kasmir, 2011) liquidity is a company's ability to meet all of its short-term liabilities that will soon mature. If a company can pay all its short-term obligations, it shows that it is in a condition of liquidity and has current assets that are greater than its current debt. Companies that have difficulty paying their debts are likely to look for loopholes in the laws and regulations so that they have the potential to practice avoidance. taxes (Artinasari & Mildawati, 2018).

Maharito & Hutabarat (2020) found that liquidity affects tax avoidance. Another research found similar results by Mukhti (2021). In contrast, Mahrani (2019). found that liquidity does not affect tax avoidance because the level of liquidity is the company's ability to pay its current obligations, one of which is the current tax burden.

Therefore with tax avoidance, companies will seek legal loopholes to pay taxes to a minimum. Thus, the existence of tax avoidance causes the realization that it will not reach the target set by the government, or the government will reduce the realization of tax revenue from the previous year to reach the target. So that the realization that state spending will be disrupted by the presence of tax avoidance due to the small state revenue caused by tax avoidance. Moreover, from the several studies above, the inconsistency of the results of previous studies related to tax avoidance is also the basic concept of this research. Therefore, in this study, the researcher wanted to examine the effect of profitability, leverage, and liquidity on tax avoidance.

Based on the background above, which distinguishes it from previous research, the researchers are interested in researching "The Effect of Profitability, Leverage, and Liquidity on Tax Avoidance (**Case Study on Basic Industrial and Chemical Companies Listed on the IDX in 2018-2021)" .**

## 1.2 Problem Statement

Based on the background of the research above, this research intends to determine the factors that are thought to affect the tax avoidance of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Therefore, the research problem is formulated as follows:

1. Does profitability affect tax avoidance?
2. Does leverage affect tax avoidance?
3. Does liquidity affect tax avoidance?

## 1.3 Research Objectives

Based on the formulation of the problem above, the objectives to be achieved from this research are:

1. To know the effect of profitability on tax avoidance
2. To know the effect of leverage on tax avoidance
3. To know the effect of liquidity on tax avoidance

## 1.4 Research Benefits

Based on the research objectives mentioned above, this research is expected to provide benefits for interested parties. The benefits of this research are as follows:

1. For Academics

   The results of this research can be used as study material for further research on tax avoidance behavior, especially in Indonesia. In addition, this research can also support and provide empirical evidence against previous studies.

2. For the directorate general of taxes

   This research can provide information for the directorate general of taxes and is expected to assist in identifying the risks of tax avoidance

3. For investors

The results of this research can provide input for investors about the characteristics of companies that allow them to do tax avoidance.

### 1.5 Systematic Discussion

In order to provide a comprehensive overview of the contents of this thesis, it is necessary to have a systematic discussion which is classified in the form of chapters as follows:

**CHAPTER I : INTRODUCTION.** Contains the background of the problem, problem identification, problem definition, problem formulation, research objectives, research benefits, research schedule, and writing systematics.

**CHAPTER II : Literature Review.** Contains theoretical studies, relevant research results, and frameworks of thinking.

**CHAPTER III : RESEARCH METHOD.** This chapter contains the time and area of research, research methods, variables, population and samples, data and data sources and data analysis techniques.

**CHAPTER IV: RESEARCH RESULTS AND DISCUSSION.** This chapter describes the results and discussion of the research conducted. This chapter will describe the general description of the research and analysis of research data calculations.

**CHAPTER V: Conclusion & Implication.** In this chapter which is the last chapter of the whole research which contains a description of the conclusions of the overall discussion of problem analysis and suggestions given by the author on the problems raised in the researcher.