CHAPTER 1

INTRODUCTION

1.1 Background

Tax sector revenue plays an important role in the field of state expenditure. The largest budget taxed is 1,618.1 T of the total 2018 APBN (Anggaran Pendapatan dan Belanja Negara) (https://www.kemenkeu.go.id/apbn2019). Every corporate taxpayer of Indonesia and entities that obtain money from business activities carried out in Indonesia and require to pay their taxes to the state (Law Number 36 of 2008). In this case many taxpayer companies end up carrying out tax avoidance activities, resulting in losses to the country of tens to hundreds of billions of rupiah each year.

According to the Indonesian Forum for Budget Transparency (FITRA), 80 % of tax avoidance is carried out by business entities and the rest is by individual taxpayers. This is due to differences in interests between the government and corporate taxpayers. For companies, tax is a deduction of income. Lower income means lower of the potential fund to run the company. The goal of entrepreneurs is to obtain high profits for the welfare of shareholders or investors by maximizing the value of the company. Meanwhile, the government's goal is to obtain maximum tax revenue so that the implementation of government targets can be financed. The difference of interests can encourage corg porate taxpayers to reduce the amount of tax payments legally (tax avoidance) and illegally (tax evasion). Therefore, many companies are trying to manage their tax payments to a minimum without breaking the applicable rules to get the maximum profit through tax avoidance behavior (Hendy and Sukartha, 2014).

Tax avoidance is an effort made by taxpayers to reduce the tax burden owed that is done legally by exploiting for weaknesses in tax law (Jacob, 2014). Therefore it is not consistent as a violation of the law. The government that does not want the practice of tax avoidance because it can result in a decrease in revenue. This tax avoidance technique is interesting because basically tax avoidance is allowed but not permitted.

The company considers tax avoidance can provide economic benefits to the company (Armstrong et al., 2015). The company's decision to avoid tax must not be through the policy of a corporate tax consultant unless the taxpayer is domiciled in a country that has a double tax avoidance agreement with Indonesia (https://www.pajak.go.id/id/artikel/mengenal-profesi-konsultan-pajak).

There is a phenomenon of tax avoidance carried out by IKEA. This Swedish company is engaged in the household appliance industry. IKEA is indicated to avoid taxes of almost €1 billion or around US $1.1 billion. From 2009 to 2014 IKEA moved funds from its outlets across Europe to its subsidiaries in the Netherlands, thus freeing it from taxes in Lichtenstein or Luxembourg. The estimated tax avoidance of IKEA caused the loss of tax revenues in Germany worth 35 million euros or US $39 million, 24 million euros or US $26 million in France, and 11.6 billion euros or US $13 million in Britain. Several countries such as Sweden, Spain, and Belgium are predicted to lose tax revenues in the range of 7.5 million euros to

10 million euros (US $8.5 million to US $11.2 million). (*Sumber : kontan.co.id/money.cnn (London/15 February 2016)).*

From several researchers conducted by (Amanda et al., 2018), (Cahyono et al., 2016), (Fadhilah, 2014), (Fitria, 2018), (Hidayat, 2018), (Mulyani et al., 2018), (Putri and Putra, 2017), (Wijayani, 2016) and (Maharani and Suardana 2014). Stating that tax avoidance activities can be carried out by several factors, namely Institutional Ownership, Audit Committee, Company Size and Proportion of the Board of Commissioners.

According to research conducted by (Cahyono et al., (2016), states that institutional ownership influences tax avoidance (CETR). In line with these results, Wijayani (2016) also concluded that institutional ownership has a significant effect on tax avoidance. Meanwhile according to (Mulyani et al., 2018), institutional ownership has a positive and significant effect on tax avoidance. The higher the institutional ownership, the higher the amount of tax burden that must be paid by the company. This is because the less likely the practice of tax avoidance is carried out by companies Putra (2018).

One important point in Good Corporate Governance that affects tax avoidance is the audit committee. Research conducted by (Gusti dan Maria (2015) & (Wijayanti et al., 2016) used measurements of the number of audit committee members trying to find the effect of the audit committee on tax avoidance. Gusti dan Maria (2015) & (Wijayanti et al., 2016) found the audit committee had no influence on tax avoidance. This is due to the fact that the performance of the audit committee did not run well even though the number of audit committees in the company was in accordance with the standards set by the IDX, namely at least 3 audit committee.

Ayu & Alit (2014) contradicts the research of Gusti dan Maria (2015) & (Wijayanti et al., 2016). Ayu & Alit (2014) found that companies would be more responsible and open in presenting financial reports because the audit committee would monitor all activities that took place within the company.

Companies are subject to taxpayers, so the size of a company is considered to affect the way a company in planning its transactions in meeting tax obligations and is a factor that can affect a company's tax avoidance. The size of a company shows the stability and the company's ability to carry out its economic activities. The government usually pays great attention to large companies so that the company is under pressure to be compliant or aggressive in taxation. Kurniasih and Maria (2013) found that the company's size of a company significantly influenced the tax avoidance activities in the company. At this time, the tax authorities began to enforce clear boundaries that make the difference between tax evasion and tax violations in tax planning that exist in a company, and prevent taxpayers from entering the gaps in tax regulations. Asfiyati (2012) in Ida & Ery (2016) found that the size of a company has no influence on the tax avoidance activities of a company.

In addition to institutional ownership, audit committee, and company size, factors related to the next tax avoidance are Proportion of BOC, Research conducted by Vivi and Winnie (2016), using the measurement of the proportion of board of commissioner trying to find the effect of corporate governance on tax avoidance. Vivi and Winnie (2016) found that the presence of the company's board of commissioners had a negative influence on corporate tax avoidance. This is because the existence of an independent board of commissioners is effective in preventing tax avoidance and also the board of commissioners has good financial expertise and independence. The results of this study contradict the research conducted by Dewi and Jati (2014), Gusti and Maria (2015), who said that the existence of an independent board of commissioners in a company was solely to fulfill the applied regulations.

Based on the description above, institutional ownership, audit committee, company size and the proportion of BOC are deemed necessary to be reexamined, because of the inconsistency of the results of the study which could be due to the different character of the research sample. So that researchers are interested in researching **"THE EFFECT OF GOOD CORPORATE GOVERNANCE STRUCTURE ON TAX AVOIDANCE: EMPIRICAL STUDY OF THE INDONESIAN MANUFACTURING COMPANIES LISTED IN IDX"** for subsectors manufacturing good manufacturing companies listed on the Indonesia Stock Exchange (BEI).

Of the many subsectors manufacturing good listed on the Indonesia Stock Exchange (IDX), one of them is a consumer goods company. In the consumer goods subsector, sales tend to always develop because the results of the company can be used by the community in everyday life. The development from year to year is developing along with the needs and demands of the high society. This consumer goods company has a large contribution to state revenue ranging from PPh, VAT and other taxes borne by the company so that the company's tax burden increases.

So from the increase in tax burden indicated the company will make an emphasis on tax payments through tax avoidance.

1.2 Problem Statement

Based on the background that has been described previously, the formulation of the problem in this study are:

1. Does institutional ownership affect tax avoidance?
2. Does the proportion audit committee affect tax avoidance?
3. Does company size affect tax avoidance?
4. Does the proportion of the Board of Commissioners affect tax avoidance?

1.3 Research Objectives

The objectives of this study are:

1. To analyze the effect of institutional ownership in consumer goods sub-sector of manufacturing companies on tax avoidance
2. To analyze the effect of audit committees in consumer goods sub-sector of manufacturing companies on tax avoidance
3. To analyze the effect of company size in consumer good sub-sector of manufacturing companies on tax avoidance
4. To analyze the effect of the proportion of board of commissioner in consumer good subsector of manufacturing companies on tax avoidance

1.4 Research Benefits

Based on the research objectives above, it is expected to have the following benefits:

a. For writers

The results of this study may be useful for writers specifically to increase understanding, knowledge and provide confidence in the analysis of the factors that influence tax avoidance.

b. For Management of Company

This research can be used as a consideration and input in determining the direction of company policy so as not to fall into the ambiguity circle contained in tax regulations between legal and illegal activities in tax planning.

c. For the Community

Provide assessments and views about the company to the public so that they can add information and understanding about what factors influence tax avoidance actions.

1.5 Systematics of Writing

The systematic writing in this research are:

CHAPTER I INTRODUCTION

This chapter explains the background of the research, the factors related to tax avoidance such as company size, institutional ownership, the proportion of BOC, and audit committee that are suspected to influence tax avoidance. This chapter also includes the formulation of the problem, research objectives, research benefits, and systematic writing.

CHAPTER II LITERATUR REVIEW

This chapter contains the theoretical foundation that supports this research as well previous studies and also contains about research framework and hypothesis.

CHAPTER III RESEARCH METHOD

This chapter contains the background of the problem, the formulation of the problem, the purpose research, research benefits and systematic writing.

CHAPTER IV RESEARCH RESULTS AND DISCUSSION

This chapter will discuss the description of the research object, data analysis, interpretation of results and arguments for the results obtained following the techniques used in company size, institutional ownership, the proportion of BOC, and audit committee on tax avoidance.

CHAPTER V CONCLUSION

This chapter contains conclusions from the results of research that has been done and suggestions that are expected to be useful for those who are interested in the results of the research.