

CHAPTER I

INTRODUCTION

1.1 Background of the Study

After the republic of Indonesia proclaimed independence in 1945, the government understands very well that a country without a funding source will not be able to be independent or even stand on an equal footing with other nations in the world. For government, development is one of a way to achieve a national goal which helps to achieve a better governed state. Development is carried out through various investments that can be realized only with substantial financial support. Development funds can be obtained from various sources both domestically and from abroad. One of the sources of these funds comes from taxes. Tax is one of the sources of government revenue that has important role in the implementation and improvement of national development which can accelerate infrastructure development in the framework of overcoming poverty, unemployment, and inequality amid fiscal limitations. As a result, the tax has become one of the important options being considered by the government (Arif, 2017).

From the government's perspective, tax paid by taxpayers whose amounts are smaller than what is supposed to be will reduce government revenues. Conversely, from the perspective of the taxpayer, the tax paid by taxpayers whose amounts are greater than the amount that what is supposed to pay can result in losses. However, individuals and business owners often have more than one way to complete taxable transactions. Taxpayers try to maximize the welfare of

shareholders and investors by maximizing the value of the company by accumulating as much profit as possible while, on other hand, they will try to minimize their tax obligation legally through tax avoidance because tax is one of the elements that can reduce profit in companies. Tax avoidance reduces taxes when companies making the right steps of transactions legally can obtain the greatest benefit for themselves. This is generally accomplished by claiming for permissible deductions and credits from each tax payment and tax returns at the end of each tax year. To achieve that, a company needs tax planning so that it can pay the tax efficiently and effectively.

This research is carried out on manufacturing companies listed on the Indonesia Stock Exchange. The manufacturing company has activities in manufacture and trade based on the fabrication, processing, or preparation of products from raw materials and commodities which includes all foods, chemicals, textiles, machines, and equipment. Since the Industrial Revolution, manufacturing has grown increasingly important, with many goods being mass produced. As a result, the manufacturing industry is highly developed in world economy.

The Indonesian government is also encouraging economic growth in Indonesia by boosting the manufacturing sector due to many opportunities opened up for the national manufacturing industry. The Ministry of Finance noted that tax revenues throughout January 2019 grew by 8.82% or increased from Rp. 79 trillion to Rp. 86 trillion. Even though the revenue is still growing positively, the revenue from manufacturing or the manufacturing sector has negative growth when this sector contributes 20.8% to tax revenues. The revenue of the manufacturing sector

was recorded at Rp 16.77 trillion, down 16.2% year on year (Kontan.co.id, 2019).

It indicates that manufacturing companies have conducted tax avoidance to minimize their tax burden.

Table 1. 1 Company Size, Fiscal Loss Compensation, Profitability, Leverage, and Tax Avoidance in the year 2016-2019

Company Name	Year	Size	Fiscal Loss	ROA	DER	CETR
Akasha Wira International Tbk. (ADES)	2016	2736.64%	0.00%	7.29%	99.66%	11.15%
	2017	2745.69%	0.00%	4.55%	98.63%	12.42%
	2018	2750.46%	0.00%	6.01%	82.87%	8.73%
Aneka Gas Industri Tbk. (AGII)	2016	2939.71%	0.00%	1.10%	111.81%	17.42%
	2017	2948.79%	0.00%	1.52%	90.69%	12.71%
	2018	2952.53%	0.00%	1.72%	111.19%	12.94%
Alakasa Industrindo Tbk (ALKA)	2016	1873.27%	0.00%	0.38%	123.58%	436.74%
	2017	1953.65%	100.00%	5.05%	288.85%	5.16%
	2018	2029.09%	100.00%	3.54%	544.26%	0.00%

Source: Indonesia Stock Exchange (2020)

According to the table above, it shows that there is a fluctuation of tax avoidance on 3 manufacture companies namely, PT Akasha Wira International, Tbk, PT Aneka Gas Industri, Tbk, and PT Alakasa Industrindo, Tbk. The decline of tax percentage paid shows that the companies have tried to reduce tax payments by implementing proper tax management. The percentage of tax avoidance of PT Akasha Wira International, Tbk from the year 2017 to 2018 decreased from 12.42% to 8.73% which is contrary to the ROA that increased from 4.55% to 6.01%. Meanwhile, the percentage of tax avoidance of PT Aneka Gas Industri, Tbk from the year 2016 to 2017 decreased from 17.42% to 12.71% which is contrary to the company size that increased from 2939.71% to 2949.79%. The percentage of tax avoidance of PT Alakasa Industrindo, Tbk from the year 2016 to 2017 decreased from 436.74% to 5.16% which was contrary to fiscal loss compensation of which the percentage increased from 0% to 100%.

Based on the facts such as the above examples, the researcher chooses the title **“The Analysis of the Effect of Company Size, Fiscal Loss Compensation, Profitability, and Leverage towards Tax Avoidance in Manufacturing Companies listed at Indonesia Stock Exchange”**.

1.2 Problem Limitation

The writer declares her problem limitations of this research as follows:

1. The research objects are manufacturing companies listed at Indonesia Stock Exchange.
2. The research data from the year 2016-2018, conducted in 2020.
3. The independent variables are company size, fiscal loss compensation, profitability, and leverage while the dependent variable is tax avoidance.

1.3 Problem Formulation

Problem formulation of this research are as follows:

1. Does company size have partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange?
2. Does fiscal loss compensation have partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange?
3. Does profitability have partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange?
4. Does leverage have partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange?

5. Do company size, fiscal loss compensation, profitability, and leverage simultaneously have a significant effect towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange?

1.4 The objective of the Research

The objectives of doing this research are as follows:

1. To analyze whether company size has partial effect of significance towards tax avoidance in manufacturing companies listed at the Indonesia Stock Exchange.
2. To analyze whether fiscal loss compensation has partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange.
3. To analyze whether profitability has partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange.
4. To analyze whether leverage has partial effect of significance towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange.
5. To analyze whether company Size, fiscal loss compensation, profitability, and leverage simultaneously have a significant effect towards tax avoidance in manufacturing companies listed at Indonesia Stock Exchange.

1.5 The benefit of the Research

The benefits of conducting this research are as follows:

1.5.1 Theoretical Benefit

The theoretical benefits consist of the following:

1. This research can benefit in the understanding of the theories of accounting, financial and tax.
2. This research can assist other researchers as the area of references that is related to tax avoidance.
3. The research is expected to help to add reading materials for students of Universitas Pelita Harapan, Medan.

1.5.2 Practical Benefit

The practical benefits consist of the following:

1. This research is expected to be helpful for investors in understanding factors that have significant effects on tax avoidance in the manufacturing companies registered on the Indonesia Stock Exchange.
2. This research can provide suggestions for companies on increasing their market value through tax avoidance.