CHAPTER I

INTRODUCTION

1.1 Background of The Study

Indonesia is a developing country with a large population. Indonesia has a large archipelago that is rich in abundant natural resources. With Indonesia's strategic geographical location, Indonesia has become a region of world trade traffic, so that many domestic and foreign companies are established in Indonesia. This benefits Indonesia in increasing its revenue, especially in the tax sector (Gemilang, 2017)

Tax must be paid by taxpayers, both personal taxpayers and corporate taxpayers. Provisions regarding the obligations of taxpayers have been regulated in Law No. 36 of 2008 article 2 paragraph (1). The company as one of the taxpayers has an obligation to pay taxes in accordance with tax provisions. The Indonesian government carries out various kinds of policies regarding taxation to maximize income from the tax sector because tax revenues can have a significant effect on the size of the state budget (Nugraha & Meiranto, 2015)

According to Chen et al. (2010), Taxes are very important for every country because the country's biggest income comes from taxes. Inversely related to the country's point of view, for companies, taxes are a burden that must be paid and will reduce company profits. This company perspective gives rise to the possibility of the company in carrying out tax aggressiveness (Husodo, 2017).

Many companies are trying various ways to reduce the cost of paying taxes. One of the factors that allegedly triggered lower state tax revenue is the emergence of tax aggressiveness. By carrying out tax aggressiveness, companies can reduce the tax obligations that must be paid to the state treasury through tax evasion or tax avoidance. Tax avoidance is permitted, but not with tax evasion because tax evasion violates tax regulations. The more aggressive the tax practices carried out by the company, the smaller the amount of tax to be paid. Tax aggressiveness can be implemented by not violating the law (tax avoidance) or by violating the law (tax evasion), but they must be more aggressive in tax to act as an agent that violates the law. Hite and McGill (1992) and Murphy (2004) in (Sari & Martani, 2010) explain that tax aggressiveness is a condition where companies carry out certain tax policies and have the possibility that tax policies will not be audited or will cause legal disputes. Thus, this action has uncertainty and the settlement of potential risks whether legal or not. From this discussion, it can be concluded that tax aggressiveness is an action that does not violate the tax regulations, which is more directed to tax avoidance as an action that is considered legal (Salman, 2018).

One example of a company that carries out tax aggressiveness, more precisely tax avoidance is a multinational company, IKEA. In 2015, the European Parliament named IKEA as one of the companies on the tax avoidance blacklist. IKEA transformed from a company to a foundation and moved locations from Sweden to the Netherlands / Liechtenstein. Because in Sweden, the company is subject to a tax rate of 57.8% in 1982. While in the Netherlands, the foundation is exempt from corporate income tax. IKEA is required to pay inheritance tax when in Sweden at 65%, which makes IKEA move to the Netherlands because the offspring tax rate is 0%. IKEA also minimizes tax payments in the Netherlands, by stating that they do not have store ownership. In the Netherlands the foundation was subject to a capital tax of 1% of the total assets (Evertsson, 2016).

Some factors that cause an increase in the tax aggressiveness ratio are profitability, liquidity, and leverage. Profitability shows the ability of a company to generate profits. Profitability is one of the factors that causes companies to carry out tax aggressiveness, so that the tax does not reduce too much profit earned by the company. High ROA reflects the high profitability of the company, and causes greater tax burden (Zsazya, 2019). According to Rodriguez and Arias (2012) in (Nugraha & Meiranto, 2015), profitability is a determinant of tax burden, because companies with greater profits will pay greater taxes. Conversely, companies with low profit levels will pay lower taxes or even not pay taxes if they suffer losses. With a tax compensation system, losses can reduce the amount of tax that must be borne the following year. Profitability has an important role in a company to maintain the survival of the company for the long term, because profitability shows that the company in the future will have good prospects (Hery, 2017).

Liquidity is the company's ability to meet its short-term obligations that can be measured by comparing current assets with current debt. If the company has a low liquidity ratio, it can be said that the company is having difficulty fulfilling short-term obligations. A low corporate liquidity ratio can trigger companies to disobey tax regulations which can lead to aggressive actions against corporate taxes. The aim is to reduce tax expense expenses and take advantage of the savings made to maintain cash flow (Zsazya, 2019). According to (Bradley, 1994 and Siahaan, 2005) in (Putri, 2014), liquidity difficulties can trigger companies to disobey tax regulations so that they can lead to aggressive actions against corporate taxes. Because companies are more concerned with maintaining cash flows than having to pay high taxes. The results of savings on taxes can be used by the company to fulfill its short-term obligations. According to Suyanto and Supramono (2012) in (Gemilang, 2017), the level of corporate tax aggressiveness can be measured by the company's liquidity. Companies that have a high level of liquidity, the company will be said to have a better performance. The company will not experience difficulties in paying all of its obligations including obeying the applicable state law, one of which is paying taxes, if the company's cash turnover is good.

Leverage is one example of the practice of tax aggressiveness in which the use of financial resources has a fixed rate of return. Leverage can increase returns for shareholders because it can provide benefits greater than the fixed costs. Companies usually use debt as an operational need and also invest. Companies that have high tax obligations will choose to owe in order to reduce taxes. However, the greater the debt of a company, the smaller the taxable profit to be paid, which can be said that the company takes tax aggressive action. The use of debt incurs interest expense which includes deductible expense so that the use of interest expense aims to minimize tax burden (Zsazya, 2019). Companies with a high degree of leverage will not be aggressive in terms of taxation because they are expected to be able to maintain the stability of earnings in the current period, one of which is by allocating future earnings to current earnings (Adisamartha & Naniek, 2015).

This research is done in basic industry and chemical companies listed at Indonesia Stock Exchange, and here are some data from basic industry and chemical companies in Indonesia Stock Exchange for year 2014 – 2018 can be seen as follows:

Table 1.1 Table of Phenomenon

Company	Year	Profitability	Liquidity	Leverage	Tax Aggressiveness
PT Steel Pipe Industry of Indonesia (Persero) Tbk	2014	3,95%	135,79%	57,27%	17,99%
	2015	2,92%	124,27%	53,14%	18.41%
	2016	1,70%	115,93%	56,22%	26,05%
	2017	0,14%	150,52%	54.69%	57,61%
	2018	0,75%	141,12%	55,11%	18,29%
PT Semen Indonesia Tbk d.h Semen Gresik Tbk	2014	16,24%	220,90%	27,14%	21,40%
	2015	11,86%	159,70%	28,08%	22,65%
	2016	10,25%	127,25%	30,87%	10,81%
	2017	4,17%	156,78%	37,83%	25,61%
	2018	6,03%	195,15%	36,01%	24,83%

Source: Indonesia Stock Exchange (2019)

From the table above, it shows that there is an increase in the tax aggressiveness ratio in the company PT (Steel Pipe Industry of Indonesia) (Persero) Tbk from 2014 to 2017, and depreciation in 2018. Meanwhile, PT (Semen Indonesia Tbk dh Semen Gresik Tbk) company showed an inconsistent ratio from 2014 to 2018. Some factors that have impact of tax aggressiveness such as profitability, liquidity, and leverage.

The declining in profitability ratio both companies, PT Steel Pipe Industry of Indonesia (Persero) Tbk and PT Semen Indonesia Tbk and Semen Gresik Tbk from 2014-2018, shows that the company is trying to do tax aggressiveness. Tax will be charged based on the amount of income received by the company. The less income a company gets, the less taxes it will pay. In 2014, the profitability ratio of PT Steel Pipe Industry of Indonesia (Persero) Tbk was 3.95%, shrinking to 0.75% in 2018. Meanwhile, the profitability ratio of PT Semen Indonesia Tbk and Semen Gresik Tbk was 16.24 %, shrinking to 6.03% in 2018.

PT Steel Pipe Industry of Indonesia (Persero) Tbk experienced a liquidity ratio shrinkage from 2014 to 2016, 135.79% to 115.93%. However, it has an increased ratio in 2017 which is 150.52% and shrank slightly to 141.12% in 2018. PT Semen Indonesia Tbk d.h Semen Gresik Tbk shows there was an inconsistent decrease. In 2014 and 2016 there was a decrease from 220,90% to 127,25%. Whereas, in 2017 it increased to 156.78% and the depreciation in 2018 became 195.15%. Low liquidity can reflect that companies are experiencing difficulties in fulfilling short-term obligations, which can trigger companies to disobey tax regulations which can lead to aggressive actions against corporate taxes.

Decrease in leverage ratio from 2014 to 2018 for companies PT Steel Pipe Industry of Indonesia (Persero) Tbk and PT Semen Indonesia Tbk dh Semen Gresik Tbk as shown in the table shows that the company is trying to take tax aggressive action by utilizing funding from third party debt. In 2014 to 2018, PT Steel Pipe Industry of Indonesia (Persero) Tbk experienced inconsistent depreciation, which was 57.27% in 2014 to 55.11% in 2018. Whereas, PT Semen Indonesia Tbk dh Semen Gresik Tbk experienced shrinkage from 2014 to 2016, which was 27.14% to 30,87%, and experienced an increase in 2017 that was 37.83% and a slight shrinkage back in 2018 with a ratio value of 37.83%. The higher the leverage ratio, the higher the amount of funding from third party debt used by the company and the higher the interest costs arising from the debt. The higher interest costs will have the effect of reducing the company's tax burden.

According to Iwan Prasetyo Husodo (2017), liquidity and profitability (ROA) have significant effect to company aggressiveness tax, while variable leverage , independent commissioner and the size of the company do not have significant impact on aggressiveness tax company. According to Dewi Nawang Gemilang (2017), profitability has significant effect on the corporate tax aggressiveness. Meanwhile, liquidity, leverage, firm size and capital intensity do not significantly influence the company tax aggressiveness. According to Irvan Tiaras dan Henryanto Wijaya (2015), earnings management and firm size on the level of company tax aggressiveness is significant. Therefore liquidity, leverage, and proportion of independent commissioner show no significant effect on the level of corporate tax aggressiveness

Based on background study described above, writer conducts the research with title "**The Influence of Profitability, Liquidity, and Leverage on Tax Aggressiveness in the Basic Industry and Chemical Companies Listed at Indonesia Stock Exchange".**

1.2 Problem Limitation

The writer makes problem limitations as follow:

1. The research object is basic industry and chemical companies listed at Indonesia Stock Exchange

2. The independent variable are profitability, liquidity and leverage, and the dependent variable is tax aggressiveness
3. Tax aggressiveness is more directed to tax avoidance
4. The research period is year 2014-2018.

1.3 Problem Formulation

Problem formulations in this research are as follow:

1. Does profitability partially have significant influence towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange?
2. Does liquidity partially have significant influence towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange?
3. Does leverage partially have significant influence towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange?
4. Do profitability, liquidity, and leverage simultaneously have significant influence towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange?

1.4 Objective of The Research

The objectives of doing this research are as follow:

1. To identify the influence of profitability partially towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange
2. To identify the influence of liquidity towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange
3. To identify the influence of leverage partially towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange
4. To identify the influence of profitability, liquidity, and leverage simultaneously towards tax aggressiveness in the basic industry and chemical companies listed at Indonesia Stock Exchange.

1.5 Benefit of The Research

The benefits from conducting this research are as follow:

1.5.1 Theoretical Benefit

1. This research can give benefits in understanding the theory of accounting, financial and tax
2. This research can be used as reference for other researchers in conducting research with same topic.

1.5.2 Practical Benefit

1. This research is expected in giving the information to investor in understanding the factors that have impact on tax aggressiveness in the

basic industry and chemical companies listed in Indonesia Stock Exchange

2. This research can give suggestion to the company in increasing market value with considering tax aggressiveness.