

CHAPTER I

INTRODUCTION

1.1 Background of the Study

For this recently year, tax revenue has great impact towards national development especially after the appearance of tax amnesty which helps government to pursue individual and entity taxpayer to report their assets abroad Indonesia by giving benefit to the taxpayers who applied it. According to Minister of Finance, starting from 2017 until October 2018 the percentage of tax revenue has been increasing by 71.32% (Putra, 2018). The revenue derived from tax will be used by the government in providing public facilities and infrastructures that cannot be provided by the private sector in the purpose of prospering the lives of Indonesia's citizens.

In order to support Indonesia economic growth, government also provides tax facilities through entity income tax rate rebate as regulated in Law Number 36 Year 2008 Article 17 paragraph 1. The article stated that the tax rate for entity taxpayer and permanent establishment are 28% (twenty eight percent) where before year 2010, it should be 25% (twenty five percent) as in Law Number 36 Year 2008 Article 17 paragraph 2a.

Besides lowering the rate of entity taxpayer and permanent establishment, government also supports Indonesia Stock Exchange by giving tax incentive on entity income tax for public companies. The incentive as stated in Law Number

36 Year 2008 Article 17 paragraph 2b, public companies which issue their 40% (forty percent) of total amount of shares in stock exchange and fulfill other requirements are benefited with tax rate deduction by 5% (five percent).

In company perspective, tax is expense which must be minimized or avoided. In order to minimize tax burden, company will put more effort in tax management. For example, company will do a proper tax planning in the purpose of minimizing tax burden by taking advantages from tax deduction or tax credit which is known as tax avoidance to alleviate tax burden. (Simanjuntak, 2018)

According to Suandy (2013) as cited in Yuniarwati *et al* (2017), if a tax planning involves the activity in carrying out taxpayer arranging tax burden to minimize the tax burden by utilizing different regulation in the intent of the legislator, the tax planning referred as tax avoidance. It can be explained that tax avoidance is a way of reducing or avoiding the amount of tax expense in the manner permitted by tax law by exploiting the opportunity of loopholes (*celah pajak*). In taxpayer side, loopholes can be utilized with the intention to make a good tax planning for minimizing the income tax payable

Some of previous researchers have discussed the issues related to tax avoidance such as, Faizah and Adhivinna (2017), Fadhillah (2017), Agus Purwanto (2018). Based on their conducted studies, there are several factors that may influence tax avoidance. The factors are as follow, firm size, capital intensity ratio, independent commissioner, profitability, and leverage. However, other researcher assumes that these factors have no impact to tax avoidance. The

inconsistency of previous studies may be caused by different method and criteria that used in taking sample.

According to the previous research, conducted by Faizah and Adhivinna (2017) that chose return on asset, leverage, company size, institutional ownership as the independent variables concluded that only one variable gives impact to tax avoidance which is return on asset that has positive impact to tax avoidance and the others have negative impact to tax avoidance with coefficient of determination only resulting for 7.9% which can be explained that another 92.1% can be influenced from other variables which not included in the research.

In the previous research done by Fadhillah (2017) analyzed that the impact of leverage and company size, mentioned that both of these two independent variables partially have significant positive effect to tax avoidance with coefficient of determination 40.6% which means another 59.4% can be influenced by other variables.

Moreover, in the previous research done by Agus Purwanto (2016) stated that leverage and earning management have positive impact towards tax aggressiveness with coefficient of determination equal to 53,7% and the rest 46.3% depends on another variables that may have impact to tax aggressiveness.

The table below represents the condition of several mining companies during the period of year 2016 to 2018. The calculation of the variables is based on the ratio that chosen by the writer.

Table 1. 1 Size, Liquidity, Profitability, Leverage and Tax Avoidance for year 2016 until 2018

COMPANY	YEAR	SIZE	CR	ROA	DER	ETR
Baramulti Suksessarana Tbk. (BSSR)	2016	1903.03%	110.81%	14.90%	44.47%	22.96%
	2017	1916.33%	144.91%	39.41%	40.19%	25.85%
	2018	1931.72%	121.50%	28.18%	63.10%	26.02%
Bayan Resources Tbk. (BYAN)	2016	2053.05%	254.61%	2.18%	338.31%	38.93%
	2017	2060.54%	102.41%	38.03%	72.38%	19.54%
	2018	2086.38%	123.72%	45.56%	69.73%	24.75%

Source: www.idx.co.id

From several mining companies that listed in Indonesia Stock Exchange that have fulfill certain criteria, the writer chose Baramulti Suksessarana Tbk and Bayan Resources Tbk, to simplify the explanation of the reasons whether firm size, liquidity, profitability, and leverage does give impact towards tax avoidance.

From the table above, it can be explained that there is fluctuation of tax avoidance ratio of Baramulti Suksessarana Tbk, and Bayan Resources Tbk for the period year 2016-2018. The percentage of tax avoidance decreasing can be explained that the company tries to reduce the tax burden by applying proper tax management and the increasing of tax avoidance ratio can be explained that the company is gaining the tax burden. For instance, it can be shown from Baramulti Suksessarana Tbk which the ratio of tax avoidance increased from 22.96% to 26.02% for year 2016 to 2018. On the other hand, the tax avoidance ratio of Bayan Resources Tbk decreased from 38.93% to 24.75% for year 2016 to 2018 which indicates that the company conducted proper tax management in the purpose of reducing the tax burden which known as tax avoidance.

The declining percentage of firm size ratio in Baramulti Suksessarana Tbk which increase from 1903.03% to 1931.72% and Bayan Resources Tbk which also increase from 2053.05% to 2086.38% for year 2016 to 2018 it can indicates that the size of company affect the business activities of company especially the tax burden. The larger company supposed to take more risk in tax payment by implement proper tax management which known as tax avoidance.

Moreover, the inconsistent moving of liquidity percentage ratio in Baramulti Suksessarana Tbk which increased from 110.81% to 121.50% and Bayan Resources Tbk which decreased from 254.61% to 123.72% for year 2016 to 2018 can indicate that companies conduct tax avoidance in the purpose of increasing the availability of fund for company activities in paying short term liabilities.

Furthermore, there was fluctuation of profitability ratio in Baramulti Suksessarana Tbk which increased from 14.90% to 28.18% and Bayan Resources Tbk which increase from 2.18% to 45.56% for year 2016 to 2018 it can shows that companies was trying to cut the tax burden by implementing earning management.

In addition, the inconstancy of leverage ratio in Baramulti Suksessarana Tbk which increased from 44.47% to 63.10% and Bayan Resources Tbk which decreased from 338.31% to 69.73% for year 2016 to 2018 can indicate the measurement of used liabilities in financing the asset of the company. The lower leverage ratio means company reduced the used of liabilities in financing the asset and vice versa.

In accordance to the facts and inconsistent result by previous researchers, therefore writer conducts the research with title “**The Impact of Firm Size, Liquidity, Profitability, Leverage towards Tax Avoidance on Mining Companies Listed at Indonesia Stock Exchange**”.

1.2 Problem Limitation

The writer makes problem limitation as follows:

1. The research object is mining company listed at Indonesia Stock Exchange
2. The independent variables are firm size, liquidity, profitability, and leverage and the dependent variable is tax avoidance
3. The research period is year 2016 to 2018

1.3 Problem Formulation

Problem formulation in this research is as follows:

1. Does firm size partially have significant impact towards tax avoidance on mining companies listed at Indonesia Stock Exchange?
2. Does liquidity partially have significant impact towards tax avoidance on mining companies listed at Indonesia Stock Exchange?
3. Does profitability partially have significant impact towards tax avoidance on mining companies listed at Indonesia Stock Exchange?
4. Does leverage partially have significant impact towards tax avoidance on mining companies listed at Indonesia Stock Exchange?

5. Do firm size, liquidity, profitability, and leverage simultaneously have significant impact towards tax avoidance on mining companies listed at Indonesia Stock Exchange?

1.4 Research Objective

The objectives of doing this research are as follows:

1. To identify the impact of firm size towards tax avoidance on mining companies listed at Indonesia Stock Exchange partially.
2. To identify the impact of liquidity towards tax avoidance on mining companies listed at Indonesia Stock Exchange partially.
3. To identify the impact of profitability towards tax avoidance on mining companies listed at Indonesia Stock Exchange partially.
4. To identify the impact of leverage towards tax avoidance on mining companies listed at Indonesia Stock Exchange partially.
5. To identify the impact of firm size, liquidity, profitability, and leverage towards tax avoidance on mining companies listed at Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

The benefits from conducting this research are as follows:

1.5.1 Theoretical Benefit

1. This research can give benefit 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 avoidance on mining companies listed at Indonesia Stock Exchange.
2. This research can give suggestion to the company in increasing market value by considering tax avoidance.

