CHAPTER I

INTRODUCTION

1.1   Background of Study

According to Law No. 28 of 2007 article 1 paragraph 1 tax is a mandatory contribution to the state owed by an individual or entity that is compelling based on the Law, by not getting compensation directly and used for state needs for the greatest prosperity of the people.

Taxes are the biggest source of income for the country, around 80% of state revenues come from taxes. The tax that has been accumulated will be used to carry out government activities such as building infrastructure, paying off state debt and other activities aimed at providing welfare to the people in the country as stated in the law.

But in practice many taxpayers are reluctant to pay taxes in full. Especially for companies, because taxes are a burden on the company so they will try to reduce the amount of taxes somehow both legally and illegally.

In order to know how much has the country gain the tax from the community it can be indicate by using tax ratio. According to Reinaldo (2017) the tax ratio can indicate the government's ability to tax revenues or reabsorb gross domestic product from the public in the form of taxes.

So, the tax ratio can show how the government's efforts to collect taxes from the community. In Indonesia, the tax ratio in the past few years has only been around 11%, compared to other neighboring countries such as Laos which has a tax ratio of around 13%, the Philippines, Singapore and Malaysia have a tax ratio of around 13.7%, Thailand around 15.5% and Vietnam around 19 %.

Indonesia is still considered a failure to optimize taxes collected from taxpayers. One of the causes that made Indonesia fail to fulfill the State Budget from tax revenues was the existence of tax evasion and tax avoidance.

Based on the Fiscal Policy Agency of the Ministry of Finance noted the realization of the growth of tax revenues in the construction and real estate sector or property in 2018 fell 0.54% to 6.62% compared to the previous year period. Since 2016 the national average real estate growth is sluggish which will cause a drop in the property sector that has occurred since the last three years due to a drop in commodity prices. So, property consumers who work in the sector are affected. Meanwhile this year it projects that the property sector still has a number of challenges. Among other things, such as the trade war between the United States (US) and China which has an impact on developing countries, including Indonesia. Right now the tax that is being used in the property is transfer fees for land and building rights which is 5 % of the sales value of property, income tax 5% of the sale value that must be paid by the company and value added tax which is 10% of sale value that will be burdened to the consumer.

According to the information above the government has tried to maximize the tax realization by searching for the modus of the company in the property and real estate. In which there are some modus that had been found by the government:

a. Get around the differences in tax obligations by breaking down property business units based on functions. For example, breaking up into a construction company and marketing company.

b. Payment of value added tax (PPN) to the state should be done when the deed of sale and purchase is signed. But, the property company calculates it when submitting physical control, repayment, or transfer of rights so that VAT receipts are delayed.

c. Avoiding sales tax on luxury goods (PPnBM) through:

    i. The building area in the Debt Tax Notification (SPPT) is different from the Building Construction Permit (IMB) and the physical building.

    ii. Adding buildings outside the initial specifications with separate contracts, such as working on garages and swimming pools different from home contractors.

    iii. There is unreported vertical and horizontal unit unification.

    iv. There are elements of landed house buildings that are not reported as building area component counters.

d. Avoiding taxes on canceled orders in two ways:

    i. VAT for installments paid for canceled property units has never been reported to the Directorate General of Taxes.

    ii. Income from penalty fees and fee bookings for canceled units have never been reported to the Directorate General of Taxes.

e. Developer claimed that the sale was made in installments so that the tax payment was adjusted in installments. In fact, consumers or banks have paid in full.

f. Build buildings that are not self-differentiated, is not carried out as a whole at one time by one contractor.

    The example of the tax avoidance is the tax avoidance that is done by Djoko Susilo in the trial it was revealed that the developer of the luxury home sales to the defendant cost Rp. 7.1 billion in Semarang. But in the notary deed only Rp. 940 million was written. That means that there is a difference in price of Rp. 6.1 billion. In which that is short in VAT that is 10 percent times Rp 6.1 billion. Another shortfall in final PPh (Income Tax) is 5 percent multiplied by Rp 6.1 billion. The total tax deficiency is Rp 900 million. If this developer sells hundreds of luxury housing units, the state loss can reach tens of billions of rupiah from a housing project. In addition, the defendant also

bought a house in the Depok area at a price of Rp. 2.65 billion. But the deed of sale and purchase is only written at Rp 784 million, or there is a difference of Rp 1.9 billion. The potential for VAT that has not been paid is 10 percent multiplied by Rp 1.9 and the final PPh is 5 percent multiplied by Rp 1.9 billion. The total tax is less paid by the developer of Rp.275 million from one unit of the house. The disputes over these values clearly cause a loss of potential state revenues.

The cases above has stated that the tax avoidance and tax evasion has made Indonesia loss millions rupiah which can be used for another use rather than making oneself rich. Although the government has knew the modus to decrease the tax paid, but the company will always find a way to decrease the tax paid in many other way.

There are some companies in property and real estate that have the tax avoidance rate to be low in each year which is PT. Agung Podomoro Land Tbk and PT. Alam Sutra Realty Tbk will be taken as example of the dropping tax avoidance rate each year. This will be put in the table as below:

Table 1.1 Phenomenal Data of Tax Avoidance in Indonesia

Company	Year	Corporate size	ROA	Leverage	Sales Growth	Tax Avoidance
PT. Agung Podomoro Land Tbk	2015	30.832	0.0454	0.6305	0.1274	0.3629
	2016	30.877	0.0365	0.6122	0.0059	0.308
	2017	30.991	0.0658	0.6006	0.1724	0.1241
PT. Alam Sutra Realty Tbk	2015	30.56	0.0365	0.6471	1.53	0.3185
	2016	30.636	0.025	0.6439	-0.02	0.3517
	2017	30.662	0.066	0.5864	0.44	0.1233

Source: Prepared by writer (2019)

From the data above it can be concluded that although that is the sales growth in the company thus the tax avoidance rate is getting lower which means that the cash that is used to pay the tax is lower or still the same although the income in the year is increasing significantly.

There are some differences of tax avoidance and tax evasion in which both of the act is harming the income of the country.

According to (Suandy, 2014)Tax evasion is a tax reduction which is done by violating tax regulations such as giving fake data or hide data. Therefore, tax evasion can be subject to criminal sanctions.

Thus it can be concluded that the tax evasion clearly does not do what has been determined by the law to calculate taxes, which will then be penalized in the form of paying penalties for taxes that are not paid for a certain period of time.

According to Pohan (2016) ,tax avoidance is a tax avoidance effort that is done legally and safely for taxpayers because it is done in ways that do not violate and do not contradict taxation provisions, where the methods and techniques used tend to utilize weaknesses contained in tax provisions.

To overcome the tax avoidance problem in Indonesia the government has amended Article 18 of the income tax law known as the specific anti avoidance rule. But in practice various types of transactions because several schemes not to be regulated in the regulation.

Both tax evasion and tax avoidance can be done because of Indonesia is using the self-assessment system in which the taxpayer will be given the authority to calculate and paid the tax by themselves to the tax office.

There are many factors that can cause the tax avoidance to be happened based on some people:

a. Faizah and Adhivinna (2017) mentioned that the factors that can influence tax avoidance are return on asset. But return on asset, leverage, institution ownership and corporate size influence tax avoidance simultaneously.

b. Handayani (2017) mentioned that the factors that can influence tax avoidance are return on assets and corporate size. But Return on Asset, leverage and corporate size Influence Tax Avoidance simultaneously.

c. Putra and Putri (2017) mentioned that the factors that can influence tax avoidance are corporate size and ownership proportion.

d. Reinaldo (2017) mentioned that the factors that can influence tax avoidance are return on assets, fiscal loss compensation and corporate social responsibility.

e. Indah Sekar Palupi (2018) mentioned that the factor that can influence tax avoidance are leverage, corporate size and sales growth

Based on the above background of study, the author will conduct the research that entitled **"The Influence of Corporate Size, Return on Asset, Leverage and Sales Growth Toward Tax Avoidance in Property and Real Estate Company Listed in Indonesia Stock Exchange".**

1.2   Problem Limitation

The limitations of this study are:

1. The independent variables in this study are corporate size, return on asset, leverage and sales growth.

2. Property and real estate company that listed in Indonesia Stock Exchange from 2013 to 2017 with specific criteria.

1.3   Problem Formulation

Based on the background of the research to be used, then it can be drawn on some of the problems that are to be formulated:

1. Does corporate size influence the tax avoidance in property and Real Estate Company partially?

2. Does return on assets influence the tax avoidance in property and Real Estate Company partially?

3. Does leverage influence the tax avoidance in property and Real Estate Company partially?

4. Does sales growth influence the tax avoidance in property and Real Estate Company partially?

5. Do corporate size, return on assets, leverage and sales growth influence the tax avoidance in property and Real Estate Company simultaneously?

1.4   Objective of Study

Based on the description problem formulation above, author has some objective of the research as follow:

1. To identify the influence of corporate size to tax avoidance in property and Real Estate Company partially.

2. To identify the influence of return on asset to tax avoidance in property and Real Estate Company partially.

3. To identify the influence of leverage to tax avoidance in property and Real Estate Company partially.

4. To identify the influence of sales growth to tax avoidance in property and Real Estate Company partially.

5. To identify the influence of corporate size, return on assets, leverage and sales growth tax avoidance in property and Real Estate Company simultaneously.

1.5   Benefit of Study

1.5.1 Theoretical Benefit

Theoretically this study is expected to give benefit to the academics, by giving the information about the influence of the corporate size, return on asset, leverage and sales growth toward tax avoidance. This study also will give information to the future researcher that want to conduct the same study.

1.5.2 Practical Benefit

Practically this study is expected to give some information towards:

a. Ministry of Finance

This research is expected to provide input to the government, especially the finance department, to find out how much influence each factor has on tax avoidance. so that the government can focus more on the part that has a big influence and take action so that it can reduce tax avoidance actions that have been detrimental to the state.

b. Tax officer

This research is expected to provide information about the relevance of factors with tax avoidance, so that the tax officers can be more detailed and thorough in checking reports given by the company to the tax office when they want to report and pay the tax return.

c. Company

This research is expected to provide information to the businessman or company to know how the managers should take action in order to decrease the amount of tax legally.

1.6   System of Writing

The purpose of systems of writing is to make it easier for readers to understand the content of this research. The outline of research is organized as below:

Chapter I: Introduction

This chapter consists of background, problem limitation, problem formulation, objective of the research, benefit of the research, and systems of writing.

Chapter II: Literature Review and Hypothesis Development

This chapter is explaining about theoretical background that become the base and related to the problems that will be discussed in research.

Chapter III: Research Method

This chapter is explaining about research design, population and samples, data collection method and data analysis method.

Chapter IV: Data Analysis and Discussion

This chapter explaining about collective and descriptive data research, and contains the results of data analysis also discussion about the results of data analysis.

Chapter V: Conclusion

This chapter contains of conclusion about the results of the research, and the recommendation to related parties in this research.