

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

The implementation of a country's tax collection requires a system that has been approved by the community through its representatives in the representative council, by producing a law that becomes the basis for the implementation of the taxation system for tax authorities and taxpayers. The tax collection system that applies in Indonesia based on legislation is the Self Assessment System, where all fulfillment of tax obligations is carried out entirely by the taxpayer, tax authorities only conduct supervision through inspection procedures.

According to Waluyo (2011), one way to realize the nation's independence in financing development is to explore sources of funds from taxes. The government continues to work to improve the tax system to be better in order to increase state revenues from taxes.

In Indonesia, efforts to optimize tax revenue are not without constraints. Along with the improvement of the taxation system carried out by the government, there are differences in interests between the government and the company. Tax in the eyes of the state is a source of revenue to finance the administration of government, while the tax for companies as taxpayers is a burden that will reduce net income. The company strives to pay taxes as little as possible because paying taxes means reducing the economic capacity of the company. This difference in interests causes taxpayers to tend to reduce the amount of tax payments, both legally and illegally. Efforts to reduce tax payments legally are called tax avoidance, while efforts to reduce tax payments illegally are called tax evasion.

Tax avoidance is a complex and unique problem, on one hand tax avoidance is permitted but on the other hand tax avoidance is not desirable. In the context of the Indonesian government, various rules have been created to prevent tax evasion. One such rule is related to transfer pricing, which is about the application of the principle of fairness and normality of business in transactions between taxpayers and those with special relationships (Perdirjen No. PER-32 / PJ / 2011).

Lim (2011) in Gusti (2014) stated that tax avoidance is part of tax planning carried out with the aim of minimizing tax payments. The definition of tax avoidance is as a tax savings arising by utilizing tax provisions that are carried out legally to minimize tax liabilities. Legally tax avoidance is not prohibited even though it often gets unfavorable attention from the tax office because it is considered to have a negative connotation.

There are several factors influencing tax avoidance, namely independent commissioner, institutional ownership, managerial ownership, current ratio, return on asset , leverage, firm size, sales growth, capital intensity ratio, and inventory intensity ratio.

Kurniasih & Sari (2013) stated the predicted Return on Assets (ROA) will affect tax avoidance. Return on Assets is an indicator that reflects the company's financial performance. The higher the value of ROA, means the higher the value of the company's net profit and the higher the profitability. Companies that have high profitability have the opportunity to position themselves in tax planning that reduces the amount of tax liability burden.

Some indications showing the company conducts tax avoidance can be seen from the funding policy taken by the company. One funding policy is leverage policy, which is the level of debt used by companies to finance their operations. The addition of the amount of debt will cause an interest expense to be paid by the company. The

interest expense arising from the debt will be a deduction of the company's net profit which will reduce the payment of taxes so that the maximum profit is achieved. Taxable profits of companies that use debt as a source of funding tend to be smaller than funding sources originating from the issuance of shares, so that they can be classified as tax avoidance measures Adelina (2012). The higher the level of debt, the higher the possibility for the company to conduct tax avoidance. The purpose of tax avoidance is a fund that should be used to pay corporate tax, the company is diverted to pay the debt itself Surya & Ardiana (2016).

Siahaan (2005) in Suyanto & Supramono (2012) stated that companies with high liquidity illustrate that the company has good cash flow, by that the company will pay all of its obligations including paying taxes in accordance with applicable rules. Conversely, companies that have low liquidity will not carry out their obligations to pay taxes or disobey taxes because with low liquidity the company will maintain the company's cash flow rather than having to pay taxes.

Kurniasih & Sari (2013) the size of the company shows the stability and ability of the company to carry out its economic activities. The greater the size of a company, the more the center of attention of the government and will lead to a tendency for company managers to apply compliance (aggressive) or aggressive (tax avoidance) in taxation.

To show if there is any consistent or inconsistent relation between variables, a table phenomenon showing the relation between Return on Asset and Cash Effective Tax Rate in some pharmaceuticals companies listed in Indonesia Stock Exchange during the year 2013 to 2017 is presented as follows:

**Table 1.1 Return on Asset and Cash Effective Tax Rate in some pharmaceuticals companies listed in IDX in 2013-2017**

| Company                        | Year | Return On Asset | Cash Effective Tax Rate |
|--------------------------------|------|-----------------|-------------------------|
| PT Darya-Varia Laboratoria Tbk | 2013 | 0,106           | 0,332                   |
|                                | 2014 | 0,066           | 0,464                   |
|                                | 2015 | 0,078           | 0,244                   |
|                                | 2016 | 0,099           | 0,190                   |
|                                | 2017 | 0,099           | 0,237                   |
| PT Kimia Farma Tbk             | 2013 | 0,087           | 0,349                   |
|                                | 2014 | 0,086           | 0,159                   |
|                                | 2015 | 0,076           | 0,202                   |
|                                | 2016 | 0,059           | 0,190                   |
|                                | 2017 | 0,054           | 0,158                   |
| PT Kalbe Farma Tbk             | 2013 | 0,174           | 0,253                   |
|                                | 2014 | 0,171           | 0,235                   |
|                                | 2015 | 0,150           | 0,257                   |
|                                | 2016 | 0,154           | 0,243                   |
|                                | 2017 | 0,148           | 0,241                   |

Source: [www.idx.co.id](http://www.idx.co.id)

From the table above, there are several pharmaceuticals companies listed in Indonesia Stock Exchange taken as an example to show the interrelation between ROA and Cash ETR which happened between the year 2013 to 2017.

It can be seen above that the amount of Return On Asset in PT Darya-Varia Laboratoria Tbk in the year of 2013-2015 are having a fluctuation. The amount of Cash Effective Tax Rate in 2013-2015, therefore, also facing a fluctuation. However, in the year of 2016 and 2017, the amount of the Return On Asset are the same which are 0,099 but the amount of Cash Effective Tax Rate are increasing from 0,190 to 0,237. As a result, there is an issue happening in PT Darya-Varia Laboratoria Tbk for the year 2016 and 2017.

For PT Kimia Farma Tbk, the amount of Return On Asset keep decreasing through the year of 2013 to 2017 with only a small

deviation except for the year 2015 to 2016 which decrease for 0,017. However, even though the amount of Return on Asset keep decreasing, the amount of Cash Effective Tax Rate faced a fluctuation instead. The fluctuation happened in the year of 2015, where Cash Effective Tax Rate increase for 0,043.

The same issue happened in PT Kalbe Farma Tbk, from the year 2013 to 2014, the amount of Return On Asset decrease as well as the amount of Cash Effective Tax Rate, same goes to the period of 2016-2017, where both the amount of Return On Asset and Cash Effective Tax Rate decrease. However, in the year of 2015, the amount of Return On Asset decreased from the year 2014, while the amount of Cash Effective Tax Rate increased. This means that there is a inconsistency happening between Return On Asset and Cash Effective Tax Rate.

The sample used in this study was focused on pharmaceuticals companies in the consumer goods industry sector. The author choose to use the sub sector companies which is the pharmaceuticals companies because writer wants to analyse whether pharmaceuticals companies which not generally known to have high profit are triggered to carry out tax avoidance. The data used for this study is for 5 consecutive years, namely from 2013-2017.

Based on the background of the study above, the author would want to do the research with the title **“The Influence of Current Ratio, Debt to Asset, Return on Asset, and Firm Size toward Tax Avoidance in Pharmaceuticals Companies listed in Indonesia Stock Exchange”**

## 1.2 PROBLEM LIMITATION

There are a lot of variables which affect tax avoidance. However, due to writer's lack of time, writer decides to limit the problems of study to the influence of current ratio, debt to asset, return

on asset, and firm size toward corporate tax avoidance. The population in this study is taken from Indonesia Stock Exchange. There are too many industries and writer decided to use the Pharmaceuticals companies listed on the Indonesia Stock Exchange. The measurement component of tax avoidance measures is measured by using cash effective tax rate (CETR).

### **1.3 PROBLEM FORMULATION**

The problem of taxation seems to be familiar to all community. Taxes have different meaning for government and tax assignments. For corporation, as the Tax Authorities, taxes can be interpreted as a burden that can reduce the profits obtained. While for the government, the bigger the amount of the taxes is paid, the greater amount the government gets from the tax sector.

To raise the issues discussed in this study, there are formulation of the problems as follows:

1. Does current ratio partially have any influence toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange?
2. Does debt to asset partially have any influence toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange?
3. Does return on asset partially have any influence toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange?
4. Does firm size partially have any influence toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange?
5. Do current ratio, debt to asset, return on asset and firm size simultaneously have any influence toward tax avoidance in

pharmaceuticals companies listed in Indonesia Stock Exchange?

#### **1.4 OBJECTIVES OF THE RESEARCH**

In accordance with the formulation of the problem, this study aim to find empirical evidence in order :

1. To analyse the influence of current ratio toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange.
2. To analyse the influence of debt to asset toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange.
3. To analyse the influence of return on asset toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange.
4. To analyse the influence of firm size toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange.
5. To analyse the influence of current ratio, debt to asset, return on asset, and firm size toward tax avoidance in pharmaceuticals companies listed in Indonesia Stock Exchange.

#### **1.5 BENEFITS OF THE RESEARCH**

This research is expected to be useful to some parties as follows:

##### **1.5.1 THEORETICAL BENEFIT**

1. For the author, this research is expected to be able to allow writer to analyse whether current ratio, debt to asset, return on asset, and firm size influence tax avoidance. In addition, it also

enables the author to have more understanding toward the definitions of the variables.

2. For the readers, the results of this research is expected to provide knowledge for the readers. Additionally, it is also expected to be used as a literature or reference from which readers can generate new ideas for further research related to current ratio in liquidity, debt to asset in leverage, return on asset in profitability, firm size, as well as their relations toward tax avoidance.

### **1.5.2 PRACTICAL BENEFIT**

1. For the company, this research is expected to give reference which provide information for the company about tax avoidance in order to let the company be able to think wisely either they need to apply the tax planning in order to work out the tax avoidance or no. It also helps in managing the company to know about the policy related to taxation.
2. For the society, this research is expected to be useful for society in which society can gain knowledge about taxation, especially tax avoidance, as well as the variables used in this research.
3. For Directorate General of Tax, this research is expected to be useful as the Directorate General of Tax could use this research in helping them by giving them input in the process of making the policy of taxation in the future.

### **1.6 SYSTEMS OF WRITING**

To facilitate an overview of the content of this research, the system of writing will be compiled as the following details :

**CHAPTER I : INTRODUCTION**

In this chapter, writer elaborates about the background of study, problem limitation, problem formulation, objectives of the research, benefits of the research, and systems of writing of the research.

**CHAPTER II : LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

In this chapter, writer recapitulates about some theories definition related to the research, the research model of this writing, previous research related to this research, as well as research framework formulated to conduct this research.

**CHAPTER III : RESEARCH METHODOLOGY**

In this chapter, writer clarifies the research design by explaining the variables used in this research, research object such as the population and sample, methods of collecting data, types and sources of the data and the way of analyse data.

**CHAPTER IV : DATA ANALYSIS AND DISCUSSION**

This chapter describes the object of the research, data analysis, and interpretation of results of the research.

**CHAPTER V : CONCLUSION**

This chapter contains the conclusion as the results of the whole study and the problem faced in this research. It also includes suggestions to overcome the problem that might be useful for the next researchers as well as the readers.