CHAPTER I

INTRODUCTION

1.1. Background of the Study

Economic growth is increasing steadily from time to time. As the result, government will keep trying to turn all the potentials available into sources of income to finance all the expenditures of a country. One of the biggest sources of income received by a country is tax. Tax plays the key role as the main source of income for a country which is also one of the driving forces for a country's economy and it has a fundamental function because tax is used to fund the implementation of national development. All the tax revenues that are mostly collected from the income tax, value added tax, and property tax will become the budget to build the infrastructures of a country and also finance the administration. Meaning by that is government uses the taxes to provide the public facilities which can be enjoyed by the people of a country.

As a developing country, Indonesia highly depends on the taxes for its national financing. In Indonesia, according to the Law No. 16 Year 2009 of General Provision and Tax Procedures, tax is a can-be-forced-to-be-collected contribution exposed on every single Indonesian citizen and/ or everybody else who lives in Indonesia for a certain period of time. Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all, without reference of all or without reference to special benefit conferred (Prof. Edwin RA Seligman, 1925)

Even though it is stated in the constitution that tax is a compulsory, the practice of tax collection has yet to be well-accepted by the tax payers. This could be proved by how the government had only collected around 1.34 trillion rupiah by the end of 2017, which is only 91% of the targeted tax revenues stated by *Kemenkeu (Kementerian Keuangan)* with the amount of 1,498 trillion rupiah. Despite the lower target of revenues than the previous year is set and various tax amnesty programs are offered, the inability in collecting the targeted tax revenues shows that the tax payers have yet to be committed in paying taxes especially entities tax payers. Besides the tax revenues, according to the *Badan Pemeriksa Keuangan (BPK)*, the tax ratio in 2017 is only 10.7% against the Gross Domestic Product. Looking by the number, the tax ratio of Indonesia is far lower than other neighbor countries which tax ratios are around 12% - 18%. Meanwhile, the status of the tax ratio in Indonesia was 11.6% in 2015. Furthermore, the tax ratio index in Indonesia fell back to 10.8% in 2016 and kept declining in 2017.

The decline of the tax ratio is potentially caused by the conflict of interest between the entities and the government. For entities, taxes are considered as expenses that affect their profits and their rate of return of investment (ROI). Many of them strive to manage their tax management to minimize the payment of taxes in various ways. While on the other hand, government needs the fund that mostly comes from the receipts of tax or tax payments to finance all the system of governance to become more responsive. This conflict of interest between two parties interfere the optimization of tax receipts because it inflicts the act of tax resistance.

According to Waluyo (2010:13), tax resistance is divided into two types which are active and passive. Passive resistance creates hindrances in collecting tax and having an immediate effect with economic structure. Meanwhile, active resistance is aiming to minimize the tax. Active resistance can be carried out by a company through a proper tax management. There are several functions of tax management consisting of tax planning, implementation of tax obligations, and tax control. At the planning stage, the tax regulations are collected and researched. The goal is to be able to choose tax-saving measures carried out by the company. One strategy for tax planning is tax avoidance, which is a way to legally reduce taxes. Tax planning is distinguished into two types, which are tax avoidance and tax evasion. Tax avoidance is associated with legal acts with an intention to save taxes and is considered a good idea and also associated with taxes as costs. Tax evasion, on the other hand, is associated with illegal aspects, fraud, criminal prosecution, risk, tax-audit, punishment, penalty and the risk of getting caught.

Suandy (2013) defined tax avoidance as a term used to describe the legal arrangements of tax payer's affairs so as to reduce the tax ability. Besides that, Hutagol (2007) stated that tax avoidance is a business effort to conduct the act of minimizing the tax payments without violating the tax regulations through the loopholes. Thus, according to Professor Wheat's observation, tax avoidance is an art of winning games without actually cheating; thereby beating the internal revenue and the government to their own game.

According to the executive director of Center for Indonesia Taxation Analysis (CITA), Yustinus Prastowo, taxation in Indonesia is built on the principle of mutual cooperation. Since 1984, Indonesia has been applying a self-assessment system that gives responsibilities to taxpayers to calculate, report, and pay the tax payable by themselves. The role of the tax authority is to carry out the functions of coaching, research, supervision, and the application of administrative sanctions. The success of the self-assessment system is very dependent on the awareness and participation of the community (voluntary compliance), so education and communication need to be continuously carried out. There is an ancient adage "no one likes to pay taxes". However, in fact, everybody agrees that taxes are very important and are useful for the public interest.

Voluntary in taxation always means quasi-voluntary or voluntary arising from the existence of coercion by law and the expectation of benefits from paying taxes (Brautigam, 2008). Given its instinctive nature, understanding the concept of tax avoidance and tax evasion is very important. Tax avoidance is only possible if there is an area that opens a different interpretation in the law. It is not easy to distinguish between two things that are technically very closely related. Tax avoidance and tax evasion are distinct but inseparable, mainly because they are influenced by the complexity of the law in the country (Palan et al, 2008). In principle, tax avoidance is not something that is wrong or forbidden. However, a tax avoidance scheme must be tested whether it is appropriate or violates the law. What distinguishes tax avoidance and tax evasion is its legality, namely tax avoidance is legal while tax evasion is illegal. In practice, the grouping between the two depends on the interpretation of the tax authorities in each country. It can be concluded that what distinguishes a tax planning scheme including the tax avoidance or tax evasion category is its legality. Whereas from an ethical perspective, these two practices actually contradict the intent of the law.

Tax avoidance is in between tax compliance and tax evasion. Some parties try to define tax avoidance. Black's Law Dictionary explains that tax avoidance is an effort to minimize tax burden by utilizing opportunities for tax avoidance (loopholes) without violating tax laws. Furthermore, the OECD describes that tax avoidance is a business of taxpayers reducing tax payable even though this effort might not violate the letter of the law, but it actually contradicts the purpose of making the spirit of the law. Professor Palan mentions that a transaction is indicated as tax avoidance when performing one of the following actions: (a) Taxpayers try to pay less tax than they should be owed by utilizing the fairness of interpretation of tax law. (b) The taxpayer strives for taxes to be imposed on declared benefits and not on actual profits obtained; (c) Taxpayers seek to delay payment of taxes.

The practice of tax avoidance is actually a big dilemma for the government because taxpayers make a reduction in the amount of tax that must be paid, but it is done by not contradicting the applicable provisions. In this case, the Directorate General of Tax cannot do anything or carry out legal prosecution although the practice of tax avoidance will affect state revenue from the tax sector.

Companies use various ways and methods by taking advantages from the loopholes to conduct a remarkable tax planning that may lead to the reduction of tax payments or so called as tax avoidance. Every company implements different strategies on their tax avoidance based on numerous factors. Based on the research that is done by Budianti and Curry (2018), profitability, liquidity and capital intensity are some of the factors that lead to the effort of doing tax avoidance. Ngadiman and Puspitasari (2014), Mumandar and Nazar (2016), and Putri and Putra (2017) also undertook similar research towards tax avoidance with other factors, such as firm size, leverage, compensation tax loss and institutional ownership. Other factors that are assumed to influence tax avoidance, such as sales growth and executive character have been researched by Rahmawati (2017), Hidayat (2018) and Tristianto (2016). Numerous researches have actually been done by a lot of parties with varieties of results. Therefore, this research will focus on some factors to bring out more stable result.

One of the factors that will be discussed in this research that has the effect on tax avoidance practices is the firm size. Firm size can be used as a standard to value the company by inspecting the company's total assets. The company that has a good corporate value and demonstrates the ability in carrying out economic activities can be reflected through the firm size. According to Dewinta and Setiawan (2016), companies that earn high and stable profits tend to perform tax avoidance since it will affect the amount of tax burden borne by the companies. According to Kurniasih and Sari

(2013), large companies can always use the resources that they have to conduct a tax planning.

It can be assumed that large companies have indications that the company has good value so that the company does not make tax avoidance. However, since a larger company tends to have more complex transactions, this condition could be taken as advantages to use the loopholes in conducting tax avoidance through the transactions. According to the research from Kurniasih and Ratnasari (2013) on manufacturing company in Indonesia Stock Exchange, firm size has significant positive effect on the tax avoidance which is also in accordance to the Ngadiman and Puspitasari's result (2014). However, according to Raemona and Nazar (2016), firm size negatively affects tax avoidance.

Other researchers also try to seek for the relationship to see whether there is any effect between sales growth and tax avoidance. The reason is because from year to year, sales growth is an indicator of market demand and competitiveness in several industries, including trading company that is a growing industry. Dewinta and Setiawan (2016) claimed that sales growth plays the key role in the working capital management of a company. A company can predict on its profits through the sales growth. When a company's sales growth increases then the profits will increase so it can affect the tax burden paid. Meaning by this is, the increase in the sales growth will make the company as a taxpayer tends to avoid taxes and reduce tax payments. This statement is supported by Arfan (2016) which shows that sales growth affects the increasing of tax avoidance.

A research that has been conducted previously by Putri (2014) shows that companies with decent current ratios in manufacturing industry will not use tax payments in reducing its expenses. The reason is because company with decent liquidity ratio will be capable in settling up its current liabilities, including the income taxes. However, low liquidity ratio reflects on the company's performance and its disability to cover up its current liabilities. According to Suyanto and Supramono (2012), this kind of situation will lead to tax avoidance in order to focus on stabilizing the cash flow rather than paying higher amount of taxes. The result of the tax saving could be used to comply the current liabilities. Many researches of current ratio have been carried out. While on the other hand, the research done by Purwanto (2016) and Budianti and Curry (2018) indicated that there is influence of the current ratio toward the tax avoidance.

From the result of the Economic Census in 2016, the Head of Central Bureau of Statistics (BPS), Kecuk Suhariyanto, showed out that the number of companies in Indonesia escalated for almost 4 million companies or increased by 17.51% in a decade. From the results of the census in 2016, there were 26.7 million companies in Indonesia. This figure increases compared to the results of the 2006 Economic Census which amounted to 22.7 million companies. The increasing number of the population and the growth of modern businesses, such as online businesses contribute to the increasing economic activities in Indonesia. Generally, about 12.3 million or 46.17% of all companies in Indonesia operate in the trading sector; repair and maintenance of cars and motorbikes. Other companies are engaged in the accommodation; food and beverage (16.72%) and processing industry (16.53%).

Bases on the census, the author is interested to conduct this research in trading sectors of Indonesia Stock Exchange, therefore, table of tax avoidance phenomena in trading companies is represented as follow:

Table 1.1 The Phenomenon of Total Assets, Sales, Current Ratio, Income Before Taxes and Cash Tax Paid on Trading Company that Listed in Indonesia Stock Exchange in 2013-2017

Kode Perusahaan	Tahun	Total Assets (Millions IDR)	Sales (Millions IDR)	Current Ratio (%)	Income Before Taxes (Millions IDR)	Cash Tax Paid (Millions IDR)
ACES	2013	3,731,101	3,850,300	7.261	622,993	308,705
	2014	3,267,549	4,492,197	5.985	681,878	316,430
	2015	2,947,348	4,694,947	5.089	736,611	264,655
	2016	**4,428,840**	4,884,064	**7.023**	**863,127**	**297,757**
	2017	**2,478,918**	5,938,576	**3.977**	**780,686**	**346,868**
TGKA	2013	2,471,998	8,198,126	1.598	196,473	45,867
	2014	2,471,584	9,463,005	1.721	225,742	134,097
	2015	2,646,302	9,526,866	1.784	267,489	77,018
	2016	2,686,030	**9,614,723**	1.445	**247,273**	**72,155**
	2017	2,924,963	**10,046,979**	1.553	**325,696**	**14,780**
RALS	2013	4,378,556	5,223,962	2.946	457,698	88,335
	2014	4,554,667	5,131,375	2.950	388,124	56,007
	2015	4,574,904	5,533,004	**2.255**	**364,620**	**36,091**
	2016	4,647,009	5,857,037	**2.465**	**465,065**	**34,894**
	2017	4,891,922	5,622,728	2.806	466,592	89,588

Source: www.idx.co.id (2019)

From the table 1.1, there are inconsistent phenomenon happened in some trading companies that listed in Indonesia Stock Exchange between 2013-2017 that depicted the interrelation between total assets, sales, current ratio, income before taxes and cash tax paid.

In the presented table above, PT. Ace Hardware Indonesia Tbk in the year 2016 had larger total assets compared to 2017. However, the amount of tax being paid in cash in 2016 was far lower compared to 2017. In contrary, the amount of total assets of PT. Ramayana Lestari Sentosa Tbk in year 2013 was smaller than in year 2016, but the company paid larger tax in cash in 2013 compared to year 2016. Therefore, inconsistency happened between amount of total assets and cash tax paid.

Similar condition also happened in the sales growth of the company. PT. Tigaraksa Satria Tbk in the year 2016 had smaller sales compared to 2017. However, the amount of tax being paid in cash in 2016 was far larger compared to 2017. Conversely, PT. Ramayana Lestari Sentosa experienced the escalation in the sales from year 2016 to 2017 but the amount of tax being paid in 2016 declined from the amount being paid in 2017. Therefore, inconsistency also happened between amount of sales growth and cash tax paid.

The current ratio of PT. Ace Hardware Indonesia, Tbk declined in year 2016-2017. But, the amount of tax being paid in cash increased between those 2 years. However, reverse condition happened in PT. Ramayana Lestari Sentosa, Tbk had an increased current ratio between 2015 and 2016 but the amount of tax being paid in cash in 2015 was larger than the amount being paid in 2016. Therefore, inconsistency also happened between amount of current ratio and cash tax paid.

Based on various results from previous researches and some potential tax avoidance phenomenon above, thus, writer is interested to do this similar research with the difference between this research and previous researches is the object of this research. This research will be conducted on trading companies that are listed on the Indonesia Stock Exchange in 2013-2017 to find more defined result about the impact of firm size, current ratio and sales growth toward the tax avoidance from the most recent period of time. The reason this research will concentrate in trading companies is because trading sector is one of the most widely run by the companies in Indonesia. Therefore, through the background of study from above, the author will do the research with the title "THE IMPACT OF FIRM SIZE, SALES GROWTH AND CURRENT RATIO TOWARD THE TAX AVOIDANCE IN TRADING COMPANY THAT LISTED IN INDONESIA STOCK EXCHANGE".

1.2. Problem Limitation

This research is limited with only annual financial statement of the trading company that is listed in Indonesia Stock Exchange will be the source of analysis from the period of 2013-2017. The variables are limited to three variables which are firm size, sales growth and current ratio.

1.3. Problem Formulation

Based on the background of study, the formulation of the problem from this research is as follows:

1. Does the firm size influence tax avoidance of trading company that listed in Indonesia Stock Exchange partially?
2. Does the sales growth influence tax avoidance of trading company that listed in Indonesia Stock Exchange partially?
3. Does the current ratio influence tax avoidance of trading company that listed in Indonesia Stock Exchange partially?
4. Do the firm size, sales growth, and current ratio influence tax avoidance of trading company that listed in Indonesia Stock Exchange simultaneously?

1.4. Objectives of the Research

From the above problem formulation, this research aims:

1. To identify if firm size influence tax avoidance of trading company that listed in Indonesia Stock Exchange partially.
2. To identify if sales growth influence tax avoidance of trading company that listed in Indonesia Stock Exchange partially.
3. To identify if current ratio influence tax avoidance of trading company that listed in Indonesia Stock Exchange partially.

4. To identify if firm size, sales growth, and current ratio influence tax avoidance of trading company that listed in Indonesia Stock Exchange simultaneously.

1.5. Benefit of the Research

Through the conducted research, hopefully, it can be useful to various parties as follow:

1. Theoretical Benefit

   The result of the research could provide knowledge and evidence for the author and readers about the impact of firm size, sales growth and current ratio toward the tax avoidance of trading company that listed in Indonesia Stock Exchange. This research is also expected is expected to be used as a literature and bring up new ideas and ideas for further research.

   In addition, this research is expected to be used as a reference in the development for the study of economics, especially in accounting in relation to current ratio, firm size, sales growth and tax avoidance.

2. Practical Benefit

   a. For company

      This research could be a reference for company with information that can be useful in responding the tax avoidance through the company size, sales growth and liquidity ratio. It could be used to prepare a better tax management of the company.

   b. For government

      The result of this research could provide inputs for regulators or in this case the Directorate General of Taxes in improving the effectiveness of the existing tax regulations and as a reference in forming the new regulations that can prevent tax evasion by the companies.

1.6. System of Writing

In order to ease the readers, this system of writing is concluded the content of this research as follow:

CHAPTER I : INTRODUCTION

This chapter contains an explanation of the background of the study that triggers problems which will be discussed in this study. With this background, the main issues to be examined will be formulated and as a reference for determining the hypotheses for this study. This chapter also describes the purpose and objectives of the research and the system of writing.

CHAPTER II : LITERATURE REVIEW

This chapter discusses the theoretical basis relating to research which is the basis of reference in conducting research and becomes the logical basis for finding evidence and solutions to the hypotheses proposed, previous studies related to this research, and framework of thinking.

CHAPTER III : RESEARCH METHODOLOGY

This chapter describes the variables used in this research and its operational definitions, population and research samples, types and sources of data and data collection methods, and the analytical methods used in this study.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

This chapter describes the research hypothesis testing which is composed of descriptions of research objects, analysis of data, and interpretation of test results.

CHAPTER V : CONCLUSION

This chapter wraps up about the conclusions on the results of research, reveals limitations in conducting research, and suggestions that can later be used as reference material in future research.