

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

Every company in Indonesia is obliged to pay tax without exception. In accordance with Law No.28 of 2007 regarding general provisions and procedures for taxation, taxes are "mandatory contributions to the state owned by an individual or entity that obligate based on the law, with no reciprocity directly and used for state purposes as much as possible for prosperity of citizens ". Based on the contents of this law, it is clear that taxes are a source of income for the country and around 82% of the country income is from tax and to develop the country. It needs a lot of funds and the government takes it from the tax. Meanwhile, for company tax is a burden that will reduce a net profit of the company. To minimize the tax burden or tax liability, many companies tend to avoid the tax by doing the action to minimizing the tax and it can be in the form of legal or illegal actions such as the tax avoidance, tax planning or tax evasion.

Tax avoidance is an act using legal method according to the law to minimize the tax liability without violating the rule. Tax planning is a process of analyzing the financial situation without violating the rule by making use of all beneficial provisions and relations in the tax law. For example tax exemptions, deductions, tax treaty and many more. Tax evasion is an illegal way to minimize the tax burden or tax liability by manipulating the financial statement to decrease the tax liability that needed to pay by the taxpayer.

There is a case on property and real estate subsector in Indonesia according to the *Detikfinance* and *Kompas*. The Directorate General of Taxes found the existence potential loss of tax revenue due to not reported actual transactions of land/building sales including property, real estate and apartments. This happened because the taxes paid are using Object Selling Value-based transactions Tax (NJOP) which is not based on actual

transactions or real. The sale of luxury homes by the developer to the defendant, worth Rp 7.1 billion in Semarang, but the notary deed was only written Rp 940 million. There was a difference in price of Rp 6.1 billion.

Head of the External Relations Section of the Directorate General of Taxes, Chandra Budi, said that based on cross-checking data on Real Estate Indonesia conducted by the Directorate General of Taxes in 2011-2012, there are potential income tax (*PPh*) of Rp 30 trillion, the figure is not yet including VAT, but the fact is the tax deposit from the property subsector at that year only around Rp. 9 trillion. (www.finance.detik.com).

Related to this, the Directorate General of Taxes found 6 kinds of ways done by property developers and real estate in doing tax avoidance which is stated in Nasional Kontan, such as :

1. Dealing with differences in tax obligations by breaking down business units property based on its function.
2. Property companies carry out tax avoidance when submission physical control (*Penguasaan fisik*), repayment of payment or transfer of rights so that VAT delayed. In fact, the VAT payment to the country should be done when signed the sale and purchase deed.
3. Avoiding sales tax on luxury goods (PPnBM) in various ways by distinguishing the building area in Notification of Tax Due (*Surat Pemberitahuan Pajak Terutang*) with building permit (IMB) and the physical structure of the building, do the addition of the building outside initial specifications with separate contracts.
4. Avoid tax on canceled orders in two ways, such as VAT for installments that have been paid for a canceled property unit never reported to the Directorate General of Taxes, and did not report income from penalty fee and fee booking for units canceled to the Directorate General of Taxes.

5. Development of developers to sell by installments so that the tax payment is according to the installments. While consumers or the bank has paid in full.
6. Differentiate how to build buildings that are not done alone, which is not carried out as a whole in one period by one contractor. This is so that there are differences in taxation obligations (<https://nasional.kontan.co.id>).

Among the companies that have gone public and are listed on the Indonesia Stock Exchange (IDX), one of them is a property and real estate company that will be researched by the author. There are some companies in property and real estate that related to the tax avoidance and author already prepared the table of phenomenon for that.

Table 1.1
Earning After Tax, Total Asset, Fixed Asset and Cash Tax Paid in some
Property and Real Estate companies that listed in IDX 2013-2017
(in thousand rupiah)

Company	Year	Earning After Tax	Total Asset	Fixed Asset	Cash Tax Paid
PT Alam Sutera Realty Tbk (ASRI)	2013	889.576	14.428.082	801.677	183.874
	2014	1.176.955	16.924.366	957.762	180.404
	2015	684.287	18.709.870	1.097.189	241.735
	2016	510.243	20.186.130	1.148.604	208.026
	2017	1.385.189	20.728.430	1.225.363	178.265
Intiland Development Tbk (DILD)	2013	329.608.541	7.526.470.401	167.163.718	114.223.205
	2014	432.417.358	9.004.884.010	761.068.774	107.713.621
	2015	419.044.195	10.288.572.076	225.290.354	123.404.458
	2016	297.350.554	11.840.059.936	243.529.148	129.165.337
	2017	271.536.513	13.097.184.984	228.689.596	87.348.766
Ciputra Development Tbk (CTRA)	2013	1.413.388.450	20.114.871.381	1.804.435.794	163.570.865
	2014	1.794.142.840	23.538.715.000	2.351.718.580	328.843.744
	2015	1.740.300.162	26.258.718.000	2.961.999.000	422.962.372
	2016	1.170.706.000	29.072.250.000	3.033.847.000	302.742.000
	2017	1.018.529.000	31.706.163.000	3.137.453.000	285.992.000

Source : Prepared by writer (2019)

The increasing of earning after tax, total asset and fixed asset will cause the increase in the cash tax paid. In table 1.1, PT Alam Sutera Realty Tbk has been increasing in earning after tax, total asset and fixed asset in 2013-2014, but the tax paid is decreasing. It also can be seen in 2016-2017 that there is an increase in earning after tax, total asset, and fixed asset, but the tax paid is decreasing.

PT Intiland Development Tbk has been increasing in earning after tax from 2013-2014 around Rp 102.808.816, the total asset is increasing around Rp.3.423.843.618, the fixed asset is increasing around Rp.547.282.785, but the tax paid is decreasing around Rp 6.509.584. In 2014-2015 there is decreasing in the earning after tax but the tax paid is increasing.

In PT Ciputra Development Tbk, from 2013-2014 there is decreasing in the earning after tax but the tax paid is increasing. In 2015-2016, there is an increase in total asset and fixed asset but the tax paid is decreasing.

It can be concluded that whether there is an increase in the earning after tax, total asset, fixed asset but the tax paid become lower. This means that the companies conduct tax avoidance to minimize the tax that must be paid.

There are many factors that can influence tax avoidance and the previous research has been done by many people shows various results. Based on the previous studies, the factors that influence the tax avoidance are :

1. Tursia Bella Novita, Kartika Hendra Titisari and Suhendro (2019) mentioned that the factors that can influences tax avoidance are profitability and firm size.
2. Muadz Rizki Muzakki and Darsono (2015) mentioned that corporate social responsibility and capital intensity influence tax avoidance negative significantly.

3. Annisa (2017) mentioned that the factors that can influence tax avoidance are return on asset and leverage.
4. Dewi Yanti and Fatahurrazak (2018) mentioned that the factors that can influence tax avoidance are profitability and capital intensity.
5. Afrilia Cahya Ningrum (2017) mentioned that return on asset and family ownership influence the tax avoidance negative significantly.

According to the previous research above, it can be concluded that the factors that can influence tax avoidance are profitability, firm size, corporate social responsibility, capital intensity, return on asset, leverage and family ownership.

In Indonesia the actions included in the tax evasion were started by using the soft approach method, for example by giving appeals or social letters. Firm actions were also taken starting from the initial examination to the investigation which led to the threat of fiscal criminal penalties stipulated in Law Number 16 Year 2009 of Article 38 and Article 39 about General Provision of Taxation.

The greater the company conducts tax avoidance then companies will tend to reduce the amount of debt that will cause debt costs. Debt will reduce the company's earnings.

Base on the background of study and cases above, the author will make a research about **“The Influence of Return on Asset, Firm Size and Capital Intensity Ratio to the Tax Avoidance in Property and Real Estate Company that Listed in Indonesia Stock Exchange”**.

1.2 PROBLEM LIMITATION

Due to the limited time to conduct the research, many type of company that listed in Indonesia Stock Exchange and many factors that can cause tax avoidance, the author will limit the research that will be studied to return on asset, firm size and capital intensity ratio and will

examined the annual financial statements on property and real estate companies listed in Indonesia Stock Exchange from 2013-2017.

1.3 PROBLEM FORMULATION

To raise the issues discussed in this study, the author makes the formulation of the problem as follow:

1. Does return on asset influence the tax avoidance in Property and Real Estate Company partially?
2. Does firm size influence the tax avoidance in Property and Real Estate Company partially?
3. Does capital intensity ratio influence the tax avoidance in Property and Real Estate Company partially?
4. Do return on assets, firm size and capital intensity ratio influence the tax avoidance in Property and Real Estate Company simultaneously?

1.4 OBJECTIVE OF THE RESEARCH

In accordance with the formulation of the problem, this object of study is:

1. To identify the influence of return on asset towards tax avoidance in Property and Real Estate Company partially.
2. To identify the influence of firm size towards tax avoidance in Property and Real Estate Company partially.
3. To identify the influence of capital intensity ratio towards tax avoidance in Property and Real Estate Company partially.
4. To identify the influence of return on assets, firm size and capital intensity ratio toward tax avoidance in Property and Real Estate Company simultaneously.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

Theoretically, this research is expected to provide information towards:

a. Author

This research can be used to increase author knowledge about return on asset, firm size and capital intensity ratio whether it has any influences toward tax avoidance or not and develop the knowledge that has been obtained.

b. Students

This research can be used to give information and details about how the return on asset, firm size and capital intensity ratio can influence the tax avoidance and also can give some information for students to do a research about other factors that can influence the tax avoidance.

1.5.2 PRACTICAL BENEFIT

Practically this research is expected to give some information towards:

a. Investor

This research can be used to provide information for people or investors to evaluate and be more careful in investing in the company to avoid the possible impact of tax avoidance that carried out by the company

b. Tax officer

This research can be used to describe variables that needed to pay attention to make better regulations and also examining the company taxes so that the state revenues source from tax can be more optimal.

1.6 SYSTEMS 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 is explaining the background of the tax that is being implemented in Indonesia and the problem arise because of lots of the taxpayer are not paying the tax according to what they should pay. The research will focus on three factors that may cause the tax avoidance which return on asset, firm size and capital intensity ratio of the companies. The object of this research is the financial statement of the property and real estate company which is listed in Indonesia stock exchange from 2013-2017.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter is explaining about theoretical background that becomes 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 is 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 conclusion about the results of the research, and the recommendation to related parties in this research.