CHAPTER I

INTRODUCTION

1.1 Background of Study

Tax is the largest source of state revenues in Indonesia, amounted to 1,343.5 trillion rupiahs or equivalent to 98.6 percent of the total state revenue 1,362 trillion rupiahs in the State Budget (APBN) 2017 (www.kemenkeu.go.id, 2017). Tax receipt in a country is used for, among others, improving education and public welfare, developing infrastructure that encourages economic growth, supporting resilience and security, as well as regional development (RAPBN, 2017).

According to Law Number 16 of 2009 concerning General Provisions and Tax Procedures in Article 1 paragraph 1, taxes are mandatory contributions to the state owed by individuals or entities based on the law, without receiving direct reciprocity and are used for the purposes of the state for the greatest prosperity of the people (Undang – Undang No. 6 Tahun 1983).

Indonesia wants huge tax revenue so that it can be used for development, but the country restricted by the people who are still unwilling to pay taxes so it can emerge tax avoidance behavior and smuggling taxes from society. Tax avoidance is one of the tax planning, where this planning aims to reduce taxes legally. Although tax avoidance is a taxpayer business that is not breaking the law, actually tax avoidance is an action listed the government does not want so to prevent it, the government made a regulations (Hantoyo *et al.*, 2016).

Tax planning is an activity to minimize tax expense by utilizing tax regulations. Tax planning activity can be referable as tax avoidance. Tax avoidance is a way of avoiding a large tax expense in a manner permitted by the taxation law by taking advantage of a weakness in the tax law. Tax avoidance is the taxpayer's effort to minimize the corporate tax expense that is not a violation of taxation legislation because the effort is carried out in a manner permitted by the taxation law. Tax avoidance used as a legal to reduce the income tax payable by companies. Companies use several methods for tax avoidance, but the most common method is the accounting method. Companies also apply estimates to increase expenses and benefits to reduce their income. The level of tax avoidance varies between companies. Investors will view aggressive tax avoidance as a reduction in corporate value, especially for companies that have lack of good corporate governance. There are some factors that may influence tax avoidance such as Corporate Social Responsibility, Good Corporate Governance, Firm Size and Leverage.

The government and taxpayers have different interests in the implementation of tax collection. The government wants to continue to increase or optimize state revenue through financing the administration of the state, while most taxpayers try to pay the minimum tax because tax will reduce income or profit. Taxpayers will try to reduce the amount of tax payments so that the predetermined income or profit can be achieved. This is possible because of the opportunity to take advantage of the weaknesses of taxation regulations. One of the taxpayers in Indonesia is a company. Taxes paid by companies are based on the tax law. The management and owner of a company feel unfair because taxes directly reduce company revenue. Generally, the greater income earned by the company results the greater taz expense that must be paid.

In terms of tax, one of the efforts made by companies in managing its tax expense is through Corporate Social Responsibility (CSR). According to Ursula (2018), CSR is the contribution of a companies that is continued to commit to the wider community or local community from economic development. According to CSR principle, CSR is a sustainable attachment to society from the companies in the form of ecological, social and economic responsibility, as well as for stakeholders.

Indonesia started to apply the principles of Good Corporate Governance (GCG) since signing the Letter of Intent (LOI) with the IMF, one of listed is an important part of listed is inclusion schedule for improving the management of companies in Indonesia. The National Committee on Corporate Policy Governance (KNKCG) argues that companies in Indonesia has the responsibility to implement the GCG standards that have been implemented at the international level. GCG is also concerned with how investors believe that the manager will benefit them, sure that the manager will not reveal progress to unprofitable projects related to funds or capital that has been invested by investors. GCG is a system that prioritizes the rights of shareholders to obtain correct, accurate, and timely information. GCG is needed to encourage the creation of an efficient market, transparent, and consistent with laws and regulations (Syuhada *et al.*, 2019).

Another factor to determine tax avoidance is firm size. Firm Size in this study is proxied by natural logarithm of total taxpayer assets. The larger total assets indicates the larger size of the company, it is assumed that the transactions carried out by the company will be more complex. So it is assumed that a larger gap can also be used by taxpayers to carry out tax avoidance.

The use of corporate financing sources, both short-term and long-term sources of financing, will have an effect called leverage. Gibson (1990) states that "the use of debt, called leverage, can greatly affect the level and the degree of change in the common earnings ", meaning the use of debt, called levers, can greatly affect the degree level and the rate of change in stock returns (Marfirah and Syam, 2016).

Leverage is a level of ability of the companies in using assets and or funds listed has a fixed burden in order to realize the goal of the companies to maximize the owner's wealth companies. Companies will always face leverage problems, where the company must bear a number of burdens or costs, both fixed operational costs and financial costs. Fixed operating costs are cost that must be taken into account as a result of the implementation of the investment function, while financial costs are expenses or costs that must be taken into account due to the implementation of the funding function. So, fixed costs are actually a risk that must be borne by the companies in implementing financial decisions. The size of the risk should be known to be anticipated with an increase in the volume of business activities. Taxes are a large source of income for a country, but on the other hand, for taxpayers, taxes are a burden and reduce net income. Therefore there are a difference between countries that represented the tax authorities with the taxpayer. The government expects a large income from the tax side, while taxpayers will try to arrange the tax expenditure to be minimum. Tax regulation by taxpayers, known as tax planning, are made possible by implementing a self-assessment system in which the amount of tax payable is determined by the taxpayers themselves.

According to Mardiasmo (2016), Tax Avoidance is an effort to ease the tax burden by not breaking the law. The method used is to take advantage of the weaknesses of tax laws and regulations which aim to reduce the amount of tax payable. So that the amount of tax paid is not too high. Tax avoidance can be considered not contradicting with tax regulations because it is considered to be exploiting loopholes in tax law (Subagiastraa *et al.*, 2016). That's why, the problem of tax avoidance is complex and unique. On the one side, it is allowed, but on the other side, others avoid unwanted taxes. Taxpayers' efforts to prevent partial tax avoidance are based on regulations on taxes that are not always proportional to the tax consequences, which are interpreted as burdens and obligations, so that anyone who tries to be uncooperative even avoids burdens and obligations.

Mining is an activity that starts from looking for, finding, mining, processing, and marketing minerals (minerals, coal, and oil and gas) listed have economic value. The mining industry is an industry that has a high risk because the nature of its business is related to existing resources, not renewable, and a seasonal business. Indonesia is one of the countries with high mineral and material mining potential because it is located in the ring of fire geological phenomenon, which is an indicator of the presence of mineral deposits, especially hydrothermal deposits. Indonesia's mineral potential is very promising, judging from the length of the magmatic arc system in Indonesia, equivalent to twice the length of stretched South American continent, and makes one of the largest mining areas in the world today (15,000 km versus 6,250 km).

The title of this research is "**The Influence of Corporate Social Responsibility, Good Corporate Governance, Firm Size and Leverage toward Tax Avoidance on Mining Companies Listed In Indonesia Stock Exchange".**

1.2 Problem Limitation

Problem limitation of this research listed will be studied are annual financial statements on mining sector companies listed on the Indonesia Stock Exchange 2015-2019. There are 4 sectors from mining companies, listedare Coal Mining, Oil and Gas Mining, Metal and Mineral Other Mining, and Rock Mining. The population is 48 companies, but the author takes only 9 companies.

1.3 Problem Formulation

To raise the problem discussed in this study, the authors make the following problem formulation:

1. Does Corporate Social Responsibility influence toward Tax Avoidane on Mining companies in Indonesia Stock Exchange?
2. Does Good Corporate Governance influence toward Tax Avoidane on Mining companies in Indonesia Stock Exchange?
3. Does Firm Size influence toward Tax Avoidane on Mining companies in Indonesia Stock Exchange?
4. Does Leverage toward Tax Avoidane on Mining companies in Indonesia Stock Exchange?
5. Do Corporate Social Responsibility, Good Corporate Governance, Firm Size, and Leverage influence toward Tax Avoidane on Mining companies in Indonesia Stock Exchange?

1.4 Objective of The Research

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

1. To know the influence of Corporate Social Responsibility toward Tax Avoidane on Mining companies in Indonesia Stock Exchange.
2. To know the influence of Good Corporate Governance toward Tax Avoidane on Mining companies in Indonesia Stock Exchange.
3. To know the influence of Firm Size toward Tax Avoidane on Mining

companies in Indonesia Stock Exchange.

4. To know the influence of Leverage toward Tax Avoidane on Mining companies in Indonesia Stock Exchange.
5. To know the influence of Corporate Social Responsibility, Good Corporate Governance, Firm Size, and Leverage influence toward Tax Avoidane on Mining companies in Indonesia Stock Exchange

1.5 Benefit of The Research

This research is expected to provide benefits for various parties related to the research topic, included:

1.5.1 Theoretical Benefit

1. For Author

   For analyzing whether the influence between Corporate Social Responsibility (CSR), Good Social Governance (GCG), Firm Size and Leverage toward Tax Avoidance on Mining companies listed in Indonesia Stock Exchange from year 2015-2019.

2. For Readers
   a. This research is aim to give contribution in adding information / material for readers
   b. This research can give benefit in understanding the theory of accounting, financial and tax.
   c. 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 aim to give the information to companies in understanding the factors that have influence toward tax avoidance on mining companies listed in Indonesia Stock Exchange.
2. This research can be used as reference for other researchers in conducting research with same topic.