CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is a country with the world's largest population. In addition, the country also has abundant natural resources as well as a large market share. As a result, national and multinational companies are competing to reach and control Indonesian market share. In which, this would cause the increase of tax revenue from the state. Tax is a source where the government of Indonesia finance the policy implementation process and for people's welfare of fund.

On the other hand, taxpayers are classified into two classes, which are the individual taxpayers and the corporate taxpayers. Therefore, for people as personal taxpayers, taxes are the manifestation of devotion to the role and contributions of taxpayers in improving national development (Fahriani, 2016 in Octavianingrum & Mildawati, 2019). Furthermore, every company that operates their business in Indonesia must pay taxes for the Indonesian government, due to taxes are one of the country's incomes sources to carry out state development. However, taxes could be disadvantageous for the company because it will reduce their profit and allow the company to carry out tax aggressiveness so that the company will be more likely to take actions by lowering the company's tax burden.

The action of tax aggressiveness which is done by a company can be very harmful to the country because taxes are one of the state's main incomes which are used to fund the country's development and prosperity, even around 80% of Indonesia's state budget is derived from tax revenue. Companies that are obedient to paying taxes have helped the government in implementing the economic development. Meanwhile, the companies that carry out tax aggressiveness have greater risks in comparison with companies that do not take the actions of tax aggressive. The risks such as the penalty, the decrease of stock prices, as well as the decline of the company's reputation. For the investors, risk has become a significant factor when deciding whether to invest in a company.

The state has always favored the mining industry because of its considerable contribution to the national economy. Coal is the energy source of the greatest quality. Today, almost 40% of the world's power supply comes from coal. Indonesia ranks the fifth-largest producer of coal in the world. Indonesia produced nearly 485 million tons of coal in 2017, or 7.2 % of total global production. After Australia, Indonesia is the second-largest coal exporter in the world.

Approximately 80% of domestic coal production is for export. According to information from the Central Statistics Agency, the coal and lignite mining sectors contributed a total of 2.3 % per year to the gross domestic product (GDP) which is equal to Rp 235 trillion in 2014-2018. The tremendous economic value created by the coal mining industry would certainly build incredible wealth deposits for the mining sector. Behind the fantastic economic value generated by the coal mining industry, it turns out that the coal mining industry only contributes a small amount of tax to the country. Ministry of finance data showed that the tax ratio of coal and mineral mining contributions during 2016 was only 3.9 %. Meanwhile, the ratio for national tax was 10.4 % in 2016.

The Ministry of finance noted that the taxpayers that hold mining number and mineral mining business licenses mostly do not report their annual tax return than those who report. There were 4,532 taxpayers who did not report their tax returns in 2015 out of 8,003 taxpayers in the coal sector. Surely, this number did not include small-scale coal companies that yet to report as taxpayers (www.katadata.co.id 2019).

This research is done using some data from mining companies that are listed on Indonesia Stock Exchange for the year 2015-2019 as follows:

Table 1.1 Effective Tax Rate 2015-2019 (in %)

Company	2015	2016	2017	2018	2019
PT Bukit Asam Tbk (PTBA)	23.53%	24.94%	25.06%	24.53%	25.93%
PT Elnusa Tbk (ELSA)	25.21%	24.44%	23.17%	21.46%	23.63%
PT Radiant Utama Interinsco Tbk (RUIS)	41.05%	52.47%	46.23%	39.31%	34.68%

Source: Prepared by writer (2021)

The action of tax aggressiveness is carried out by manipulating financial statements, make fictitious transactions, transfer pricing, and various other ways in reducing the amount of taxes that must be paid to the government.

Based on the table above, tax aggressiveness is measured using effective tax rate (ETR) shows that the effective tax rate of PT Bukit Asam Tbk was gradually increasing from 2015 - 2017 which was 23.53% to 25.06%, before it decreased in 2018 which became 24.53%, and increased slightly in 2019, became 25.93%. For PT Elnusa Tbk, during 2015 - 2018, its effective tax rate was gradually decreasing, from 25.21% in 2015 to its lowest in 2018, which was 21.46% before it increased in 2019 which became 23.63%. On the other hand, the effective tax rate of PT Radiant Utama Interinsco Tbk was increased from 41.05% to 52.47% in the year of 2015 - 2016, however it decreased in the following years, from 46.23% in 2017 to 34.68% in 2019. Low effective tax rate (ETR) shows that most of the companies tend to conduct tax aggressiveness (Ayem & Setyadi, 2019). In addition, there are other factors that have effects on tax aggressiveness such as profitability, liquidity, and company size.

Table 1.2 Tabel of Phenomenon

Company	Year	ROA (%)	CR (%)	SIZE
PT. Bukit Asam Tbk (PTBA)	2015	12.06%	154.35%	16.64
	2016	10.89%	165.58%	16.73
	2017	20.68%	246.34%	16.90
	2018	21.18%	231.51%	17.00
	2019	15.48%	248.97%	17.07
PT. Elnusa Tbk (ELSA)	2015	8.61%	143.54%	15.29
	2016	7.54%	148.71%	15.24
	2017	5.16%	135.37%	15.39
	2018	5.15%	149.20%	15.54
	2019	5.24%	147.68%	15.73
PT. Radiant Utama Interinsco Tbk (RUIS)	2015	3.78%	86.51%	27.71
	2016	2.66%	89.65%	27.60
	2017	2.18%	100.45%	27.58
	2018	2.73%	110.76%	27.62
	2019	2.64%	103.44%	27.85

Source: Prepared by writer (2021)

The first factor that affects tax aggressiveness is profitability. Profitability refers to a ratio for evaluating the ability of a company to generate profits in particular period. This ratio may also be used to determine the effectiveness of the company's management, which is shown through earnings from the revenue or investment income (Hanafi & Halim, 2012 in Ayem & Setyadi 2019).

Based on the table above, profitability is measured using return on asset (ROA), the table also shows that the ROA of PT Bukit Asam Tbk was gradually increasing from 2017 - 2018 which was 20.68% to 21,18% while the ETR was gradually decreased which was 25.06% to 24.53%, similarly the ROA was also decreased in 2018 - 2019 which was 21.18% to 15.48% while the ETR of the company increased from 24.53% to 25,93%. On the other hand, the ROA of PT Radiant Utama Interinsco Tbk there was decreasing from 2015 - 2016 which was 3.78% to 2.66% while the ETR was increased, from 41.05% to 52.47%, then there was an increase during 2017 - 2018 which was 2.18% to 2.73% while the ETR was decreased, from 46.23% to 39.31%. The decrease in profitability indicated that the company was intended to do tax aggressiveness. The tax would be paid based on the income earned by the corporation. The smaller income that the company earns, the less tax will be paid by the company.

Previous research shows that profitability has a significant effect on tax aggressiveness (Octavianingrum & Mildawati, 2019**)**. However, according to Savitri and Rahmawati (2020), profitability has no effect on tax aggressiveness. Lastly, according to Ayem and Setyadi (2019), profitability has a significant effect on tax aggressiveness.

The second factor that affects tax aggressiveness is liquidity. Liquidity is defined as the sufficient ownership sources of funds to fulfill needs and obligations which will have due date. Moreover, it can also buy and sell assets quickly. (Adisamartha & Noviari, 2015).

Based on the table above, liquidity that is measured using the current ratio (CR) shows that PT Elnusa Tbk increased in 2017 - 2018 which is 135.37% to 149.20% while the ETR decreased which is 23.17% to 21.46%, then there is a decreased in 2018 - 2019 which is 149.20% to 147.68% while the ETR increased which is 21.46 % to 23.63% and for PT Radiant Utama Interinsco Tbk there is increased in 2016 - 2018 which is 89.65% to 110.76% while the ETR decreases which is 52.47% to 39.31%. Low liquidation may represent the problems faced by companies in satisfying short-term obligations and can lead to aggressive corporate tax action.

From the previous research, it shows that liquidity has a significant effect on tax aggressiveness (Fadli et al., 2016). Liquidity has significant effect on tax aggressiveness (Yuliana & Wahyudi, 2019) and liquidity does not have significant effect on tax aggressiveness (Mustika et al., 2020).

The third factor that effects tax aggressiveness is the company size, total sales and assets amount could indicate the company size. Large firms tend to have large assets. The bigger the company's assets are, the bigger the company is. Assets will encounter depreciation and amortization each year. The cost of depreciation and amortization will lower the company's tax burden. Thus, the company still gets a high profit and low tax burden (Reminda 2017 in Yuliana & Wahyudi 2019).

Based on the table above, company size that is measured by using total asset shows that PT Bukit Asam Tbk increased in 2017 - 2018 which is 16.90 to 17.00 while the ETR decreased which is 25.06% to 24.53%, for PT Elnusa Tbk there is increased in 2016 - 2018 which is 15.24 to15.54 while the ETR decreased which is 24.44% to 21,46%, and for PT Radiant Utama Interinsco Tbk there is decreased in 2015 - 2016 which is 27.71 to 27.60 while the ETR increased which is 41.05% to 52.47%, then there is an increased in 2017 - 2019 which is 27.58 to 27.85 while the ETR decreases which is 46.23% to 34.68% . Increasing company size will lead the company to do tax aggressiveness, large-scale companies have more profit in doing tax planning, so the large scale of the company can pay lower taxes than the small-scale companies.

From the previous research, it shows that the company size influences tax aggressiveness (Fahrani et al., 2017). The company size influences tax aggressiveness (Ann & Manurung, 2019) and the company size does not have significant effect on tax aggressiveness (Goh et al., 2019).

Based on the phenomena and research gap above, it could be concluded that there are differences in every research result. As a result, the researcher decided to conduct a research entitled, **"The Effect of Profitability, Liquidity and Company Size toward Tax Aggressiveness of Mining Companies Listed on Indonesia Stock Exchange."**

1.2 Problem Limitation

The problem limitations in this research are as following:

1. The research object is limited to mining companies listed on the Indonesia Stock Exchange.
2. The variable of profitability ratio is limited to return on asset, liquidity ratio is limited to current ratio, company size is limited to size company and tax aggressiveness is limited to effective tax rate.
3. Tax aggressiveness is more directed to tax avoidance

4. The selection period is from the year 2015-2019.

1.3 Problem Formulation

The formulations of the problem are as following:

1. Does profitability partially have significant effect towards tax aggressiveness of mining companies on Indonesia stock exchange?
2. Does liquidity partially have significant effect towards tax aggressiveness of mining companies on Indonesia stock exchange?
3. Does company size partially have significant effect towards tax aggressiveness of mining companies on Indonesia stock exchange?
4. Do profitability, liquidity, company size simultaneously have significant effect toward tax aggressiveness of mining companies on Indonesia stock exchange?

1.4 Objective of the Research

Based on the formulation of the problem, the objectives of this research are as following:

1. To analysis whether profitability partially have significant effect towards tax aggressiveness of mining companies on Indonesia stock exchange.
2. To analysis whether liquidity partially have significant effect towards tax aggressiveness of mining companies on Indonesia stock exchange.
3. To analysis whether company size partially have significant effect towards tax aggressiveness of mining companies on Indonesia stock exchange.

4. To analysis whether profitability, liquidity and company size simultaneously have significant effect toward tax aggressiveness of mining companies on Indonesia stock exchange.

1.5 Benefit of the Research

This research is expected to be useful and help the readers to expand their knowledge. As the purpose of the research is as follows:

1.5.1 Theoretical Benefit

This research is intended to be used as a reference in the development of economics, especially for accounting major. Apart from the research, this thesis is also expected to be used in bringing up ideas for further research related to profitability, liquidity, and company size toward tax aggressiveness.

1.5.2 Practical Benefit

This research is intended to provide information and can be used as a reference by other parties related to decisions or policies to be taken. This research can provide insights for companies regarding tax aggressiveness action so they can avoid this action and taxation sanction. For investors, this research can help them in their company management related to the policies of taxation. As for the Directorate General of Tax, this research can be used as a view in the future in making tax policy.