# CHAPTER I

# INTRODUCTION

## 1.1    Background of the Study

The Source of income for each country might be different based on its country's own characteristics. Indonesia is a developing country rich of natural wealth and has a strategic location which makes Indonesia become a popular country for the both domestic and foreign company to run their business in. Indonesia also has quite a lot of human resources with various potential as well to meet the growth target. In order to meet the development target in all fields, the government might need a large number of funds as supporting material. One of the greatest sources of funds for this is the tax sector.

According to Siregar and Widyawati (2016), tax has an important role in the economy as the income from the tax sector has a greater portion in State Budget (APBN) compared to the non-tax sector. The tax revenue will then be managed by the government to do national development for better infrastructure in all fields such as in health sector, education funds, public transportation, electricity subsidies, clean water subsidies, fuel subsidies and security upgrading (Indonesian National Armed Forces *(TNI)* , National Police *(Polri)* and purchase of state defense and security equipment). In other words, all the state revenue that is received from the community will actually indirectly return to the community.

In Indonesia, income tax is imposed on both individual and entity and are collected by using self-assessment system where the taxpayers are

responsible for registering, calculating, paying, and report the tax obligations to the government itself. According to Walsh, 2013 (in Lasmaya and Fitriani, 2017), the implementation of a tax assessment system required the compliance of taxpayers as there will be a large opportunity for tax manipulating; therefore, the honesty of taxpayers are highly required for better taxation in accordance with the tax regulation.

Tax revenue on the state budget from 2017 to 2019 is presented as follows:
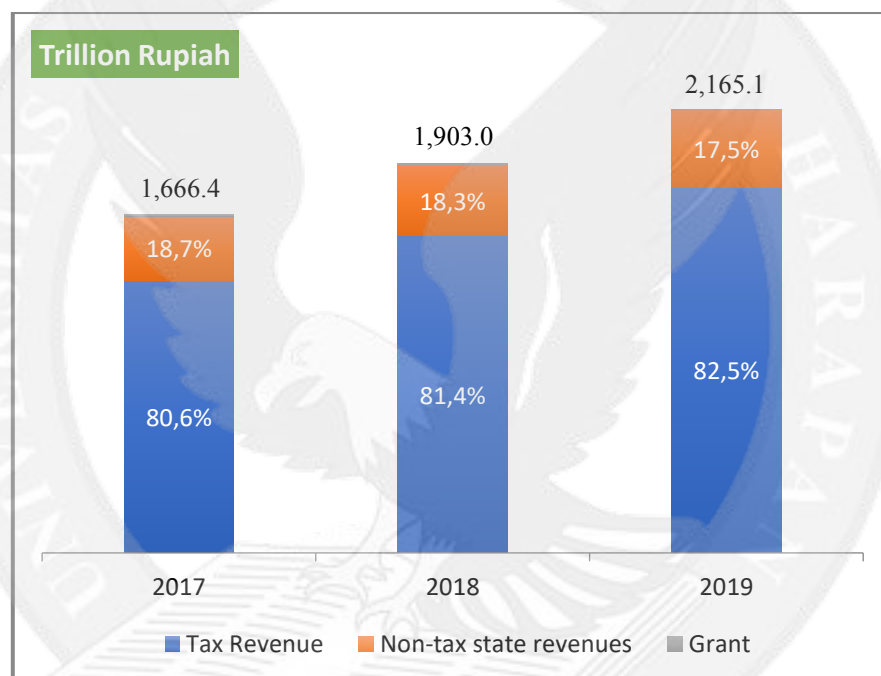


**Figure 1.1 State Revenue on the State Budget (2017 – 2019)**
Source: Prepared by Researcher (2021)

It is shown by the state budget (APBN) that the tax sector contributes the most to the state revenue. In 2019, the percentage of income from the tax sector is 82.5% of the total state revenue, while the non-tax sector is only 17.5% of the total state revenue. Looking at the importance of income from the tax sector, the government aims to make efforts to optimize the state income from the tax sector. But according to Anindyka et al. (2018), there is an obstacle for government to

maximize the state revenue from the tax sector as it is opposite from the entity's purpose as a taxpayer, where taxpayers tend to lower their tax burden for a greater profit. There are still a lot of taxpayers who are not aware of their obligation yet as a taxpayer as well by not reporting the real amount of tax payable based on government regulation which caused the government to not receiving a maximal result (Lasmaya and Fitriani, 2017).

Tax is a burden for entities as it will reduce the amount of net income, but tax is forced as there will be harmful sanction for those entities which do not pay taxes. Taxpayers tend to make the profits as high as possible by looking for legal ways to lower the entity's tax payable without breaking the law, as profits are the most important factor in determining the amount of effective tax rate payment (Ardianti, 2019).

According to Yenty and Tipa (2020), business owners or entities might try to lower their tax burden, but on the other hand, the government hopes to receive as high a tax income as possible. The difference in this point of view might lead to improper tax treating. According to Darmawan and Sukartha, 2014 (in Ariani & Hasymi, 2018), leverage refers to a ratio that shows the amount of a company's debt for financing its operating activities. In contrast, the capital intensity ratio is a ratio that indicates the intensity of ownership of a company's fixed assets compared to the total asset, which can affect its tax burden due to the depreciation expense in the fixed assets (Ariani and Hasymi, 2018). One of the solutions is to do tax planning as the obstable which mostly arises is the difference between the tax rate and the effective tax rate. The effective tax rate has a difference from the normal

tax rate. The effective tax rate is intended to measure tax compliance as a comparison of economic income, while the normal tax rate is to display the total relative tax which is an obligation to taxable income. The lack of effectiveness of tax management has resulted in massive tax avoidance practices. Therefore it is necessary to know that the Effective Tax Rate is to maximize tax management within a company and also to achieve the specified government revenue targets (Yenty and Tipa, 2020). The government's efforts on increasing the tax revenue, such as increasing tax compliance, need to be improved to maintain economic growth (Bahtiar and Saragih, 2019). The table below shows the condition of several LQ45 index companies.

**Table 1.1 Profitability, Leverage, Capital Intensity Ratio and Effective Tax Rate Tax in Year 2017-2019 (Amounts are expressed in thousands of Rupiah)**

| Company Name | Year | Total Asset | Total Liabilities | Fixed Asset | Earning Before Tax |
|---|---|---|---|---|---|
| PT. AKR Corporindo Tbk | 2017 | 16,823,208,531 | 7,793,559,184 | 4,214,694,189 | 1,126,408,644 |
| | 2018 | 19,940,850,599 | 10,014,019,260 | 4,921,528,198 | 868,080,622 |
| | 2019 | 21,409,046,173 | 11,342,184,833 | 5,325,172,386 | 865,379,704 |
| PT. Bukit Asam Tbk | 2017 | 21,987,482,000 | 8,187,497,000 | 6,199,299,000 | 6,067,783,000 |
| | 2018 | 24,172,933,000 | 7,903,237,000 | 6,547,586,000 | 6,799,056,000 |
| | 2019 | 26,098,052,000 | 7,675,226,000 | 7,272,751,000 | 5,455,162,000 |
| PT. Surya Citra Media Tbk | 2017 | 5,385,807,878 | 980,414,618 | 1,029,335,550 | 1,782,043,501 |
| | 2018 | 6,138,226,584 | 1,035,274,069 | 1,049,625,049 | 1,969,018,654 |
| | 2019 | 6,716,724,073 | 1,228,125,546 | 1,501,728,860 | 1,373,065,504 |

Source: Prepared by Researcher (2021)

Out of several LQ45 companies that are listed on the Indonesia Stock Exchange, the writer chose PT. AKR Corporindo Tbk., PT. Bumi Serpong Damai Tbk., and PT. Surya Citra Media Tbk. The profitability (variable $X_1$) is proxied by total assets, leverage (variable $X_2$) is proxied by total liabilities, capital intensity ratio (variable $X_3$) is proxied by fixed assets, and the effective tax rate (variable Y) is proxied by earning before tax.

Based on table 1.1, show that the total asset of PT. AKR Corporindo Tbk in 2017-2018 is increased by 18.53% but their earnings before tax decreased by 22.93%, in 2018-2019, the total asset increased by 7.36%, but their earnings before tax decreased by 0.31%. In 2018-2019, the total assets for PT. Bukit Asam Tbk increased by 7.96%, but their earnings before tax decreased by 19.77%. For PT. Surya Citra Media Tbk, the increment for their total assets in 2018-2019, was 9.42% while their earnings before tax decreased by 30.27%.

For PT. Bukit Asam Tbk., the total liabilities in 2018-2019 was decreased by 2.89%, and the earning before tax was also decreased by 19.77%. For PT. Surya Citra Media Tbk, the number of total liabilities and earnings before tax were directly proportional in 2017-2018, where their total liabilities were increased by 5.6%, and the earnings before tax were also increased by 10.49%.

For PT. Bukit Asam Tbk, the number of fixed assets and earnings before tax were directly proportional in 2018-2019. In 2018-2019, their fixed assets were increased by 5.62%, and their earnings before tax were also increased by 12.05%. The fixed assets of PT. Surya Citra Media Tbk in 2017-2018 was increased by 1.97%, and their earnings before tax were also increased by 10.49%.

Based on the above information, it is fundamental to examine profitability, leverage, and capital intensity ratio as the factors that might affect the effective tax rate. Thus, the author would like to do research on **"The Effect of Profitability, Leverage and Capital Intensity Ratio on Effective Tax Rate of Companies Listed as LQ45 Index in Indonesia Stock Exchange"**.

**1.2    Problem Limitation**

Problem limitation of this study will be the three variables which are profitability, leverage, and capital intensity ratio, that are thought to affect the effective tax rate, and the data to be used is limited to the financial statement of LQ45 companies, which are listed in Indonesia Stock Exchange 2017-2019. Problem limitation aims to get a clear boundary and to avoid any distorted results due to broad problems.

**1.3    Problem Formulation**

Based on the background of study and problem limitation, the author makes the problem formulation as follows:

1.    Does profitability affect the effective tax rate of companies listed as LQ45 Index in the Indonesia Stock Exchange?

2.    Does leverage affect the effective tax rate of companies listed as LQ45 Index in the Indonesia Stock Exchange?

3.    Does the capital intensity ratio affect the effective tax rate of companies listed as LQ45 Index in the Indonesia Stock Exchange?

4.    Do profitability, leverage, and capital intensity ratio affect the effective tax rate of companies listed as LQ45 Index in the Indonesia Stock Exchange?

**1.4    Objective of the Research**

In accordance with the problem formulation, this study aims to obtain empirical evidence on:

1.    The effect of profitability on effective tax rate of companies listed as LQ45 Index in Indonesia Stock Exchange.

2.    The effect of leverage on effective tax rate of companies listed as LQ45 Index in Indonesia Stock Exchange.

3.    The effect of capital intensity ratio on effective tax rate of companies listed as LQ45 Index in Indonesia Stock Exchange.

4.    The effect of profitability, leverage, and capital intensity ratio on effective tax rate of companies listed as LQ45 Index in Indonesia Stock Exchange.

**1.5    Benefit of the Research**

Based on the objective and problems found during the research, this research is expected to provide benefits for various related parties, which are:

**1.5.1  Theoretical Benefit**

Theoretically, the research is expected to add understanding and to add knowledge for various parties related to the research topics in the field of taxation and as a reference for further research as well.

**1.5.2  Practical Benefit**

Based on the research objective, the research is expected to generate practical benefits as follows:

1.    For author

The research is expected to be useful for author in adding knowledge about taxation for entity and to be more aware in fulfilling the obligation as a taxpayer in accordance with the law.

2. For reader

The research is expected to be used as reference with empirical evidence that guide further research, to add understanding about tax knowledge in an effective way to reduce entity's tax burden in accordance with the law, and to be more aware in fulfilling the obligation as a taxpayer.