CHAPTER I

INTRODUCTION

1.1 Background of Study

Every country is obliged to carry out a continuous development process, as the aim to make the country more developed and advance in the future. In its implementation, it involves all citizens and the government to contribute. Indonesia is one of developing countries and the government needs a substantial source of revenue in order to fund the expenditures of both routine and development expenditures that are at the center or in the region. Taxes are one of the most important and influential sources of income for states these days. In the world of taxation itself, tax is the government's income from the public or citizen not only used to finance public's infrastructure but also for routine expenditure to be a betterment nation which means that we pay tax for our prosperity indirectly (Malini, 2020).

Generally, the main goal of the company is to achieve a higher or optimum profit. The higher profit they made, the more business will be expanded. However, most businesses either directly or indirectly influenced by taxes. In order to achieve this goal, taxpayers streamline the operational costs and minimize the tax burden. Minimizing tax burden can be conducted in a variety of ways ranging from those that still meet the provisions of taxation (lawful) to the violation of applicable tax laws (unlawful). One way that can be taken as an effort to save the tax is to implement a good tax management. Tax management is a way that can be done without having to violate the law as an effort to fulfill the obligation of tax so that the tax paid can be lower. One of tax management that can be used to minimize the tax payment that is still lawful is tax avoidance (Pohan, 2013, p.7).

Through tax avoidance, corporate funds become more effective because the burden of tax expense is minimized and can be diverted for other payments that are more useful to the company itself by finding the loopholes of the tax law. In fact, tax avoidance is particularly useful for companies and also for its business owner to minimize taxes as a company's expenditure. Actually, the effort of avoiding tax is caused by the point of taxpayers' perspective that define tax as the expenditure or expenses that can reduce the income and profit earned by taxpayers (Pohan, 2013).

Regardless of it, as a Public Policy Researcher of the Prakarsa Association, Ah Maftuchan shows that the potential loss of the tax revenue from the banking sector is quite high. The result of investigation found the potential loss of the state from tax revenue sourced from the banking sector and other financial institutions each year approximately Rp 10 trillion to Rp 12 trillion. This is assured by the comparison of tax revenue with Gross Domestic Product (GDP) which is still reaches 12% (Praditya, 2014). Here is some information from banking companies in Indonesia Stock Exchange from 2017-2019:

Table 1.1 Return on Assets, Leverage, Firm Size, Independent Commissioner and Tax Avoidance in Banking Companies Listed on Indonesia Stock Exchange for Year 2017-2019

Company	Year	ROA	DER	SIZE	IC	ETR
PT Bank Central Asia Tbk	2017	3.19%	470%	34.22	60%	20.02%
	2018	3.13%	440%	34.34	60%	20.95%
	2019	3.10%	425%	34.45	60%	21.27%
PT Bank Mandiri (Persero) Tbk	2017	1.90%	522%	34.65	55.5%	21.04%
	2018	2.15%	509%	34.72	50%	23.83%
	2019	2.16%	490%	34.81	50%	21.91%
PT Bank Rakyat Indonesia Tbk	2017	2.57%	573%	34.65	55%	21.54%
	2018	2.49%	599%	34.79	55%	22.35%
	2019	2.42%	566%	34.88	55%	20.63%

Source: Prepared by Writer (2021)

Several factors have been investigated from previous researchers to determine the causes of tax avoidance, some of that are return on assets, leverage, firm size and independent commissioner. The table above can be shown there's a fluctuation of tax avoidance ratio from 2017 to 2019 of three banking companies which have the biggest market cap company on their sector. The greater of Effective Tax Rate (ETR) ratio represents the increasing of tax payment the company paid, in other words, the less company does tax avoidance, while the lower of Effective Tax Rate (ETR) ratio represents the greater of a company conduct a tax avoidance, it can be shown clearly both in PT Bank Mandiri (Persero) Tbk and PT Bank Rakyat Indonesia Tbk, the ratio of Effective Tax Rate (ETR) are decreasing from the year 2017-2018, while PT Bank Central Asia Tbk shows the increasing of

Effective Tax Rate (ETR) ratio which from 20.02% to 21.27% from year 2017 to 2019.

On the other hand, there's decreasing profitability ratio of PT Bank Central Asia Tbk from year 2017-2019, while PT Bank Rakyat Indonesia Tbk also shows there's decreasing result of their return on assets ratio. Inversely with PT Bank Rakyat Indonesia Tbk, the return on assets ratio of PT Bank Mandiri (Persero) Tbk keep increasing during 2017-2019. The increasing of return on assets value means the better performance of the company using their asset to obtain a larger profit, this also has effect on the company's tax burden which the company will try to minimize the tax burden by using a proper tax management. This research is supported by previous research conducted by Handayani (2018) and Annisa (2017) which concluded that return on assets has significant effect towards tax avoidance.

The decreasing of leverage ratio shows that PT Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk and PT Bank Rakyat Indonesia Tbk are reducing the amount of debt which will result the decreasing of tax avoidance ratio. The research is supported by previous research from Barli (2018) clearly stated that leverage has effect of company's tax burden, it can be proven with the higher amount of debt will result the higher emergence of interest cost that would be borne by the company. The higher expense means the lower income before tax. Therefore, the tax cost that the company would bear will be minimized.

Another factor that causes tax avoidance is firm size. The prosperity of the company can be known in many ways and one of them is from its firm size. The total assets held by the company are represented by the firm's size, the higher assets will be resulted the higher prosperity in its company. Based on the Handayani (2018) study found that there's a significant effect between firm size and tax avoidance but on the other hand, Annisa (2017) research found that firm size has no significant effect towards tax avoidance.

Besides that, the existence of tax avoidance in a company can be effected by independent commissioner. Independent commissioner plays an important role to apply Good Corporate Governance (GCG) in the company to ensure the health of the company or business in progress. The statement supported by previous research conducted by Dewi (2019) which shows that independent commissioner has significant effect towards tax avoidance. However, research conducted by Ariawan and Setiawan (2017) concluded that independent commissioner has no significant effect towards tax avoidance.

According to the background of study mentioned above, the writer decides to research the title **"The Effects of Return on Asset, Leverage, Firm Size and Independent Commissioner toward Tax Avoidance in Banking Companies listed on Indonesia Stock Exchange".**

1.2 Problem Limitation

Problem limitation made by the writer can be seen as follows:

1. The research object is in banking companies listed on Indonesia Stock Exchange.

2. Return on Assets (ROA), Leverage (DER), firm size, independent commissioner are the independent variables and Effective Tax Rate (ETR) is the dependent variable.
3. The research period is from year 2015-2019.

1.3 Problem Formulation

The problem formulations of this study are:

1. Does return on assets partially has significant effect towards tax avoidance in banking companies listed on Indonesia Stock Exchange?
2. Does leverage partially has significant effect towards tax avoidance in banking companies listed on Indonesia Stock Exchange?
3. Does firm size partially has significant effect towards tax avoidance in banking companies listed on Indonesia Stock Exchange?
4. Does independent commissioner partially has significant effect towards tax avoidance in banking companies listed on Indonesia Stock Exchange?
5. Do return on assets, leverage, firm size and independent commissioner simultaneously have significant effect toward tax avoidance in banking companies listed on Indonesia Stock Exchange?

1.4 Objective of The Research

This research discusses whether the return on assets, leverage, firm size and independent commissioner have significant effect towards tax avoidance in banking companies listed on Indonesia Stock Exchange.

Regarding to the limitation of time, ability and knowledge, the writer will only focus on examining:

1. To analyze the effect of return on assets towards tax avoidance in banking companies listed on Indonesia Stock Exchange.
2. To analyze the effect of leverage towards tax avoidance in banking companies listed on Indonesia Stock Exchange.
3. To analyze the effect of firm size towards tax avoidance in banking companies listed on Indonesia Stock Exchange.
4. To analyze the effect of independent commissioner towards tax avoidance in banking companies listed on Indonesia Stock Exchange.
5. To analyze the simultaneous effect of return on assets, leverage, firm size and independent commissioner toward tax avoidance in banking companies listed on Indonesia Stock Exchange.

1.5 Benefit of The Research

1.5.1 Theoretical Benefit

This research is expected to give a better understanding regarding the tax avoidance theoretically and also as a reference for other researchers that conduct tax avoidance's topic.

1.5.2 Practical Benefit

1. This research is expected to give a better understanding and to add their knowledge what factors that can affect in tax avoidance.

2. This research can be used for consideration to the company to perform tax avoidance without having to violate the law.