

CHAPTER I

INTRODUCTION

1.1 Background of Study

Majority of country in this world have the same goal which is creating a just and prosperous society through the economic development which can be measured by the economic growth. Economic development and economic growth are inseparable because they have direct relationship or supporting each other (Rapanna and Fajriah, 2018).

In general, people classify a country as developed and developing country. One of the factors that could support the country to be developed is the contribution of citizens to the states which recognized as state revenue. In Indonesia, based on Law Number 17 Year 2003 about The State Finance, it mentioned that state revenue is the total of revenue received by the country which consist of state tax revenue, state non-tax revenue and grant included domestic and foreign. However, based on Article 1 Paragraph (1) of Law Number 28 Year 2007 about The General Tax Provisions and Procedures Law, tax is a mandatory contribution to the state owed by individuals or entities and forceful based on the law, with no direct compensation and being used for the state's needs and for the greatest people's prosperity. Based on the definition of tax above, the government will use the tax collected from the people for the people's prosperity or in other word, it brings benefits to the people

themselves. The tax collected will be allocated to build public infrastructure and many other things that in the end must give benefit to the citizens or publics.

Based on the information retrieved from APBN year 2015 until 2019, it concluded that in Indonesia tax always becomes the largest part of total state revenue compared to non-tax revenue and grants.

Table 1.1 The Structure of State Revenue (APBN) Year 2015-2019

Year	APBN (In Trillion)			
	State Revenue	Tax Revenue	Non-Tax Revenue	Grants
2015	1,761.60	1,489.30	269.00	3.30
2016	1,786.20	1,539.20	245.00	2.00
2017	1,736.06	1,472.71	260.24	3.11
2018	1,894.72	1,618.10	275.43	1.19
2019	2,165.13	1,786.31	378.32	0.50

Source: APBN 2015-2019, prepared by writer (2021)

According to Table 1.1, it shows that the state revenue of Indonesia is keep fluctuating every year and tax always becomes the main source of state revenue compared to non-tax revenue and grants. For conclusion, since tax revenue is the biggest contributor of state revenue, it means the tax collection is really affecting the development of the country.

In the other hand, the realization of APBN showed different result. In addition, APBN is the expectation amount that is possible to be collected by the government while the real amount that being collected will be presented on the realization of APBN. The realization of Indonesia APBN year 2015 until 2019 is described as follow.

Table 1.2 The Realization of APBN Year 2015-2019

Year	APBN Realization (In Trillion)							%
	State Revenue	%	Tax Revenue	%	Non-Tax Revenue	%	Grant	
2015	1,504.50	85.4%	1,240.40	83.3%	253.70	94.3%	10.40	315.2%
2016	1,555.10	87.1%	1,285.00	83.5%	261.90	106.9%	8.20	410.0%
2017	1,655.75	95.4%	1,339.79	91.0%	308.36	118.5%	7.60	244.4%
2018	1,942.34	102.5%	1,521.38	94.0%	407.06	147.8%	13.90	1168.1%
2019	1,677.11	77.5%	1,312.40	73%	362.77	95.9%	1.94	388%

Source: APBN Realization 2015-2019, prepared by writer (2021)

Based on Table 1.2, it shows that the percentages of the tax collection were not on the maximum target. The average amount of Indonesia tax revenue realization for year 2015 until 2019 is only 85 percent, while the other 15 percent was still uncollectible which cannot be considered as small amount.

Problem arises when citizens and government have different concept regarding the tax. People treat tax as an expense that will decrease their profit while the government recognized tax as revenue. That different perceptions generate the motivation of people to avoid tax and government to maximize the tax collection. The taxation system in Indonesia is well-known as Self-Assessment System. This system allows the taxpayer either individual or entity to calculate and report their own tax by themselves. This system opened the opportunity for the taxpayer to do tax saving or strategy to minimize the tax burden.

In general, there are three ways to minimize the tax burden such as tax avoidance, tax planning, and tax evasion. Farouq (2018) defined tax avoidance as the action of avoiding tax but still on the limit and accordance with the applicable taxation law. Besides, Pohan (2019) stated that tax evasion is the effort of taxpayer to avoid tax illegally by hiding the truth, meanwhile tax planning is the process of

managing the effort of taxpayer so the tax payable either income tax or any other taxes are in the minimum amount, and it does not break the applicable taxation law. From those definitions, it can be concluded that tax planning and tax avoidance are considered as the proper ways to reduce the tax payable since those are not breaking the taxation law, meanwhile tax evasion is considered as an illegal way which is not allowed by Indonesia Taxation Law. According to Palan in Pohan (2019), it is hard to differ tax avoidance and tax evasion, those are distinct but inseparable and both are affected by the complexity of the state law.

The practices of tax avoidance are probably occurred in any business field include the agriculture sector. According to Corruption Eradication Commission (*Komisi Pemberantasan Korupsi or KPK*), there were around 63.000 taxpayers in palm oil industry as the part of agriculture sector who indicated to the tax avoidance issue. Based on the information collected from Directorate General of Tax (DGT), there were 70.918 taxpayers (individual and entity) who were registered in the tax administration system but only 9,6% who reported their annual tax return. It indicated that 90,4% or around 63.000 taxpayers were not reporting their annual tax return. In 2015, the realization of tax collection in palm oil industry was around 22,2 trillion while based on the measurement and calculation of KPK the potential tax collection in palm industry could be around 45-50 trillion. It means the country only received 45% of available tax collection in palm oil industry (Perkasa, 2017).

Based on the phenomena happened above, even though the tax avoidance brings benefits for the taxpayers and legal based on taxation law, but the practice will minimize the revenue of the state due to lower tax collection amount. therefore,

it is necessary to conduct a research regarding the tax avoidance. According to some previous research, there were some factors that could influence the practice of tax avoidance such as profitability, sales growth, company's age, and institutional ownership.

Ernawati and Widyawati in Hery (2017) explained that profitability is the ability of a company to get profit for some certain period. In general, there are four ratios that being used to find out the level of corporate's profitability named Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM) and OPM (Operating Profit Margin). In this research, the writer decides to use Return on Assets as the indicator of profitability. The result from previous researchers regarding the impact of profitability towards tax avoidance showed variations of result. Based on the research conducted by Sari and Somoprawiro (2020) and Puspita and Febrianti (2018), both concluded that there was a significant negative impact of profitability on the tax avoidance. Meanwhile according to the research done by Permata et al (2018) and Saputra and Asyik (2017), concluded that profitability partially has no impact on tax avoidance. So, based on those conclusions, it is necessary for the writer to choose profitability especially Return on Assets as one of the factors that could have significant impact on the practice of tax avoidance.

The second factor that could have impact on tax avoidance is sales growth. In general, sales growth is the comparison of previous year sales toward the sales of current year. There are some previous researches about the impact of sales growth towards tax avoidance such as Pratiwi et al (2020) and Purwanti and

Sugiyarti (2017) who claimed that sales growth has positive impact on tax avoidance. However according to Hidayat (2018), Sales growth partially has negative impact on tax avoidance. Besides, there was another author who also claimed that sales growth has no impact on tax avoidance (Astuti et al, 2020). Due to the variation of results, it is necessary to conduct research regarding the impact of sales growth towards the tax avoidance.

The third factor that could influence the tax avoidance is the age of company. According to Rahmawati in Widiyani et al (2019), the company age will determine how strength the ability of company to keep existing and be able to compete in business world. The age of company on this research is represented by the total year of company started from the date of company listed in Indonesia Stock Exchange until the research date. Based on previous research, most of the authors commented the same results for example Titisari and Mahanani (2017) and Triyanti et al (2020) who concluded that age of company has positive impact on tax avoidance. So based on that, it is also necessary to examine the effect of company age towards tax avoidance.

The fourth factor that could give impact on tax avoidance is the institutional ownership. Institutional ownership is the percentage of stock or share owned by institution and block holder (Individual investor with the ownership more than 5 percent of total outstanding shares). Based on the previous research conducted by Diantari and Ulupui (2016) and Faizah and Adhivinna (2017), they concluded that institutional ownership partially has no impact on tax avoidance. Meanwhile according to the research conducted by Putri and Putra (2017), it showed that

institutional ownership partially has significant positive impact towards tax avoidance. Due to the different result of previous research, it is important to conduct research regarding the effect of institutional ownership towards tax avoidance.

Table 1.3 Relationship between Profitability, Sales Growth, Company's Age, Institutional Ownership and Tax Avoidance

Company	Year	ROA	Sales Growth	Company's Age	Institutional Ownership Percentage	CETR
AALI	2015	0.032	-0.199	18	0.797	0.735
	2016	0.087	0.081	19	0.797	0.361
	2017	0.085	0.225	20	0.797	0.318
	2018	0.057	0.103	21	0.797	0.494
	2019	0.009	-0.085	22	0.797	0.353
TBLA	2015	0.022	-0.159	15	0.543	0.53
	2016	0.049	0.222	16	0.512	0.398
	2017	0.068	0.378	17	0.543	0.234
	2018	0.047	-0.04	18	0.553	0.259
	2019	0.038	-0.009	19	0.553	0.226
LSIP	2015	0.07	-0.114	19	0.595	0.303
	2016	0.063	-0.082	20	0.595	0.164
	2017	0.078	0.231	21	0.595	0.269
	2018	0.033	-0.152	22	0.595	0.487
	2019	0.025	-0.08	23	0.595	0.134

Source: Prepared by writer (2021)

For information, the companies stated above are chosen agriculture companies based on the average total assets because assets are one of the important elements of every business. Based on Table 1.3, it shows that the tax avoidance (CETR) of those three companies is keep fluctuating every year. The fluctuating amount indicates the occurrence of tax avoidance practice. Normally, the changes of profitability, sales growth, company's age, and institutional ownership may have impact on tax avoidance. The increasing of sales growth may generate more income

to the company that lead to higher tax payment and motivate the company to do tax avoidance. The increasing of company's age and institutional ownership may also increase the occurrence of tax avoidance practice. When the company's age increased, the company may have better experience in Indonesia Stock Exchange regarding how to minimize the tax burden without made the investors worried. This experience may lead to the practice of tax avoidance. Meanwhile, when the institutional ownership increased, it may also lead to tax avoidance since the institutional shareholder potentially had strong influence towards the management to do tax saving include tax avoidance due to its big portion of shares. Based on its formula, the decreasing in CETR may lead to lower tax payment which indicates the occurrence of tax avoidance practice and vice versa. These phenomena happened in 2015 to 2016 by AALI (PT Astra Agro Lestari Tbk) who had the CETR that decreased from 0.735 to 0.361 while its ROA increased from 0.032 to 0.087. This means due to lower tax payment reflected by the decreasing of CETR, it increases the profitability and indicates the practice of tax avoidance. In year 2015 to 2019, the portion of institutional ownership of TBLA (PT Tunas Baru Lampung Tbk) increased from 0.543 to 0553. Even though the amount was relatively small, the CETR also decreased from 0.530 to 0226 which indicated the practice of tax avoidance. In the other side, CETR of LSIP (PT Perusahaan Perkebunan London Sumatra Indonesia Tbk) also decreased from 0.303 to 0.134 from year 2015 until 2019. From those three companies, LSIP is the company who stayed the longest in Indonesia Stock Exchange (IDX). By its experience in IDX, it is possible for LSIP

to do proper tax management include tax avoidance to minimize the tax payment and maximize its profit.

Based on those phenomena and previous research conclusions about the tested factors that could influence the tax avoidance, most of the researchers showed several different results. Those varieties of results might be affected by different regulations, different period, and the different samples. The period of this research is started from 2015 until 2019 which can be categorized as a fresh sample, or it can reflect the corporate current situation. This research is aiming to find out the empirical evidence regarding the influences of profitability, sales growth, company's age, and institutional ownership toward the tax avoidance. To discussed further about this research, the writer decided to conduct a research in the form of *Skripsi* with title: "The Influence of Profitability, Sales Growth, Company's Age and Institutional Ownership toward Tax Avoidance on Agriculture Companies Listed in Indonesia Stock Exchange".

1.2 Problem Limitation

Based on the background of the study, the problem limitations of this research are described as follows.

- 1 The independent variables of this research are profitability represented by Return on Assets (ROA), sales growth, company's age, and institutional ownership, while the dependent variable is tax avoidance represented by Cash Effective Tax Rate (CETR).

- 2 The object of this research is agriculture sector company listed in Indonesia Stock Exchange.
- 3 The period of observation is 5 years, started from 2015 until 2019.

1.3 Problem Formulation

Based on the background of the study, the problem formulations of this research are described as follows.

- 1 Does profitability partially have significant influence towards tax avoidance on agriculture companies listed in Indonesia Stock Exchange?
- 2 Does sales growth partially have significant influence towards tax avoidance on agriculture companies listed in Indonesia Stock Exchange?
- 3 Does company's age partially have significant influence towards tax avoidance on agriculture companies listed in Indonesia Stock Exchange?
- 4 Does institutional ownership partially have significant influence towards tax avoidance on agriculture companies listed in Indonesia Stock Exchange?
- 5 Do profitability, sales growth, companies age and institutional ownership simultaneously have significant influence toward tax avoidance on agriculture companies listed in Indonesia Stock Exchange?

1.4 Objective of The Research

The objectives of this research are described as follows.

- 1 To investigate whether the profitability partially has significant influence towards the tax avoidance in agriculture companies listed at Indonesia Stock Exchange.

- 2 To investigate whether the sales growth partially has significant influence towards the tax avoidance in agriculture companies listed at Indonesia Stock Exchange.
- 3 To investigate whether the company's age partially has significant influence towards the tax avoidance in agriculture companies listed at Indonesia Stock Exchange.
- 4 To investigate whether the institutional ownership partially has significant influence towards the tax avoidance in agriculture companies listed at Indonesia Stock Exchange.
- 5 To investigate whether the profitability, sales growth, company's age, and institutional ownership simultaneously have significant influence toward the tax avoidance in agriculture companies listed at Indonesia Stock Exchange.

1.5 Benefit of The Research

There are several benefits of conducting this research, include:

1.5.1 Theoretical Benefit

Based on the research objective, this research is expected to generate theoretical benefits as follows.

- 1 For writer

This research is expected to enhance the experience and knowledge of the writer regarding the practice of tax avoidance.

- 2 For educational purpose

This research is expected to support or refute the previous research. Besides, this research is also expected to give additional information for further research.

1.5.2 Practical Benefit

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

1. For government

This research is expected to be the evaluation of government regarding the tax avoidance practice. So, the government can create proper policy to minimize the practice of tax avoidance.

2. For company

This research is expected to be a motivation to the company in presenting more transparent and credible annual report. The reason is because the presented annual report can be a consideration for investors to do investment.