

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Tax is a payment by people to the government without obtaining benefits immediately. Government can get money which comes from tax. The tax is origin of government receipt determined as reserve for the people development in country. It is regulated by the law that pushes the people to pay. The people do not get the benefit from the government particularly because the tax is determined for public interest. The function of tax is to provide funds for the spending on public. One of largest funds is with collecting the tax from citizens. The amount of tax collection often cannot be achieved by government based on tax targets. There are some factors that can determine tax revenue for government. One of factors is the people effort in minimizing tax payment with tax planning activities.

Tax management is the procedure conducted to relieve the tax payment in the company. The company conducts sales in order to get high profit. This profit will be used to pay the owner. The tax payment will reduce the owner's portion of profit because the profit is used for paying the tax to state treasury. This condition can make the company in conducting tax management as the method in reducing the tax payment. Tax can be determined as expense in subtracting the company's income. Large tax payment can drive the company in conducting tax practices to conduce efficiency tax payment. The company will use the tax management to determine efficient tax expense. According to Santoso and Rahayu (2019), the tax

payment can be managed with arranging the company's activities with considering tax regulation and procedure in order to conduct tax management based on applicable tax provision.

According to Nurjanah, et.al. (2017), profitability is instrument in evaluating the performance as ability to create profits in certain time. The net income in the company ascertains the income tax in the company. The high income can make high income tax. It will cause the company in making tax management. The profitability can be seen in the amount of profit in the company. The profitability can cause the effort of company in conducting tax management which has purpose to make smaller tax amount. In tax management, the company wants to maintain financial performance.

According to Aryanti and Gazali (2019), the company can choose many sources such as loan for financing the business. The leverage can cause the increasing expense from loan such as interest expense from bank loan. The interest expense is part of company's expenditure that can decrease tax expense. The company will the use of liabilities to increase the expense. High liabilities can generate the unfavourable condition for the company. The leverage strategy should be done properly in order to mitigate the problem from high liabilities. Tax management should be done with appropriate amount of loan. The opportunity in using liabilities can cause the company's way in implementation of tax management. The company can increase interest cost in order to make small payment of tax.

According to Rahmawati (2017), firm size can determine the capacity of the company in developing the business. The company with high sales will be concern by the tax office with result that it can drive the company in conducting arrangement of business for tax purposes. The high firm size can make the possibility of implementation of tax management. The large firm size will show the high revenue and various activities with high volume financial transactions. It can take many ways to conduct tax management because there is chance to obtain favorable results from determining tax activities properly. Large firms can conduct export sales or import purchase with result that there is chance to get benefits from the transaction with foreign company. The company conducts multinational business can implement methods to pay low tax with tax management. It can utilize the gap or loophole in tax regulation in order to conduct payment in small amounts. The company can conduct strategy in form of determining price with foreign company in order to get benefit from lower tax rate in foreign country with result that it can reduce the tax in domestic tax. It is usually in form of transfer pricing. The higher the size of business, the higher the chance that the company has intention to conduct appropriate tax management in order for the company increase the return for the own purpose because the decrease in company's tax payment will increase firm's profit with result that it can fulfill the purpose of company's management.

The research object in this research is mining companies registered in Indonesia Stock Exchange. The mining company is selected as research object because the mining company is important sector for Indonesia. The profitability,

liabilities, firm size and tax management in year 2015-2019 of some mining companies in Indonesia Stock Exchange can be seen as follows:

**Table 1.1 Data of Profitability, Liabilities, Firm Size and Tax Management in Mining Companies in Indonesia Stock Exchange**

Company	Year	Profitability (ROE)	Liabilities (DAR)	Firm Size (Ln Asset)	Tax Management (ETR)
PT Adaro Energy, Tbk.	2015	4.50%	43.73%	32.04	46.07%
	2016	9.00%	41.95%	32.10	37.66%
	2017	13.11%	39.95%	32.15	42.29%
	2018	11.09%	39.06%	32.25	41.83%
	2019	10.92%	44.80%	28.50	34.00%
PT Baramulti Sukessarana, Tbk.	2015	25.12%	39.64%	28.50	27.70%
	2016	21.87%	30.78%	28.53	22.95%
	2017	55.25%	28.67%	28.67	25.80%
	2018	45.95%	38.68%	28.89	26.02%
	2019	17.88%	32.05%	28.87	26.25%
PT Elnusa, Tbk.	2015	14.41%	40.21%	29.11	25.98%
	2016	10.98%	31.33%	29.06	24.44%
	2017	8.22%	37.14%	29.21	23.16%
	2018	8.37%	41.66%	29.36	21.48%
	2019	9.96%	47.44%	29.54	23.62%

Source : Indonesia Stock Exchange (2021)

From table above, it can be seen that there is fluctuation of tax management for some mining companies in Indonesia Stock Exchange in year 2015-2019. The increasing of profitability is not followed by increasing of tax management. The increasing of liabilities is not followed by increasing of tax management. The increasing of firm size is not followed by increasing of tax management. The tax management has fluctuation movement with different direction with movement of profitability, liabilities and firm size. Based on research by Nurjanah, et.al (2017), profitability has significant impact on tax management. Based on research by Aryanti and Gazali (2019), liabilities has significant impact on tax management. Based on research by Nurjanah, et.al (2017), firm size has significant impact on tax management. Therefore, there are difference between previous research with current condition of mining companies

in Indonesia Stock Exchange. This research is done to know the impact of profitability, liabilities and firm size on tax management with considering previous research.

Based on this background study, then the writer is interested to conduct the research with title as follows : **“The Impact of Profitability, Liabilities and Firm Size on Tax Management in Mining Companies at Indonesia Stock Exchange”**

### **1.2 Problem Limitation**

The problem limitation is determined as follows:

1. The independents variable in this research are profitability, liabilities and firm size. The dependent variable is tax management.
2. The research object in this research is is mining companies in Indonesia Stock Exchange.
3. Research period is determined in year 2015-2019.

### **1.3 Problem Formulation**

Profitability, liabilities and firm size are indicated in providing impact on tax management. The impact can increase the tax management. With understanding this factors, the writer expects the impact on the tax management. It is expected in increasing the government revenue from tax sector. Some of problems which can be determined in this research are as follows:

1. Does profitability has significant impact on tax management in mining companies registered in Indonesia Stock Exchange partially?
2. Does liabilities has significant impact on tax management in mining companies registered in Indonesia Stock Exchange partially?
3. Does firm size has significant impact on tax management in mining companies registered in Indonesia Stock Exchange partially?
4. Do profitability, liabilities and firm size have significant impact on tax management in mining companies registered in Indonesia Stock Exchange simultaneously?

#### **1.4 Research Objective**

This study empirically will verify whether the profitability, liabilities and firm size have a significant impact on tax management in mining companies especially those listed on the Indonesia Stock Exchange. The objective of this research is to achieve the research problem as follows:

1. To assess whether profitability has significant impact on tax management in mining companies registered in Indonesia Stock Exchange partially.
2. To assess whether liabilities has significant impact on tax management in mining companies registered in Indonesia Stock Exchange partially.
3. To assess whether firm size has significant impact on tax management in mining companies registered in Indonesia Stock Exchange partially.

4. To assess whether profitability, liabilities and firm size have significant impact on tax management in mining companies registered in Indonesia Stock Exchange simultaneously.

## **1.5 Benefit of the Research**

This research is expected in providing benefits are as follows:

### **1.5.1 Theoretical Benefit**

1. This research is useful to increase knowledge about taxation especially regarding tax management, profitability, liabilities and firm size and to apply knowledge gained by researchers.
2. This research is expected to contribute consideration for further research, and contribute ideas as a consideration in providing information about tax management, profitability, liabilities and firm size in a company.

### **1.5.2 Practical Benefit**

1. This research is used as reference in determining the business activities with considering tax aspect especially tax management.
2. It is expected to provide information or input for relevant parties especially to the management in increasing positive perceptions to users of financial statements on the quality of profit reported through tax management.
3. This research result will give evaluation and input about the impact of profitability, liabilities and firm size in relation with existence of tax management in the company.