CHAPTER I

INTRODUCTION

1.1 Background of the Study

At this time, all developing countries are competing to be free from the status of developing countries. In advancing a country, of course, it requires revenue so that it can be allocated for infrastructure development for the welfare of its people. State revenues are mostly sourced from the taxes collected from businesses or companies. The country highly expects honesty in reporting and paying the tax for the welfare of all citizens. However, from the point of view of taxpayers, especially businesses and companies, taxes are a burden that can reduce the profits that they obtained, thus making them think and finding a way to reduce taxes in which can be done legally or illegally.

Efforts in reducing the tax burden in which is carried out legally or as regulations or in accordance with applicable tax laws by utilizing existing weaknesses (loopholes) in the laws themselves can be referred to as tax avoidance. The process is by doing tax planning, efforts to reduce tax burdens by researching tax regulations, looking for various ways to reduce tax burdens, one of which is tax avoidance by using ways to reduce payable taxes in accordance with tax regulations so that taxes will be paid more efficiently so that tax savings can be achieved. Tax avoidance is an activity undertaken to minimize the obligations that must be paid, and it is also a part of tax planning (Astuti and Aryani, 2016).

Basically, the high income generated from a company and the company's state tax revenue will also be higher. However, if the tax revenue is not in line with the high income that the company generates, then it can be concluded that there is tax avoidance. This can be seen from the mining sector shown by the Ministry of Finance data that the tax ratio from the mining sector in 2016 was only 3.9%, while the national tax ratio was 10.4%. The low national tax ratio may also be caused by tax avoidance by companies in the mining sector. Many companies do not report tax returns or report tax returns but do not match the reality reported (*Katadata*, 2019).

One of the issues related to tax avoidance is in the mining sector, namely the case of PT Multi Sarana Avindo (MSA), where the company was sued because of allegations of the transfer of mining authorization that results in an underpayment of VAT duties. Directorate General of Taxes sued the company three times, namely in 2007, 2009, 2010, which amounted to 7.7 billion. Based on KataData and PRAKARSA's search for the reason Directorate General of Taxes lost in court over the lawsuit due to the lack of material evidence because the practice did not violate existing taxation regulations (*Katadata*, 2019).

However, this is not entirely true because there is a striking difference between the value of output production and the payment of tax obligations. The Directorate General of Taxes should be able to look more for material evidence like this in-depth in the financial statements they present (*Katadata*, 2019).

From about how the high income of the company can deriving taxpayers to do tax avoidance, the writer is interested in the topic of tax avoidance and how many factors are they in the company in which these can have an effect toward the decision-makers in making decisions to do tax avoidance and whether if these factors really can have an effect towards the company is doing tax avoidance. So from many factors, a few of these are the factor that interests the writer: return on assets, sales growth, and capital intensity.

Factors that have an effect towards tax avoidance is the return on asset. According to Darmawan (2014) in (Nugrahitha and Suprasto, 2018) the more efficient a company to use their own resources means that the greater profitability of companies also have an effect towards tax avoidance will be performed. Return on assets (ROA) is one of the indicators or ratios to measure how much a company's efficient in utilizing its assets to create profits (Handayani, 2018). Companies that have high profitability tend to try to minimize their tax burden so that the optimal profit after tax is also obtained. Therefore, tax avoidance is mostly done by companies with high income because it does not violate regulations while at the same time minimizing the tax burden borne.

According to Nugrahitha and Suprasto (2018) and Annisa (2017), found that ROA has a significant effect towards tax avoidance. In other perspectives, Maryanti (2016) concluded that profitability with ROA proxy has no significant effect towards tax avoidance.

Starting from the efficient use of assets, it will be followed by sales growth, which basically means that if the use of assets is efficient, it will be able to reduce unnecessary expenses, and the cost of goods sold will certainly be lower because the utilization is very efficient. According to Maryanti (2016), sales growth can be identified as a change that is an increase or decrease in sales from year to year, which can be seen in a company's financial statements, or it can be said as the development of increase or decrease in sales each year in comparison to the year before. So, a well-developed and profitable company can be seen from the significant increase of sales from year to year, which results in increased corporate profits so that the company's internal funding also increases in which may also cause tax avoidance.

The results of research from Mahanani and Titisari (2016) in (Permata et al., 2018), sales growth has a significant effect towards tax avoidance. In contrast, based on previous research shows that sales growth has no significant effect on tax avoidance (Maryanti, 2016), which means that the increase or decrease in sales growth will not affect the tax avoidance of the company.

The investment in large number that are being made by most company not only for the future but also for a reason. The company usually invest their funds in the fixed asset (capital intensity) which will cause a depreciation expense from the fixed assets invested. These will have an effect towards the amount of tax payable that will be paid later by the company. The amount of depreciation expense for fixed assets in Indonesian taxation regulations varies depending on the classification of fixed assets (Lestari et al., 2019).

Previous research conducted by Noor et al. (2010) in (Dwiyanti and Jati, 2019) found that capital intensity has an effect towards tax avoidance significantly, which means that the higher the capital intensity of a company, the higher the corporate tax avoidance. However, research conducted by Putra and Merkusiwati

(2016) in (Dwiyanti and Jati, 2019) links capital intensity ratio with tax avoidance get capital intensity ratio results do not have an effect towards tax avoidance.

Based on the description above, the writer is interested in doing the research with the title: **"The Effect of Return on Asset, Sales Growth and Capital Intensity toward Tax Avoidance of Mining Companies That Are Listed at Indonesia Stock Exchange."**

1.2 Problem Limitation

Due to time constraints, reliable information/data, the researcher limit the scope of the research to only companies in the mining sector in the stock exchange, and it is 5 year period which is from 2015-2019 and discuss the dependent variables, namely tax avoidance and 3 independent variables namely return on assets, sales growth and capital intensity in which these 3 independent variables may have effect toward the dependent variable which is tax avoidance.

1.3 Problem Formulation

Referring to the background of the study, researchers make the formulation of the problems are as follows:

1. Does the return on assets have a significant effect towards tax avoidance of mining companies that are listed on the Indonesia Stock Exchange partially?
2. Does the sales growth have a significant effect towards tax avoidance of mining companies that are listed at the Indonesia Stock Exchange partially?

3. Does the capital intensity have a significant effect towards tax avoidance of mining companies that are listed on Indonesia Stock Exchange partially?
4. Do the return on assets, sales growth, and capital intensity have a significant effect toward tax avoidance of mining companies that are listed at the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

Based on the background of the study and the problem formulation, the purpose or object of this research are:

1. To analyze the effect of return on assets towards tax avoidance of mining companies that are listed at the Indonesia Stock Exchange.
2. To analyze the effect of sales growth towards tax avoidance of mining companies that are listed at the Indonesia Stock Exchange.
3. To analyze the effect of the capital intensity towards tax avoidance of mining companies that are listed on the Indonesia Stock Exchange.
4. To analyze the simultaneous effect of the return on assets, sales growth, and capital intensity toward tax avoidance of mining companies that are listed at the Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

It is being expected that this research can contribute knowledge, references, and guidelines in order to support future research on the effect of return on assets, sales growth, and capital intensity toward tax avoidance in mining companies on the stock exchange.

1.5.2 Practical Benefit

1. For Academic

   This research hopefully can be used as a reference for future research, teachings and can be used as additional knowledge for the student.

2. For investor

   This research also can be useful for the investor in determining which company that are suitable, which company they should invest and act as the help for decision making.

3. For Reader

   This research can be a means of enhancing the knowledge of the readers

4. For Government

   It is expected that it can be taken into consideration for the government to find out which companies are involved in tax avoidance and serve as a reference for making regulations so that tax avoidance decreases.