

CHAPTER I

INTRODUCTION

1.1 Background of The Study

The development in the nation needs high income from numerous sources. The cash or money is gathered from numerous starting points from individuals in the nation, both homegrown or unfamiliar. The improvement cost can be financed from tax. Tax is one of the paths in expanding the public authority store for directing the activities to build the prosperity of individuals or society. The advantage of expense can be seen in numerous perspectives, for example, for wellbeing, school, development, monetary and nearby government. Tax is an essential component of the public authority's asset to actualize government making arrangements for improvement with using interior source. (Rahayu, 2017).

Tax is a noticeable segment of an organization's activities. The tax has sway on the organization's arranging and business technique, for example, the company's activities and use. The essential objective of business is expanding the return for the management. The route in expanding the management's return is with dealing with the tax in the organization. The route in gathering tax is executed with a self-appraisal framework. It is actualized with giving a chance to the citizen in computing and filling the tax to the public authority. Annual tax for the organization is applied with charging the rate on the organization's gain. The expense is viewed as a factor in the business procedure. The tax can give sway on the organization's business procuring and execution. There are many drawn closer to diminishing the

tax. The technique should be possible from simple to muddled. The aim is to decrease the tax installment to the public authority. Expense shirking is an activity done by the individuals in sidestepping the assessment installment dependent on legitimate methodology. (Rahayu, 2017).

Expense shirking is the strategy to abridge the tax installment allowed by law. Assessment evasion is the way dependent on the fitting path in the guaranteed approach for the citizen since it is finished with thinking about the guideline. The thought of each organization is to lessen tax installment or make proficient installment suitably dependent on assessment arrangement by clearing a path in the inadequacy of duty arrangement. Assessment shirking is implied by the organization in sidestepping the tax cost in a suitable way dependent on expense law, and this technique gets opportunity from the weakness of inadequacy of assessment guidelines. Tax avoidance is an endeavor by the individuals and companies as a citizen in sidestepping the expense payable unlawful route by changing the real condition, and this way to decrease the assessment payable is not allowed by the law. (Wisanggeni and Suharli, 2017).

Profitability is the degree of the corporate's push to result in procuring. Profitability is direct for monetary condition dictated by the organization in expanding the organization's resource reflected by the organization's pay. The higher the benefit, the higher increase in corporate. This condition can build the quantity of tax installment in corporate. The benefit can upgrade the endeavor of the organization to decrease the tax cost. The base tax cost mirrors the way of assessment evasion in corporate. It can apply in light of the fact that the relationship

between corporate expense and pay acquired by corporate is associated. The profitability in corporate shows the great monetary condition and the organization's administration. The high of pay can give the outcome in the incredible installment of tax by corporate. On the off chance that the corporate can make the major profit, this overall gain will decide the expanding the taxation rate in the corporate with the result that there is the way of the corporate in executing charge shirking to diminish this use. The corporate with great business turnover and high acquiring slope to limit taxation rate. This organization can make the low duty consumption since it utilizes numerous routes in subtracting the assessment installment. (Budianti and Curry, 2018).

The organization with great liquidity displays the strength in paying the advance in the current time frame, for example, charge use. The organization with a low condition in liquidity has the intention in deducting the assessment and wants to execute charge shirking. This conduct is made to support the measure of the current resource. The corporate with the issue in liquidity like to execute charge shirking, while the corporate with solid liquidity will decide the duty without a thought in diminishing expense installment. The organization with strength in the installment of current obligations can pay the commitment conveniently. It can display that the organization's liquidity can resolve the money installment in a brief timeframe and for current use, for example, charge installment. The frail liquidity can make the organization in finding the best approach to apply the expense evasion to make productive use of the organization's expense, particularly charge. (Cahyanti, et.al., 2017).

Corporate governance in certain administration can indicate certain use of framework and cycle in business which comprises of assurance of gatherings in controlling the organization's administrative activities. The utilization of corporate governance in certain businesses is reflected in numerous components. These components incorporate a magistrate who can work freely, management etc. Corporate governance is especially decided as training that the gatherings attempt to determine that the organization and worker are in legitimate activities in actualizing practice to make sure about the administration can take the proficient and viable path in expanding the proprietor return. This methodology is fundamental in light of the fact that the state of enormous corporate with isolation of obligations between the executives with the proprietor. Corporate governance is activity and piece resolved to lead and play out the endeavor for expanding benefit and use of bookkeeping framework with reason to accomplish the organization's objective with thinking about all gatherings. Corporate governance displays the plan in the organization with legitimate ways and controlling. The administration can decide the structure, which depicts the allotment of approval and obligations between parties in corporate, for example, management, investor, etc. It is finished with an assurance of a game plan of activities in the organization's issue. (Mulyani, et.al, 2018).

The capacity of corporate governance is a need in expanding the performance of the board. Proper execution of corporate governance discovers that the business circumstances are strong and evident that the organizations can be coordinated in capable practice. Corporate governance has the capacity to keep up

stable monetary execution and strength. The organization that actualizes the corporate governance in the business and movement cycle will result from great item quality with fulfilling administration to numerous gatherings, for example, investor and client. Corporate governance presents the capacity to expand the organization's achievement. It is viewed as the path in deciding the organization's way in expanding the organization's benefit for the proprietor's asset. It alludes to the way that matter of the organization is masterminded and decide to make sure about the significance of numerous gatherings. (Mulyani, et.al., 2018).

This study is conducted with listed companies in the form of trading companies in the Indonesia Stock Exchange. A trading company is a company which main activity is buying, storing, and reselling merchandise without adding value. A trading company is a company that buys goods and then resells them without changing the product. The reason for choosing the trading company as a research object is that this company, in the current situation, is growing fast. The company wants to survive and expand by developing new strategies. The company has high profit, which can conduct the tax avoidance in decreasing the payment of tax. The commercial sector is dominated by the people of the country. Trade is the relationship between the economic activities of countries that trade goods and services for profit. Positive internal conditions to strengthen market confidence by government efforts will stabilize exchange rates and maintain inflation and fiscal policies. It can provide companies with a positive business environment. This can increase the sales volume of the company as the community can buy more products. Increasing sales can add value to profits. This condition may increase income tax.

The profitability, liquidity and corporate governance, and tax avoidance of some trading companies at the Indonesia Stock Exchange in the year 2015-2019 can be seen as follows:

Table 1.1 Profitability, Liquidity, Corporate Governance and Tax Avoidance

Company	Year	Profitability	Liquidity	Corporate Governance	Tax Avoidance
PT AKR Corporindo, Tbk	2015	14.53%	1.50	40.15%	17.70%
	2016	12.97%	1.27	40.70%	6.41%
	2017	11.09%	1.62	40.95%	13.40%
	2018	6.68%	1.39	40.81%	23.59%
	2019	6.95%	1.23	40.31%	19.17%
PT Arita Prima Indonesia, Tbk	2015	8.36%	1.45	25.63%	29.63%
	2016	6.63%	1.51	25.63%	29.79%
	2017	5.63%	1.50	22.52%	27.49%
	2018	11.03%	1.65	22.52%	25.22%
	2019	8.54%	1.60	22.52%	24.84%
PT Colorpak Indonesia, Tbk	2015	11.02%	2.62	26.72%	30.27%
	2016	14.76%	3.25	26.72%	25.70%
	2017	9.14%	3.12	34.92%	22.14%
	2018	6.96%	2.15	34.92%	2.55%
	2019	7.68%	2.51	34.92%	34.91%

Source : Indonesia Stock Exchange (2021)

From table above, there is decreasing of tax avoidance in some companies. It implies that there is effort of some trading companies in minimizing the tax payment. It can occur because the company has decreased sales volume and market condition. The customer of the company does not want to buy the company's product. The payment of tax decrease although the company has effort in increasing net income. The profitability declined in the year 2015-2019. The decrease in sales can decrease the amount of profit. The company cannot increase sales from the year 2015-2019. The decreasing of profit can decrease the base for calculating and paying income tax. (Arianandini and Ramantha, 2018). The liquidity has increased in the year 2015-2019. Increasing liquidity is considered as the ability to pay the payment of tax because the company has sufficient cash to settle the tax payable.

(Budianti and Curry, 2018). There is increasing the implementation of corporate governance. The implementation of corporate governance can ascertain the company's intention in implementation tax properly and paying the tax in participating for the development in the country. This research is done in order to know the factors which can lead to applying tax avoidance. (Mulyani, et.al, 2018). The company's intention to implement tax avoidance can be conducted in many ways in relation to profitability, liquidity, and corporate governance in order to decrease the tax calculation and payment.

Based on the analysis of tax avoidance in the company at Indonesia Stock Exchange, then the writer is interested in analyzing tax avoidance with the title as follows: **“The Impact of Profitability, Liquidity, and Corporate Governance on Tax Avoidance in Trading Companies at Indonesia Stock Exchange.”**

1.2 Problem Limitation

Those tax avoidance might have a chance to be actualized by a large number entity. The motivation should settle on productive tax installment in numerous expense sorts. Because of a lot of people in this exploration in connection for tax avoidance, the authors need controlled issue constraints to leading viable exploration as follows:

1. It will determine to examine item over trading corporate in Indonesia Stock Exchange.
2. It chooses the factors including profitability, liquidity, and corporate governance.

3. It is conducted with settling on constraint for certain investigate time for 2015-2019.

1.3 Problem Formulation

The writer has decided problem formulation on the research as follows:

1. Does profitability partially have impact on tax avoidance at trading companies in Indonesia Stock Exchange?
2. Does liquidity partially have impact on tax avoidance at trading companies in Indonesia Stock Exchange?
3. Does corporate governance partially have impact on tax avoidance at trading companies in Indonesia Stock Exchange?
4. Do profitability, liquidity and corporate governance simultaneously have impact on tax avoidance at trading companies in Indonesia Stock Exchange?

1.4 Research Objective

The objective research is determined in conducting the research for applying effective ways. The writer determines the research objective as follows:

1. To know whether profitability partially has an impact on tax avoidance in trading companies registered in Indonesia Stock Exchange.
2. To know whether liquidity partially has an impact on tax avoidance in trading companies registered in Indonesia Stock Exchange.
3. To know whether corporate governance partially has an impact on tax avoidance in trading companies registered in Indonesia Stock Exchange.

4. To know whether profitability, liquidity, and corporate governance simultaneously have an impact on tax avoidance in trading companies registered in Indonesia Stock Exchange.

1.5 Benefit of The Research

There are a few advantages in leading this exploration as follows:

1.5.1 Theoretical Benefit

1. This examination can give a helpful commitment to the author in expanding the information to know the effect of the factor of tax avoidance.
2. Add writing in the monetary and capital business sectors and can be utilized as a source of perspective for the ensuing study.

1.5.2 Practical Benefit

1. Assist organizations in settling on monetary choices and decide the extent of financing wellsprings of capital structure where it is normal that with this extent of capital structure, the organization can build the estimation of the organization.
2. Give material thought to corporate in contributing their assets by assessing the entity's monetary condition with the goal that it tends to be used in settling on financial choices in the capital market.