

CHAPTER I

INTRODUCTION

1.1 Background of The Study

As a country that has declared its independence for more than seventy-four years, Indonesia has since become a country of its own. Consisting of at least seventeen thousand islands surrounding the archipelago, Indonesia has a lot more to offer to the world. Indonesia is known as a country filled with various kinds of animals and plants, and land, which is more than enough for the people of the country. Citizens in Indonesia are a lot, hence the numerous differences in traditions, cultures, and languages. With what Indonesia has been given by the mother earth, it is quite fair to say that Indonesia is able to make use of those resources to support the economic growth of the country.

The variety of resources provided shall be used to utilize the growth for several different sectors, such as tourism growth and economic growth. The utilization of these resources is supposed to be monitored and conducted by the government and including entrepreneurs and business entities.

Entrepreneurs and business entities who aim to bring in profits are expected to maximize the utilization of the resources. These resources include the miscellaneous industry sector, where it does not focus on only one production of goods but also involving several other subsectors such as machinery, automotive, textile, electronics, and more.

A responsible business entity that generates profit has yet another responsibility of contributing towards the economic growth of the country, which is paying tax. It is no doubt a responsibility for the citizen of Indonesia to be imposed on tax payments when they earn money. Paying tax to the government is a form of contribution towards the sustainability of the economy of the country. According to Teapriangga (2020), taxes are mandatory contributions to the state owed by individuals or entities that are coercive based on the Act, with no direct compensation, and are used for the country's needs for the greatest prosperity of the people.

Table 1.1 Tax Revenue Target and Realization 2018-2020

Year	Tax Revenue Target (In trillions of Rupiah)	Tax Revenue Realization (In trillions of Rupiah)	Percentage
2018	1.424	1.315,9	92.4%
2019	1.577,6	1.332,1	84.4%
2020	1.198,8	1.070	89.3%

Source: Prepared by the writer (2021)

Table 1.1 above shows the tax revenue target for the state budget and the actual tax revenue realization from the year 2018 until 2020. The tax revenue target in 2018 is Rp. 1.424 trillion, and the tax revenue realization is only Rp. 1.315,9 trillion (Inggit, 2019). Although 92% of the tax revenue is achieved, there is a shortfall of Rp. 108 trillion. In 2019, the tax revenue target increased to Rp. 1.577,6 trillion, but the tax revenue realization is only Rp. 1.332,1 trillion (Setiawan, 2020). Even though there is an increase of tax revenue realization of Rp. 16.2 trillion, the percentage of achievement is only at 84.4% - almost a 10% decrease since last year. In 2020, the tax revenue target was not as high as the previous years, only Rp.

1.198,8 trillion, yet the tax revenue realization is only Rp. 1.070 trillion, achieving 89.3% (Kurniati, 2021).

According to Ariyanti (2016), taxes paid by taxpayers are normally allocated by the government to providing healthcare, building public facilities providing education, and food subsidiaries for their people, and it is also considered as protection or development facility by the government for the price of tax payment. The government of the country has a few ways to make sure that the tax revenue received from taxpayers is optimized.

According to Suwiknyo (2019), data is taken through tax amnesty program held by the government, and the data are collected by Organisation for Economic Co-operation and Development (OECD) where it is noted that there are more than eighty-five jurisdictions have participated in global information exchange of finance, totaling up to almost 5 trillion Euro. Lastly, data is checked from identified taxpayers, where the tax authorities have identified around two hundred and seventy-four million prioritized data in 2018.

Kismanah et al. (2018) stated that “profitability can be used to indicate company’s generated profit managed by the management.” In any case that the profitability level increases, naturally, the earnings of the company will also follow, indicating a higher tax payable. According to Putri et al. (2017), “leverage is a ratio that shows how much debt a company has in order to keep the company activities running.” People are familiar with tax avoidance, and that other concepts have been used to avoid or reduce the tax burden, such as tax planning, tax management, and even tax evasion (Aronmwan et al., 2019).

Between all these planning, there is a thin line of difference between minimizing tax burdens and tax evasion. Minimizing tax burden and tax planning are quite similar, in which laws and regulations are being followed when doing so. Whereas tax evasion is somewhat similar, it is completely different. Tax evasion is where the taxpayer violates the regulation and law made by the General of tax, such as giving false information in the tax report.

Various results have been presented as above through the research that has been conducted by the writer, and the writer is interested in conducting personal research titled **“The Impact of Leverage, Profitability, and Corporate Taxation on Tax Avoidance on Miscellaneous Companies Listed in Indonesia Stock Exchange.”**

The reason why the writer chose the miscellaneous industry sector listed in Indonesia Stock Exchange is due to the limitation of information posted on the web regarding the sector. By doing research on this sector, the writer hopes to provide an overview of the miscellaneous sector. Moreover, the miscellaneous sector provides uniqueness in the variability of production in each company, offering the consumer goods such as automotive, machinery, and textile.

1.2 Problem Limitation

The problem limitation of this research is the impact of leverage, profitability, and corporate taxation towards tax avoidance. The population of this research is the miscellaneous companies listed in Indonesia Stock Exchange from the period year 2015 to 2019. The sample selection method used in this research is the purposive sampling method.

1.3 Problem Formulation

In accordance with the information stated in the background of the study above, the problem formulation of this research is:

1. Does profitability influence the tax avoidance in miscellaneous companies listed in Indonesia Stock Exchange?
2. Does leverage influence tax avoidance in miscellaneous companies listed in Indonesia Stock Exchange?
3. Does corporate taxation influence tax avoidance in miscellaneous companies listed in Indonesia Stock Exchange?
4. Do leverage, profitability, and corporate taxation influence tax avoidance in miscellaneous companies listed in Indonesia Stock Exchange?

1.4 Objective of the Research

The objective of this research is followed by the problem formulation:

1. Identify the significant impact of leverage towards tax in miscellaneous companies listed in Indonesia Stock Exchange from the year 2015 to 2019.
2. Identify the significant impact of profitability towards tax in miscellaneous companies listed in Indonesia Stock Exchange from the year 2015 to 2019.
3. Identify the significant impact of corporate taxation towards tax in miscellaneous companies listed in Indonesia Stock Exchange from the year 2015 to 2019.

4. Identify the significant impact of leverage, profitability, and corporate taxation towards tax in miscellaneous companies listed in Indonesia Stock Exchange from the year 2015 to 2019.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the results of the conducted research are expected to be used to expand knowledge and information and additional understanding on leverage, profitability, and corporate taxation on tax avoidance in miscellaneous companies listed in Indonesia Stock Exchange.

1.5.2 Practical Benefit

The results of the conducted research are expected to be used as an overview of the use of leverage, profitability, and corporate taxation in a company, as well as how the impact of tax avoidance. This research paper is also expected to be providing insights and information about miscellaneous companies listed in Indonesia Stock Exchange and guide future researchers for any information related to the paper.