

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of The Study**

Taxes have a very important role for a country in financing government activities. Tax is the biggest source of income for the country, especially in Indonesia, which is used to finance state expenditure, routine expenses, and national development expenditure. The flexibility of a nation in financing development is conducted by exploring the source of funds derived from a domestic authority in tax. Tax often becomes the focus of attention in Indonesia and other countries in the world. Various efforts to optimize tax have been conducted, such as through intensification and extensification of tax, optimizing the tax, the obstacles that can be faced, such as tax avoidance. Tax avoidance is a threat for all countries in the world.

The state revenue in the draft of the state's revenue and expenditure budget in 2020 is targeted at Rp 2,221.54 trillion or grows up to 9.4% compared to the estimated realization in the year 2019. During 2015-2019, the growth of state revenue reached the amount of 7,7% each year. The significant growth of state revenue in the year 2020 mainly comes from the tax revenue of Rp 1,819.2 trillion, or an increase in the amount of 13.3% from the year 2019. The portion of tax revenue on state revenues can reach the amount of 83.8%. This information shows that Indonesia gets the highest income from tax rather than other revenue in the amount of 83%. Taxpayers have to pay tax to the government because tax is

the mandatory levy from the people to the country. Payment by taxpayers to the country will be included as the state revenue from the tax sector. Based on general provision and tax procedure number 28 of 2007 article 1 paragraph 1, tax is mandatory contributions to countries that are payable by individuals or entities forced under the law without obtaining reward directly and is used for the state for the maximum prosperity of the people (Mardiasmo, 2018). The tax is used to finance central and regional government spending for the welfare of the community. The money that the citizen pays will be given back to the citizen through indirect rewards to provide better well-being in the country.

The implementation of tax collection requires a system approved by the government and parliament to produce legislation that forms the basis of the taxation system for the tax authorities and taxpayers. The tax collection system that applies in Indonesia is the self-assessment system. With this system, all tax obligations are fulfilled entirely by taxpayers, and the tax authorities only supervise through audit procedures. The government continues to improve the better taxation system to increase state revenue from tax and minimize the chance of tax avoidance.

Tax planning is the activities that management decreases the level of profit or income in order to minimize tax payments to the government. However, tax planning is still in tax regulation. Tax planning is the act of structuring which is related to the potential tax consequences. The emphasis of tax planning is controlling every transaction that there are tax consequences to minimize the amount of tax to be transferred to the government (Pohan, 2017).

Tax avoidance is usually interpreted as a scheme to minimize the tax burden

by utilizing a loophole in tax regulation. The tax avoidance scheme is legal because it does not violate tax regulations. Tax avoidance is an effort by taxpayers to minimize tax in ways contrary to the intent and purpose of government and parliament. Tax avoidance is a business taxpayer to reduce the tax burden using real alternatives that are acceptable to the tax authorities. By conducting tax avoidance, companies can minimize the amount of profit company to obtain tax benefits without violating it against the applicable tax law (Putra, 2019).

The company, as one of the taxpayers, should pay tax which is calculated from the net profit. The tax paid by the company can increase state revenue. For companies, tax is the burden that will reduce their net income. The government's goal to maximize revenue from the tax sector is contrary to the objectives of the company as a taxpayer. The company seeks to minimize its tax burden to obtain greater profits, increase the owner's wealth and maintain the company's survival. The tax paid by the company is derived from the profits obtained. The increase in profitability can increase the company's tax. This often leads to tax avoidance action in paying the tax. Several factors affect a company in conducting its tax obligations which are company size, profitability, and liquidity.

A company is an organization that has resources such as products and human resources to provide goods or services for customers. The general purpose of a company is to make a profit, but some companies have a goal for the benefit of the community. There might be some aspects that affect the calculation of the tax and may lead to tax avoidance. The first aspect is the company size. Company size is the size, scale, or variable that describes the size of the company based on several

conditions, such as total assets, market value, shares, total sales, total revenue, total capital, and others. The greater the size of revenue, total assets, and total capital will reflect the stronger company's condition. The size of the company is a scale that can be calculated with the level of total assets and sales that can show the shape of the company. The larger company will have the advantage in the source of funds obtained to finance its investment in making a profit (Basyaib, 2007).

Profitability is the company's ability to earn profits. The profitability ratio is the ratio used to measure the efficiency of the use of a company's assets or the ability of a company to generate profits for a certain period to determine the company's ability to operate efficiently. Profitability measurement consists of several ratios. One measurement uses return on assets (ROA) (Hery, 2017).

A liquidity ratio is a ratio that shows a company's ability to meet obligations or pay the short-term debt. This ratio can be used to measure how liquid a company is. One way to measure liquidity is using the current ratio. In this ratio, it can be known the amount of the company's current assets can be used to cover short-term liabilities (Ismanto, et.al., 2019).

The tax avoidance of the company can be affected by many factors. The writer determines the factors such as company size, profitability and liquidity. From these factors, we can conclude whether the companies make their tax payments accordingly. If the tax payments are not in accordance with the increase or decrease from the factors, it is possible that tax avoidance may occur in the company activity. The company size, profitability, liquidity, and tax avoidance of some wholesale companies during the year 2015-2019 can be presented as follows:

**Table 1.1**  
**The Phenomena of Company Size, Profitability, Liquidity, and Tax Avoidance in Wholesale (Durable and Non-durable) Companies Listed at Indonesia Stock Exchange from year 2015 – 2019**

Company	Year	Company Size	Profitability	Liquidity	Tax Avoidance
PT Arita Prima Indonesia Tbk (APII)	2015	26.77	4.37%	1.45	33.17%
	2016	26.73	3.89%	1.51	31.67%
	2017	26.77	3.29%	1.50	41.85%
	2018	26.83	6.75%	1.65	15.70%
	2019	26.92	5.24%	1.61	39.50%
PT Colorpak Indonesia Tbk (CLPI)	2015	27.02	7.39%	2.62	43.38%
	2016	27.06	11.15%	3.25	27.79%
	2017	27.10	6.83%	3.12	55.41%
	2018	27.29	4.45%	2.15	75.06%
	2019	27.26	5.23%	2.51	27.25%
PT Lautan Luas Tbk (LTLS)	2015	29.32	0.63%	0.97	103.49%
	2016	29.36	2.04%	0.98	64.97%
	2017	29.38	3.18%	0.98	23.17%
	2018	29.47	3.69%	0.95	10.87%
	2019	29.40	3.85%	0.84	0.61%

Source: Prepared by writer (2021)

From the table above, it can be seen the fluctuation of tax avoidance during the year 2015-2019. In PT Arita Prima Indonesia Tbk, the increase of company size is not followed by the increase of tax payment during the year 2017-2018. The asset of PT Arita Prima Indonesia Tbk in the year 2017 is Rp 423,181,306,980.- and the asset of PT Arita Prima Indonesia Tbk in the year 2018 is Rp 450,303,354,800.-. The increase in assets can be caused by the increase in account receivable, inventory, and fixed assets. The increasing of company size can create the opportunity to conduct tax avoidance because there is an increase of transactions that can be arranged and there is increasing of complex transactions in the company. It can be indicated that some of the companies tend to conduct tax avoidance through company size.

In PT Colorpak Indonesia Tbk, the increase of profitability is not followed by the increase of tax payments in the year 2015-2016 and 2018-2019. The increase

of profitability should be followed by increases in tax payment because the profit is used as a tax base in the calculation of tax. The company can manage the profit in many ways, such as increasing the expense and postponing income. The company also can manage the profit by determining certain accounting methods such as inventory valuation method, depreciation of fixed asset method, and so forth. The transaction also can be arranged in creating the expense such as increasing interest expense, increasing salary expense, and so forth. It can be indicated that the company might arrange the profit in conducting tax avoidance.

In PT Lautan Luas Tbk, the increase of liquidity is not followed by an increase in tax payment in the year 2015-2016. The increase of liquidity can increase the company's current asset in paying the tax. The payment of tax can decrease the company's liquidity. To maintain good liquidity conditions for investors and creditors, the company might conduct tax avoidance so that the company's payment of tax can be decreased for increasing of current assets and decreasing of current liabilities. A company with high liquidity can show the high unproductive current asset which cannot create income if the current asset is not sold, such as inventory. It can be indicated that a company with high liquidity might conduct tax avoidance.

After analyzing the phenomena of company size, profitability, liquidity, and tax avoidance of some wholesale companies during the year 2015-2019, the analysis is conducted on research gap between previous research. The research gap is the conditions that show the occurrence of inconsistency between previous research compared with phenomena. The research gap occurs because there is a



research result that provides different conclusions. Research conducted by Masnawaty (2019) determines that company size does not have a significant impact on tax avoidance. While research conducted by Irianto, et al. (2017) determines that company size has a significant impact on tax avoidance. Research conducted by Mahrani (2019) determines that profitability has a significant impact on tax avoidance. While research conducted by Aulia and Mahpudin (2020) profitability does not have a significant impact on tax avoidance. Research conducted by Novita (2019) determines that liquidity does not have a significant impact on tax avoidance. Meanwhile according to Marito and Hutabarat (2020) determines that liquidity has a significant effect on tax avoidance. Based on the previous research gathered, it helps the researcher to select the variables chosen to be investigated. The reasons come from several titles that have been collected consist of one or more independent variables that are the same towards the dependent variable. The similarities of independent might also cause differences results from the findings. It might come from either different research periods or sectors that they have conducted. From the reason above, the researcher has collected the ideas to perform several independent variables such as company size, profitability and liquidity toward tax avoidance in the chosen research period and sector to test whether the result obtained will be the same or different from the previous research results.

From all above given the explanation and data towards this research in the wholesale (durable and non-durable) companies that listed at Indonesia Stock Exchange, it needs to be analyzed to know whether the companies already fulfill their responsibility in paying the tax properly and to measure the chance of them

conducting the tax avoidance. The writer will conduct the research with the title **“The Impact of Company Size, Profitability and Liquidity toward Tax Avoidance in Wholesale Companies Listed at Indonesia Stock Exchange”**.

## **1.2 Problem Limitation**

The focus of the research is on variables which are company size, profitability, liquidity, and tax avoidance. The research is focused on wholesale (durable and non-durable) companies listed at Indonesia Stock Exchange. The period of research is the year 2015-2019.

## **1.3 Problem Formulation**

According to the background study above it can be concluded that there is some problem that needs to be considered. Problem formulation in this research can be shown below:

1. Does company size have impact on tax avoidance in wholesale (durable and non-durable) companies listed at Indonesia Stock Exchange ?
2. Does profitability have impact on tax avoidance in wholesale (durable and non-durable) companies listed at Indonesia Stock Exchange ?
3. Does liquidity have impact on tax avoidance in wholesale (durable and non-durable) companies listed at Indonesia Stock Exchange ?
4. Do company size, profitability and liquidity have impact on tax avoidance in wholesale (durable and non-durable) companies listed at Indonesia Stock Exchange ?



#### **1.4 Research Objective**

In accordance with the formulation of the problem above, it can be seen the purpose of this research as follows:

1. To examine the impact of company size on tax avoidance in wholesale companies listed at the Indonesia Stock Exchange
2. To examine the impact of profitability on tax avoidance in wholesale companies listed at the Indonesia Stock Exchange
3. To examine the impact of liquidity on tax avoidance in wholesale companies listed at the Indonesia Stock Exchange
4. To examine the impact of company size, profitability and liquidity on tax avoidance in wholesale companies listed at the Indonesia Stock Exchange

#### **1.5 Benefit of The Research**

The benefits of research are divided into two parts as below stated:

##### **1.5.1 Theoretical Benefit**

1. Accounting student

This researcher is expected to be able to provide understanding for all accounting student so that they have a better understanding on company size, profitability, liquidity, and its relationship to tax avoidance.

2. For researcher

With this research, it is expected that researchers can apply the theory and gain a better understanding of company size, profitability and liquidity that affect tax avoidance in wholesale companies listed at the Indonesia Stock Exchange.

### **1.5.2 Practical Benefit**

1. The government

This research is a material consideration in evaluating further tax policies in order to maximize the potential of state revenue from the tax sector.

2. The companies

This research is material for additional consideration by the management in conducting tax avoidance properly and efficiently without violating applicable tax laws with result that they can be more efficient in corporate tax matters in the future.

3. The investors

It is useful to add information for investors who want to conduct investment decisions in the capital market.