CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia is a growing country with the main income is from taxes. As said in the official website of *Kementrian Keuangan*, tax contributed 1.865,7 trillion from the total state revenue 2.233,2 trillion in state budget (*Anggaran Pendapatan dan Belanja Negara / APBN*) for the year 2020. This show that tax revenue is the largest contributor to the state revenue amounting 83.5%. The purpose of state budget (*APBN*) is to fund education, health, and infrastructure. Based on this data, it is necessary for the government to pay attention toward taxpayer, and taxpayer must be aware of their obligation to pay tax.

Sri Mulyani, Indonesia's Ministry of Finance stated that there are still challenges to increase tax collection, therefor it is needed to add more regulation regarding income tax. The data showed the number of taxpayers is increasing, from 5.199 taxpayer in 2012 – 2016 increasing to 9.496 taxpayer in 2015 – 2019. But although the number of taxpayers is increasing, the amount of entity taxpayer that reported net loss also increasing from 8% in 2012 to 11% in 2019 (rri.co.id).

Indonesia is using self-assessment system as the tax collection system where taxpayer is the one who calculate, pay, and report the amount of tax payable. One of the risks of using self-assessment system is tax avoidance. It is because taxpayer would like to pay minimum amount of tax because tax will reduce the net income, while government want the tax to be as high as possible to fund governmental implementation. Tax avoidance is still considered legal because it is in the grey area between tax compliance and tax evasion with the purpose to minimalize the amount of tax payable by taking advantage of the loophole.

Tax avoidance can be seen based on tax ratio. Tax ratio shows the ability of government in collecting tax revenue, the higher the ratio means the better the performance of tax collecting in that state. According to Maftuhan and Prakarasa (2019) based on Central Bureau of Statistic, mining industry contributed of average of 2.3% to the gross domestic product (GDP) per year or with equivalent of 235 trillion. But despite of the big income, the tax contribution is very low. Based on *Kinerja dan Fakta APBN 2018* by Ministry of Finance, mining industry's tax ratio is only 6,6% or 80,55 trillion, while national tax ratio in 2018 is 11,5% decrease from 2017 with the revenue of 122,1 trillion.

The table of capital intensity, leverage, return on assets, and effective tax rate of several mining industries during the period of 2015 to 2019 is represented below:

Table 1.1 Capital Intensity, Leverage, Return on Assets and Effective Tax Rate on Mining Industry Listed on Indonesia Stock Exchange

Company	Year	Capital Intensity	Leverage	RoA	ETR
Baramulti Suksessarana Tbk. (BSSR)	2015	38.21%	39.64%	15.16%	27.70%
	2016	37.41%	30.78%	14.90%	22.95%
	2017	30.37%	28.67%	39.41%	25.85%
	2018	25.05%	38.68%	28.17%	26.02%
	2019	24.40%	32.05%	12.15%	26.25%

Table 1.1 Capital Intensity, Leverage, Return on Assets and Effective Tax Rate on Mining Industry Listed on Indonesia Stock Exchange (Continued)

Company	Year	Capital Intensity	Leverage	RoA	ETR
Bukit Asam Tbk. (PTBA)	2015	33.02%	45.02%	12.05%	23.52%
	2016	32.77%	43.21%	10.93%	24.93%
	2017	28.19%	37.23%	20.68%	25.05%
	2018	27.08%	32.69%	21.85%	24.67%
	2019	27.86%	29.40%	15.48%	25.93%
Darma Henwa Tbk. (DEWA)	2015	41.28%	39.73%	0.12%	91.42%
	2016	44.62%	40.96%	0.14%	80.11%
	2017	42.83%	43.36%	0.68%	74.42%
	2018	40.61%	44.39%	0.61%	62.34%
	2019	32.21%	57.36%	0.68%	5.82%

Source: www.idx.co.id (2021)

From the table above, we can see there is fluctuation of capital intensity for all three companies. Capital intensity is company's investment in fixed assets. Dwiyanti and Jati (2019) stated the higher capital intensity can cause the depreciation expense increase, which will cause decreasing in the net income. The decreasing in net income means the tax payable is also decreasing. This situation can be seen in PT. Baramulti Suksessarana that has decreased capital intensity in the year 2016 and 2017 as well as decreased ETR in that year. But different situation is seen on PT. Bukit Asam and PT. Darma Henwa, which is the opposite. In 2017, PT. Bukit Asam experience decreasing in capital intensity, but the ETR is increasing. While PT. Darma Henwa have increasing capital intensity in 2015 and 2016 but the ETR is decreasing in that year.

Leverage is a comparison that reflects the amount of debt used to finance company's operating activities (Praditasari, 2017). If the company debt, there will be interest, the higher the interest will decrease tax payable. From the table 1.1, we can see that this happened to PT. Darma Henwa, where the leverage keeps increasing from 2015 to 2019 resulted in the decreasing ETR. Same thing also happened to PT. Bukit Asam in 2018 to 2019 with leverage decreasing from 32.69% to 29.40% resulted in increasing ETR from 24.67% to 25.93%.

Return on assets is company's ability to generate income from total assets. The greater amount of return on assets means the greater the company's income is, and the better performance in management of assets. Great amount of return on assets means the company can pay tax properly because of the net income. Table 1.1 shows that PT. Baramulti Suksessarana's return on assets decreased in 2016 as well as the ETR and increase in 2017 as well as the ETR. The opposite happened to PT. Bukit Asam, in 2018 the return on assets increased but the ETR decreased, and in 2019 the return on assets decreased but the ETR increased. PT. Darma Henwa also have increasing return on assets but have decreasing ETR during 2015 to 2019.

According to previous researchers that have discussed regarding tax avoidance, there are some inconsistencies to the result. Maula et al (2019) that chose to return on assets, leverage, size, and capital intensity as independent variables concluded that capital intensity has no significant effect towards tax avoidance, while Dwiyanti and Jati (2019) that chose profitability, capital intensity, and inventory intensity as independent variables concluded that capital intensity has significant effect towards tax avoidance. Maula et al (2019) also discussed that leverage has significant effect towards tax avoidance, while Faizah and Adhivinna (2017) discussed leverage has no significant effect towards tax avoidance. Wastam Wahyu H (2017) & Jati and Dwiyanti (2019) stated that return on assets has no significant effect towards tax avoidance, while Maula at el (2019) stated that return on assets has significant effect towards tax avoidance.

Based on the phenomena and inconsistency result from the previous research, therefore the writer is interested to conduct research to find out whether capital intensity, leverage and return on assets has significant effect towards tax avoidance in mining industries listed in Indonesia Stock Exchange with the title **"The Effect of Capital Intensity, Leverage and Return on Assets toward Tax Avoidance in Mining Industries Listed on Indonesia Stock Exchange"**

1.2 Problem Limitation

Based on the background of study, the problem limitation is as follow:

1. The research object is mining industries listed on Indonesia Stock Exchange.
2. The independent variables are capital intensity, leverage, and return on assets, and the dependent variable is tax avoidance.
3. The research period is 2015 to 2019

1.3 Problem Formulation

Based on the background of study, the problem formulation is as follow:

1. Does capital intensity partially have significant effect towards tax avoidance in mining industries listed on Indonesia Stock Exchange?
2. Does leverage partially has significant effect towards tax avoidance in mining industries listed on Indonesia Stock Exchange?
3. Does return on assets partially has significant effect towards tax avoidance in mining industries listed on Indonesia Stock Exchange?
4. Do capital intensity, leverage, and return on assets simultaneously have significant effect toward tax avoidance in mining industries listed on Indonesia Stock Exchange?

1.4 Objectives of the Research

Based on the problem formulation, the objectives of doing this research are as follow:

1. To know whether capital intensity has significant effect towards tax avoidance in mining industries has listed on Indonesia Stock Exchange.
2. To know whether leverage has significant effect towards tax avoidance in mining industries has listed on Indonesia Stock Exchange.
3. To know whether ROA has significant effect towards tax avoidance in mining industries has has listed on Indonesia Stock Exchange.

4. To know whether capital intensity, leverage, and return on assets simultaneously have significant effect toward tax avoidance in mining industries listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefit from conducting this research is as follow:

1.5.1 Theoretical Benefit

Theoretical benefit of this research is to increase the knowledge and experience of writer regarding tax avoidance in mining industries listed on Indonesia Stock Exchange and to be used as reference in conducting the research with the topic about tax avoidance in mining industries.

1.5.2 Practical Benefit

Practical benefit of this research is to give consideration for the company to be aware of paying proper tax to avoid performing tax avoidance activity, and for the government to evaluate the existing law regarding tax avoidance to make new policies to maximize tax revenue collected.