CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is a contribution that must be paid by taxpayers, both individual taxpayers and entity taxpayers. Provisions regarding taxpayer obligations have been regulated in Law No. 36 the Year 2008 article 2 paragraph (1) as one of the taxpayers, the company has an obligation to pay taxes accordingly with tax provisions. The Indonesian Government carries out various taxation policies to maximize the tax sector's revenue because tax revenue can significantly affect the size of the state budget (APBN budget).

The 2014 Draft State Budget (RAPBN) states that taxes are used as a resource for the Government to finance various kinds of public interests such as improving education and people's welfare, building public infrastructure, supporting central and regional defense and security, as well as its development. Tax revenue must reach the maximum level because the tax revenue will be used for financing, both at the central and regional levels. Maximizing the revenue from the tax sector, which is the government's goal, is contrary to the company's objectives as a taxpayer, where companies seek to minimize their tax burden incurred to obtain maximum profit to provide accountability to business owners or shareholders and in continuing the company's survival.

The greater the profit earned by companies, the greater the tax burden that the company must pay. This situation will result in the company taking the action of minimizing the tax burden because tax is a burden that can reduce the amount of profit generated by the company. In fact, companies want the smallest possible tax payments, while the Government wants large tax revenues, and of course, this situation will be contrary because the higher the amount of tax paid, the smaller the amount of profit earned.

Tax aggressiveness, namely the company's desire to reduce the amount of tax burden that must be paid both legally (Tax Avoidance) and illegally (Tax Evasion) by exploiting the existing loopholes in tax regulations. The more likely the company is to reduce the amount of tax burden, the more aggressive the company will be towards taxes. The phenomenon of corporate tax aggressiveness cases has often occurred; quoted from online news website an article written by Djumena (2014), one of them is the case of PT Coca Cola Indonesia, which was accused of committing tax avoidance of Rp. 49.24 billion. The results of a search conducted by the Directorate General of Taxes found that there was an increase in costs, which resulted in a reduced taxable income. It will also automatically make the tax burden of PT Coca-Cola Indonesia reduce.

Several factors can affect the level of tax aggressiveness, including earnings management, leverage, and liquidity. Earnings management is an action carried out by company management to influence and intervene in the financial reports that have been made. Profit reporting in the company is made according to its purpose. Such as commercial profit reporting, where the company management will usually try to report its profits as much as possible to attract investors' interest. Whereas, in reporting the taxable income, the management will try to keep the taxable profit at its minimum so that the tax to be paid is smaller; therefore, the company management will take earnings management actions. Earnings management is an effort made by company management in manipulating the financial reports by hiding or changing information that aims to deceive shareholders. Earnings management is carried out because there are differences in interests between company management and other interested parties (shareholders), as stated in agency theory. Hery (2015) stated that earnings management could be related to tax aggressiveness because the financial statements published are generally commercial, financial reports, where there is still an expense or income which according to the tax law are not included in the calculation of the fiscal financial statements, so there is a possibility of tax aggressiveness carried out by company management.

Leverage is a ratio that indicates the amount of external capital used by the company to carry out its operating activities (Sudana, 2015). The leverage ratio calculation results show how much the company's assets come from its loan capital. In this research, the Debt Ratio is used to measure the leverage. The debt ratio indicates how much company debt finances its assets or how much its debt affects asset management. If the company has a high source of loan funds, then the company will need to pay high-interest charges to the creditors. This will make the Interest expense reduce the profits so that the reduced profit will reduce the tax expense in one current period.

The Income Tax Regulations (PPh) of Indonesian entities stipulate that loan interest can be deducted as an expense (tax-deductible) in accordance with Article 6 paragraph (1) letter an of Law Number 36 the Year 2008. The previous research conducted by Nugraha and Meiranto (2015) shows that leverage has a negative and significant effect on tax aggressiveness. However, different results obtained from the previous research conducted by Surya and Noerlaela (2016) shows that leverage has a positive and significant effect on tax aggressiveness.

According to Hery (2015), high liquidity means that the company's finances are in good condition so that it can be used as a reference by creditors to lend funds to the company. The liquidity indicator in this research uses the current ratio. The current ratio measures the company's ability to pay short-term obligations or debt that is mature shortly when collected as a whole. Companies experiencing liquidity difficulties are likely not to comply with tax regulations and tend to conduct tax aggressiveness. The actions are taken to reduce the company's expenses on its taxes, and this occurs because there are differences in interests between the company management and other shareholders or interested parties, as stated in agency theory. For example, as the tax recipient, the Government wants the company to pay taxes on time and wants the taxes they receive to be large, while the company as a taxpayer has to pay taxes every year and wants a small number of tax payments.

In general, cases of tax aggressiveness in the form of tax avoidance have occurred in Indonesia. Of the various corporate sectors in Indonesia, one of the sectors that have the potential and frequently perform tax avoidance is the mining sector. Quoted from the Indonesian Mining Association website in an article written by Dwiarto (2014), in 2010, a case of tax avoidance conducted by Bakrie Group was found. Large mining companies that are included in the Bakrie Group, such as Kaltim Prima Coal (KPC), Arutmin Indonesia, and even Bumi Resources, which is companies that listed in Indonesia Stock Exchange, are indicated to practice tax avoidance totalling 2.176 trillion Rupiah, with details of Kaltim Prima Coal (KPC) as the biggest tax avoider, namely 1.5 trillion Rupiah, then followed by Bumi Resources (BUMI) with a total of 376 billion Rupiah, and the last one, Arutmin Indonesia worth 300 billion Rupiah.

The fact of this phenomenon implies that taxes are a big burden for companies in achieving higher profits; therefore, companies will tend to conduct tax avoidance to reduce their tax burden. The company's aggressive actions will affect the company's value, especially its shares price in the market if the public gets to know the news of the company's tax aggressiveness.

Based on various phenomena and cases related to tax aggressiveness that occurred in the mining industry, and also the results of previous studies and research, the writers are interested in researching with the title "The influence of Earnings Management, Leverage, and Liquidity towards Tax Aggressiveness in Mining Companies listed in Indonesia Stock Exchange."

1.2 Problem Limitation

Due to the purpose to discuss only specific parts in this research and due to limitation of time and budget, this research is limited to:

1. Earning management can be measured using the Total Accruals (TAC) formula. Total accruals can detect the earnings management activity and provides the most strong result.
2. The indicator used to measure Leverage is the Debt Ratio. The debt ratio provides a quick measurement of the size of the company's financial risk.
3. The indicator used to measure liquidity is the current ratio. The current ratio measurement shows how the company's financial capability and stability of the company.
4. The indicator used to measure tax aggressiveness is Cash Effective Tax Rate (CETR). The Cash Effective Tax Rate is able to identify and also provide a comprehensive picture of tax aggressiveness.
5. The period of financial statement used in this research is from the year 2015-2019.

1.3 Problem Formulation

The problem of formulation found during this research are as follows:

1. Does earnings management influence the tax aggressiveness in mining companies listed in the Indonesia Stock Exchange?
2. Does leverage influence the tax aggressiveness in mining companies listed in the Indonesia Stock Exchange?
3. Does liquidity influence the tax aggressiveness in mining companies listed in the Indonesia Stock Exchange?

4. Do earnings management, leverage, and liquidity simultaneously influence tax aggressiveness in mining companies listed in Indonesia Stock Exchange?

1.4 Objective of The Research

Based on the problem formulation above, the objectives of this research are:

1. To determine and analyze the influence of earnings management towards tax aggressiveness in mining companies listed in the Indonesia Stock Exchange.
2. To determine and analyze the influence of leverage towards tax aggressiveness in mining companies listed in the Indonesia Stock Exchange.
3. To determine and analyze the influence of liquidity towards tax aggressiveness in mining companies listed in the Indonesia Stock Exchange.
4. To determine and analyze the simultaneous influence of earnings management, leverage, and liquidity towards tax aggressiveness in mining companies listed in the Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The research results are hoped and expected to be an additional insight and to deepen the knowledge in the accounting and taxation field, especially about the influence of earnings management, leverage and liquidity towards tax aggressiveness.

1.5.2 Practical Benefit

1. For mining companies, research results are expected to be useful as information in minimizing illegal tax aggressiveness, and it is expected to increase the company's value.
2. For investors, the research results are expected to be useful as a reference for making investment decisions in mining companies.
3. For the researcher, the research results are expected to provide additional knowledge for research material in further research about the influence of earnings management, leverage, and liquidity towards tax aggressiveness.