CHAPTER I

INTRODUCTION

1.1 Background of the Study

As a developing country with a large population, Indonesia is an archipelagic country that is endowed with endless natural wealth. Starting from the diversity of arts and culture as well as the world's largest ethnicity and language, Indonesia is also famous for its natural beauty which attracts many tourists.

One of the important sectors for the Indonesian economy is tourism. Indonesia's natural and cultural wealth can get a lot of income from the tourism sector. The tourism sector is one of the strategic sectors that must be utilized for tourism development as part of national development. According to Jaffe and Pasternak (2004) in Yakup (2019), the tourism sector plays an important role in improving a country's economy, especially in reducing the number of unemployed people and increasing the productivity of a country.

Tourism is seen as a valuable resource for promoting the growth of areas with potential tourist attractions. This is because tourism has three spheres of influence, specifically economic aspects (sources of foreign exchange, taxes), social aspects (job creation) and cultural aspects (Yakup, 2019). The tourism sector generates foreign exchange income, creates employment, and stimulates the tourism industry's development, all of which contribute to economic growth (Samimi et al., 2011).

In Indonesia, the realization of foreign exchange from the tourism sector in 2019 reached IDR 280 trillion, which increase from the achievement in 2018 of IDR 270 trillion. Minister of Tourism and Creative Economy, Wishutama Kusubandio also stated that the tourism sector economy contributed 5.5% to the national GDP (Kontan.co.id, 2020). It can be seen that the tourism sector can advance and prosper the economy of the population and the tourist area.

With a geographic location that makes Indonesia a navy traffic trade area, it is undeniable that there are a lot of companies established in this strategic country. According to Prabandaru (2019), one of the obligations of a business entity or company in Indonesia is to pay taxes in accordance with the portions and applicable regulations. This situation is quite beneficial for Indonesia's government in increasing revenue in the tax sector.

The national income of a country comes from various sectors. Government revenue will be used as a source of funding for the activities and the needs of the country in the contex of state development. One of the government's revenues comes from the tax sector. Indonesia uses taxes as the main source of government revenue. As much as 80% of taxes play a major role in government revenue and economic development (Aliffia, 2019). Various regulations imposed by the government are aimed to make the business run fair and able to contribute to government revenue from the tax sector.

But many corporate taxpayers are trying to counteract tax practices because taxes have a compelling element. Conversely, taxes are cost that reduces company's net profits. The higher the profits received, the higher the tax burden that must be borne by the corporation. Companies will try to use ways to save and minimize the large tax burden owed as much as possible. Planned management actions to minimize corporate tax payments through tax aggressiveness are common among companies worldwide (Lanis & Richardson, 2012).

One of the cases of tax aggressiveness has occurred was in Gianyar, Bali. According to the Network (2020), more precisely, tax evasion has been carried out from October 2015 to November 2017. Where the Hanging Garden Hotel has committed tax evasion worth IDR 13 billion (Network, 2020). Tax aggressiveness is an action taken by the corporate to minimize its tax liabilities. A company is said to be tax aggressive if it tries to reduce its tax burden aggressively, either through legal means, such as tax avoidance, or illegal means, such as tax evasion. The more loopholes a company uses to evade taxes, the more aggressive it is (Zsazya, 2019).

Cases related to tax aggressiveness are also published on the online news site (Kontan.co.id, 2019), where the Tax Justice Network Agency reports on the company of PT. Bentoel International Investama Tbk (RMBA) regarding the practice of tax avoidance, which was a subsidiary of British American Tobacco (BAT) in Indonesia in 2018. RMBA was disserve the country up to USD 14 million per year. The report states that British American Tobacco seems to have diverted some of its income out of Indonesia in two ways.

The first is, by making an intra-company loan. RMBA took a loan from a related company in Netherlands Rothmans Far East BV to refinance bank debt and pay for machinery and equipment around 2013-2015. This condition made interest payments on the loan deductible from the company's taxable income in Indonesia. The RMBA company purposefully chose a loan through a Dutch company because Indonesia and Netherlands had an agreement that exempted debt payments from taxes. This caused Indonesia lost the revenue of USD 11 million per year (Kontan.co.id, 2019).

The second method that the RMBA Company used is transfer pricing back to the UK for royalties, fees and services. RMBA made payments for royalties, fees and costs totaling USD 19.7 million per year. This has exacerbated the losses of RMBA Company in Indonesia. The combined cost of these payments was equivalent to 80% of the company's losses before tax in 2016. Indonesia should impose a tax of 25% on royalties, fees and services. But due to the Indonesian – UK tax agreement, the tax to be paid was only 15%. Due to the payment of royalties, fees and IT service to companies in the UK, Indonesia lost the state revenue of USD 2.7 million per year (Kontan.co.id, 2019).

Tax aggressiveness is a strategy taken for reducing the number of tax costs compared to the estimated tax costs. The more the tax burden is avoided, the more aggressive the action is. Tax aggressiveness occurs not only because of the nature of the tax and other matters originating from the regulator (Directorate General of Taxes). Tax aggressiveness is also caused by internal factors like company's financial condition (Agustina, 2016).

The act of manipulating taxable income by tax planning activities using both legal (tax avoidance) and illegal (tax evasion) methods is known as tax aggressiveness. The legal way to do tax engineering is to take advantage of loopholes in existing tax regulations to avoid paying taxes, which is known as tax avoidance. Whereas tax evasion is an illegal way of breaking the law in reducing or eliminating the tax burden (Astuti, 2018).

According to Savitra (2017), there are two factors driving companies to engage in tax aggressiveness action. First, the amount of tax that must be paid by the taxpayer. The higher the tax to be paid, the greater the tendency of the taxpayer to violate the law. Second, great sanctions. The lighter the penalties for violations, the more possibility of taxpayers to commit violations.

Capital intensity, leverage and liquidity are some factors that cause tax aggressiveness. Capital intensity is an activity carried out by companies which is related to how many fixed assets the company has. The more fixed assets the company has, the less taxes it has to pay. An increase in depreciation expense of the company's fixed assets is used to reduce profits that causes less tax burden.

According to Kasmir (2017), leverage is used to determine how much of a company's assets are funded with debt. The high leverage ratio causes higher interest expenses to be paid. This situation causes the company's profit to decrease and the tax burdens that must be paid are also reduced. The leverage ratio is calculated by dividing the amount of liabilities with total assets company.

Liquidity refers to a company's ability to fulfill short-term obligations. The liquidity ratio is calculated by dividing current assets by current debt. The greater the amount of company loan funds, the lower the tax burden due to the interest expense, which reduces the company's profits. The low liquidity ratio reflects that the company is experiencing difficulties in fulfilling short-term obligations, which triggers the company to disobey tax regulations. Whereas companies with low liquidity ratios are more likely to be tax aggressive (Zsazya, 2019).

Research on tax aggressiveness has been widely studied by various parties with different variables and empirical evidence. According to Hidayat and Fitria (2018), tax aggressiveness is influenced by capital intensity and leverage, but it is unaffected by inventory intensity or profitability. Liquidity and leverage, according to Yuliana and Wahyudi (2018), have no major impact on tax aggressiveness. Meanwhile, tax aggressiveness was influenced by firm size, capital intensity, and inventory intensity. Liquidity, leverage, firm size and capital intensity, according to Gemilang (2017), have no substantial impact on a company's tax aggressiveness. While variable profitability has a major impact on company aggressiveness.

Based on the research that has been done above, there are differences in the results of research on the impact of capital intensity, leverage and liquidity on tax aggressiveness. So a research gap appears on the factors that actually influence tax aggressiveness. This encourages researchers to analyzes and re-conduct research.

Based on the history and previous research described above, writer is interested in conducting research under the title **"The Influence of Capital Intensity, Leverage and Liquidity toward Tax Aggressiveness in Tourism, Restaurant and Hotel Companies Listed on Indonesia Stock Exchange".**

1.2 Problem Limitation

The problem limitation of this research is intended to make it easier to discuss the main points of mind clearly and systematically so as not deviate from the problem. The problem limitation in this research are as follows:

1. The research object is tourism, restaurant and hotel companies listed on Indonesia Stock Exchange
2. The research period on this research is from the year 2015-2019
3. The independent variable are capital intensity, leverage, liquidity, and the dependent variable is tax aggressiveness
4. The indicators used to measure the variables are Capital Intensity Ratio for capital intensity, Debt to Asset Ratio (DAR) for leverage, Current Ratio for Liquidity and Effective Tax Rate (ETR) for tax aggressiveness.

1.3 Problem Formulation

The problems formulated in this research are as written below:

1. Does capital intensity partially have a significant influence on tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange?
2. Does leverage partially have significant influence towards tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange?

3. Does liquidity partially have significant influence on tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange?
4. Do capital intensity, leverage and liquidity simultaneously have significant influence towards tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

According to the problem formulation above, the objectives of this research are as follows:

1. To identify the influence of capital intensity partially towards tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange
2. To identify the influence of leverage partially towards tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange
3. To identify the influence of liquidity partially towards tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange
4. To identify the influence of capital intensity, leverage and liquidity simultaneously towards tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

By conducting this research, writer has expected to provide benefits to reader as follows:

1.5.1 Theoretical Benefit

This research is expected to be used as literature and generate new ideas for further research in relation to capital intensity, leverage and liquidity as well as tax aggressiveness. This research is also expected to provide new and valid empirical evidence to support the tax aggressiveness theory for future research purposes.

1.5.2 Practical Benefit

The result of this research is expected to give information to readers to understand the factors that have an impact on tax aggressiveness in the tourism, restaurant and hotel companies listed on Indonesia Stock Exchange. Companies can improve compliance and performance against applicable tax regulations.