CHAPTER I

INTRODUCTION

1.1   Background of the Study

Indonesia is one of the countries that is still getting into the top five with the world's largest population. Meaning here, the government will need and must have enough income for the prosperity of a country. One of the biggest sources of revenue for governments is from the tax. Tax is the contribution that must be paid by the people or taxpayers to the state for the government benefits and to achieve general welfare of the social communities without getting reciprocal directly, and it is forceful based on the law (Hernanto, 2017).

Indonesia uses a self-assessment system, which means the taxpayer is given full authority to calculate, pay, and self-report the amount of tax to be paid (Prabandaru, 2018). According to Tandean and Jonathan (2016), the advantage of tax between government and company is not the same. Most of the companies as taxpayers considered that tax payment is an expense, so it must be managed properly to increase profit. A different aim between two parties will lead to tax noncompliance by taxpayers or company management, impacting the company's efforts to manage tax burden by tax planning, where one of the strategies is tax avoidance.

According to Budiman and Setiyono (2012) in Dewinta and Setiwan (2016), tax avoidance is considered a legal method to minimize the amount of income tax owed by an individual or a business. Many companies have done tax

avoidance since it is an effort to reduce taxes while still complying with tax regulations, such as taking advantage of exceptions and allowable deductions stated there. However, tax avoidance is still considered as a complicated matter because it is being allowed by the government, but on the other hand, it is undesirable.

Table 1.1 Comparison of tax revenue achievements
Year 2017-2019
(In trillion rupiah)

Year	2017	2018	2019
Target	1,283.57	1,424.00	1,577.56
Realization	1,151.03	1,315.51	1,332.06
Achievements	89.67%	92.23%	84.44%

Source: Direktorat Jenderal Pajak (2019)

The table above shows that the tax revenue target in APBN (*Anggaran Pendapatan dan Belanja Negara)* 2019 amounts to 1,577.56 trillion rupiahs. However, the realization only reached 1,332.06 trillion rupiahs, which is only 84.44% from the target. The percentage from 2017 until 2019 is in unstable condition; from 2017 to 2018, it is good news that the percentage of the tax achievements is increasing from 89.67% to 92.23%, which means taxpayers have their own desire and initiates to pay their obligation. It is still an unpredictable situation, and the percentage dropped dramatically from 92.23% to 84.44% in 2019, even it is lower than in the year 2017. Hence, tax revenue always lowers from the target set by the government allegedly related to tax avoidance. Moreover, added with the self-assessment system applied in Indonesia makes it easier for taxpayers to do tax avoidance.

Condition of three companies that are registered in the miscellaneous industry is shown as follows:

Table 1.2 Phenomena Table

Company	Year	Company's Age	Profitability	Fixed Asset Intensity	Liquidity	Tax Avoidance
Sepatu Bata Tbk. (BATA)	2015	33	0,1629	0,2952	2,4710	0,0907
	2016	34	0,0525	0,2728	2,5701	0,3533
	2017	35	0,0627	0,2559	2,4640	0,3253
	2018	36	0,0775	0,2737	2,9277	0,2685
	2019	37	0,0272	0,2836	3,3092	0,3463
Selamat Sempurna Tbk. (SMSM)	2015	19	0,2078	0,3220	2,3938	0,2097
	2016	20	0,2227	0,2919	2,8603	0,2370
	2017	21	0,2273	0,2799	3,7391	0,2293
	2018	22	0,2262	0,2674	3,9432	0,2351
	2019	23	0,2056	0,2416	4,6365	0,2231
Voksel Electric Tbk. (VOKS)	2015	25	0,0002	0,1864	1,1681	0,8842
	2016	26	0,0959	0,1767	1,3336	0,2866
	2017	27	0,0788	0,1449	1,3226	0,2781
	2018	28	0,0424	0,1741	1,2725	0,2572
	2019	29	0,0688	0,1867	1,7753	0,1958

Source: Indonesia Stock Exchange (2020)

From the table above, it can be concluded that company with a longer age does not determine the possibility of tax avoidance. Can be seen that the longest duration is in Sepatu Bata Tbk. which until 2019, it has been established for 37 years but it is categorized as a second lowest for the tax avoidance rate which is measure by Effective Tax Rate (ETR). The highest profitability is Selamat Sempuna Tbk. and for the lowest is Voksel Electric Tbk. which also has the highest rate of tax avoidance. Due to this, it can be said that company with less profit could trigger them for doing tax avoidance. Last but not least, if we analyses from the fixed asset intensity, Selamat Sempurna Tbk. has the highest rate with the second highest ETR of three companies. It also has a highest liquidity among the others company, which means the companies cannot manage their organization properly. However, it does not mean their tax avoidance is the higher since the higher rate of ETR is in the company named Voksel Electric Tbk.

Regarding tax paid by the taxpayer and utilized by the government for public use, both parties have a different interest. The taxpayer is trying to

minimize their tax liability to raise the company's profit because it will reduce taxpayer economic ability by paying their taxes. On the other hand, funds for governmental administration are earned from tax revenues. Taxpayer is to reduce the number of tax payments legally or illegally. This is possible if there is an opportunity and leads the taxpayer to do tax avoidance (Permata et al., 2018).

Tax is an obligation that should be paid by company. Related with this tax obligation, company's age will become a consideration on how taxpayer paying their tax as well as a factor that could trigger tax avoidance behavior. Having higher age potentially lead the survival of the company to compete in the business world, since it will bring out more knowledge gained by the company. The indicator of age is counted based on the first time a company registered in Indonesia Stock Exchange (IDX). Reducing expenses is necessary for an aging company, including tax expense due to experience and learning that a company has and other companies' influence either from the same industries, which is a miscellaneous industry that will be researched, or different sectors. The longer of company's operation period, the more experience it will have, and the tendency to do tax avoidance will be higher. Related research stated that the company's age positively influences tax avoidance (Dewinta & Setiawan, 2016). While other related research stated that company's age does not influence tax avoidance (Permata et al., 2018).

The long company's age means they could stay productive and keep stable in their position and also be able to stay profitable. Profitability is one of the measurements for a company's performance. It shows the percentage of income

(net profit) earned during a certain period related to overall resources or average of total asset. The profit that is counted by Return on Assets (ROA) is obtained by how much the company uses its assets. The higher the ROA number, the better, because the company will gain more profit. As well as the tax, when profit is increasing, tax liability will increase too. This will cause a possibility for tax payer doing tax avoidance. Related research stated that profitability positively influences tax avoidance (Dewinta & Setiawan, 2016). While other related research stated that profitability has no influence on tax avoidance (Permata et al., 2018).

Besides profit that is counted from the total assets, fixed asset intensity is also one part that could influence the payment of tax. In tax, the investment selection in the form of a fixed asset is in the depreciation, and the intensity of fixed asset represents it. According to Mulyani (2014) in Dharma and Ardiana (2016), depreciation expense will reduce taxable income and tax pay. When the amount of taxable income gets lower, it will cause tax liability to decrease. Related research stated that fixed asset intensity has a positive influence towards tax avoidance. While other related studies said that fixed asset intensity has no influence on tax avoidance (Prapitasari & Safrida, 2019).

Liquidity is also important to consider the tax avoidance pattern. It shows the company's ability to fulfill their obligation by paying the short term liability. When a company could reach higher liquidity, it shows they are in good condition. Meaning they have the ability to pay their obligation including paying their tax too and vice versa, companies with lower liquidity will prefer to maintain

cash flow rather than paying their tax burdens to secure its company finances. Related research stated that liquidity negatively influences tax avoidance (Pasaribu & Mulyani, 2019).

Miscellaneous industry is one of the sectors that has a strong amount and high value in public since it sells a product that most people require to launch their daily activities such as vehicle, shoes etc. By looking at the previous research, miscellaneous industry has not been conducted yet. Thus, this is the reason why author chooses this sector to be tested.

The combination of the four independent variables in this research is due to the different results that have been researched and stated in the previous research. Apart from that, the reason why author chooses this topic because it shows a relation in each independent variable, where when the age of company increases, it is normally assumed that it has recorded profit year by year by using their overall assets and also fixed asset intensity which by seeing the total fixed asset and total asset. Lastly, when the total value of asset is higher meaning company should be able to fulfill its short term obligation which can be compare by using current ratio. Therefore, the author interested in doing research titled "The Influence of Company's Age, Profitability, Fixed Asset Intensity and Liquidity towards Tax Avoidance of Miscellaneous Industry Listed on Indonesia Stock Exchange (IDX)"

1.2   Problem Limitation

The research's area of limitation is revolved around the influence of company's age, profitability, fixed asset intensity and liquidity towards tax avoidance. This research will be done by seeing the annual financial statements in miscellaneous sector companies listed on Indonesia Stock Exchange from the year of 2015-2019. The five indicators that will be used, there are several uncompleted data and will not be examined in this research, this is done by using the purposive sampling as the sample selection method.

1.3 Problem Formulation

Based on the background research, the author makes the problem formulations as follows:

1. Does the company's age significantly influence tax avoidance in the miscellaneous industry listed on Indonesia Stock Exchange (IDX)?

2. Does profitability significantly influence tax avoidance in the miscellaneous industry listed on Indonesia Stock Exchange (IDX)?

3. Does fixed asset intensity significantly influence tax avoidance in the miscellaneous industry listed on Indonesia Stock Exchange (IDX)?

4. Does liquidity significantly influence tax avoidance in the miscellaneous industry listed on Indonesia Stock Exchange (IDX)?

5. Do company's age, profitability, fixed asset intensity and liquidity significantly influence tax avoidance in the miscellaneous industry listed on Indonesia Stock Exchange (IDX)?

1.4   Objective of the Research

In order to solve the problem that has been formulated, here is some objective of the research, which are:

1.   To analyze and find out the influence of a company's age towards tax avoidance in the miscellaneous industry listed on the Indonesia Stock Exchange (IDX)

2.   To analyze and find out the influence of profitability towards tax avoidance in the miscellaneous industry listed on the Indonesia Stock Exchange (IDX)

3.   To analyze and find out the influence of fixed asset intensity towards tax avoidance in the miscellaneous industry listed on the Indonesia Stock Exchange (IDX)

4.   To analyze and find out the influence of liquidity towards tax avoidance in the miscellaneous industry listed on the Indonesia Stock Exchange (IDX)

5.   To analyze and find out the influence of company's age, profitability, fixed asset intensity, and liquidity towards tax avoidance in the miscellaneous industry listed on the Indonesia Stock Exchange (IDX)

1.5   Benefit of the Research

The benefit that will be gain by various parties from this research is:

1.5.1 Theoretical Benefit

1.   For author

The result of this research is expected to provide information on whether the company's age influences tax avoidance, profitability, fixed asset intensity and liquidity with the same indicator used by the other author and find out it will give the same contradictory result.

2. For Readers

The result of this research is expected to be a relevant reference regarding the influence of a company's age, profitability, fixed asset intensity and liquidity towards tax avoidance and hopefully for readers who are classified as a taxpayer can fulfill their tax obligation.

1.5.2 Practical Benefit

1. For the company

The result of this research is expected to provide information related to tax avoidance which by seeing the factors that could trigger company to do tax avoidance specifically company's age, profitability, fixed asset intensity and liquidity. From the consideration of the benefit for the government that will lead to the prosperity of a country, it is hoped that in the future company could appropriately fulfill their tax obligation.

2. For investor

The result of this research is expected to provide an overview about factors that can lead to tax avoidance. By looking at the result, investor could use this study as a consideration in assessing the tendency of tax avoidance that is done by companies so that investors can make the right investment decisions.