

## ACKNOWLEDGEMENT

The completion of this thesis entitled, “Analysis of Firm’s Performance on the Practice of Tax Avoidance” could not have been possible without the blessing, guidance, and love from Jesus Christ, Lord Almighty, and Holy Mary. This thesis was intended to achieve bachelor’s degree at the Business School of Universitas Pelita Harapan, in Lippo Village, Tangerang, Banten.

Besides, without the guidance, supports, and prayers from people around the writer, the process to complete the thesis would not be possible. The gratitude and respect were expressed to the following names:

- 1) Niel B. Nielson, M.A., Ph.D., as the Dean of Faculty of Economics,  
Universitas Pelita Harapan
- 2) Dr. Antonius Herusetya, Ak., M.M., CA., as the Head of Study Program of  
Accounting
- 3) Dr. Mulyadi Noto Soetardjo, M.Com, Ak., CA., CPA as the supervisor of  
this thesis for time, guidance, patience, knowledge, and critics given to the  
writer, so the thesis can be completed in timely manner.
- 4) Dr. Tanggor Sihombing, B.A., MBA., as the academic counselor of the  
writer
- 5) Mr. Victor Sitorus, Mr. Julius Sopar, Mr. Aloysius Harry Mukhti, Mrs.  
Ritha Juliana Nainggolan, Mr. Septian Bayu Kristianto, Mr. Johannes  
Ribli, Mr. Eduard Naibaho, for contributed the time, guidance, and

knowledge throughout the three and half years of writer's undergraduate studies at Universitas Pelita Harapan

- 6) Handy Darwin Gijanto, Lina Tjahjadi, Vania Gijanto, Andrew Darwin Gijanto, and Graciella Gijanto, as writer's beloved family for love, attention, prayer, care, and support throughout writer's life.
- 7) Beloved friends at Universitas Pelita Harapan, Kenneth Wijaya, Inez Santoso, Tri Ananto, Lydia Sabrina, Angelica Cindy, Debby Christiani, Vincent Sujanto, Alvin Salim, Erwin, Kunal Manwani, and Radhika for friendship throughout the university life.
- 8) Beloved friends since junior high school, Kimberly Iwantoro, Rayvan Nathaniel, Loissa Stevanie, Angell Madeleine, Billy Betnaiser, Sander Ekaputra, and Nicholas Ferdinando for their friendship, guidance, and support.

Writer realized that this thesis is far from perfect. Therefore, any critics, suggestions, and comments are very welcome.

Karawaci, 27 September 2018

Author

## TABLE OF CONTENT

### TITLE PAGE

### STATEMENT OF ORIGINALITY OF THESIS

### AGREEMENT OF ORIGINALITY OF THESIS

### EXAMINATION BOARD APPROVAL

### ABSTRACT..... v

### ACKNOWLEDGEMENT..... vi

### TABLE OF CONTENT.....viii

### TABLE OF FIGURES..... xii

### LIST OF TABLES.....xiii

### CHAPTER I INTRODUCTION

#### 1.1 Background..... 1

#### 1.2 Research Question.....5

#### 1.3 Research Objectives..... 6

#### 1.4 Research Limitations.....6

#### 1.5 Research Contributions..... 6

#### 1.6 Systematic Discussion.....7

### CHAPTER II THEORETICAL FRAMEWORK AND HYPOTHESIS

### DEVELOPMENT

#### 2.1 Theoretical Framework.....9

##### 2.1.1 Definition and General Concept of Tax.....9

##### 2.1.2 Principles of Good Tax Policy.....9

##### 2.1.3 Taxation System in Indonesia..... 12

2.1.4 Minimize Tax Burden of a Company .....	13
2.1.4.1 Tax Planning .....	13
2.1.4.2 Tax Avoidance.....	14
2.1.4.3 Tax Evasion.....	19
2.1.4.4 Difference between Tax Planning, Tax Avoidance, and Tax evasion.....	19
2.1.5 Trade-off Theory .....	20
2.1.6 Agency Theory.....	21
2.1.6.1 Definition and General Concept of Agency Theory.....	21
2.1.6.2 Agency Theory in Tax Avoidance.....	23
2.1.7 Theory of Political Power .....	24
2.1.8 Profitability.....	25
2.1.9 Leverage.....	25
2.1.10 Liquidity.....	26
2.1.11 Firm's Size .....	26
2.1.12 Sales' Growth.....	27
2.2 Previous Studies.....	28
2.3 Conceptual Framework.....	33
2.4 Hypothesis Development .....	34
2.4.1 The Influence of Profitability to the Practice of Tax Avoidance .....	34
2.4.2 The Influence of Leverage to the Practice of Tax Avoidance .....	35

2.4.3 The Influence of Liquidity to the Practice of Tax Avoidance .....	36
2.4.4 The Influence of Firm's Size to the Practice of Tax Avoidance .....	36
2.4.5 The Influence of Sales' Growth to the Practice of Tax Avoidance .....	37

### **CHAPTER III METHODOLOGY**

3.1 Population and Sample .....	38
3.2 Types of Data and Data Collection .....	39
3.3 Empirical Model.....	40
3.4 Operational Variable Definitions .....	41
3.4.1 Tax Avoidance .....	41
3.4.2 Profitability .....	42
3.4.3 Leverage .....	43
3.4.4 Liquidity .....	43
3.4.5 Firm's Size .....	44
3.4.6 Firm's Growth .....	44
3.5 Method of Data Analysis .....	44
3.5.1 Descriptive Statistics .....	45
3.5.2 Hypothesis Testing .....	45
3.5.2.1 Coefficient of Determination .....	46
3.5.2.2 F-statistics.....	47
3.5.2.3 t-Statistics .....	47

3.5.3 Test of Classical Assumption .....	48
3.5.3.1 Normality .....	48
3.5.3.2 Heteroscedasticity .....	49
3.5.3.4 Multicollinearity .....	49
 <b>CHAPTER IV RESULTS AND DISCUSSION</b>	
4.1 Overview of Research Data .....	51
4.2 Descriptive Statistic .....	54
4.3 Test of Classical Assumption .....	55
4.3.1 Normality .....	56
4.3.2 Heteroscedasticity .....	58
4.3.3 Multicollinearity .....	61
4.4 Hypothesis Testing Result .....	61
4.4.1 Coefficient of Determination .....	61
4.4.2 F-Statistics .....	62
4.4.3 t-Statistics .....	63
4.5 Analysis of Regression .....	68
4.5.1 Profitability toward Tax Avoidance .....	68
4.5.2 Leverage toward Tax Avoidance .....	70
4.5.3 Liquidity toward Tax Avoidance .....	66
4.5.4 Firm's Size toward Tax Avoidance .....	70
4.5.5 Sales' Growth toward Tax Avoidance .....	70
 <b>CHAPTER 5 CONCLUSION AND RECOMMENDATION</b>	
5.1 Conclusion .....	73

5.2 Research Limitations ..... 75

5.3 Recommendation ..... 76

**REFERENCES**

**APPENDIX**



## TABLE OF FIGURES

Figure 2.3 Conceptual Framework.....	32
Figure 4.3.1 Normal P-P Plot.....	55
Figure 4.3.2 Scatterplot.....	57





## LIST OF TABLES

Table 2.1.3.4 Difference between Tax Planning, Tax Avoidance and Tax Evasion.....	20
Table 2.2 List of Previous Studies.....	29
Table 4.1 Overview of Research Data.....	49
Table 4.2 Descriptive Statistics.....	51
Table 4.3.1 Normality.....	54
Table 4.3.2 Heteroscedasticity.....	56
Table 4.3.3 Multicollinearity.....	58
Table 4.4.1 Coefficient of Determination.....	59
Table 4.4.2 F-Statistics.....	60
Table 4.4.3.1 t-Statistics.....	61
Table 4.4.3.2 Summary of Hypothesis Testing.....	63