

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Indonesia is considered as the developing countries which have a large population in Southeast Asia which has a population of around 271,349,889 people and is ranked as the fourth largest population in the world. This provides great benefits for the Indonesian government in state revenues, especially in the field of taxation, because every Indonesian citizen is obliged to carry out his obligations, namely paying taxes.

In terms of taxation, Indonesia adheres to a self-assessment system, which means a tax collection system that gives trust to companies or public as taxpayers given by the government to calculate, pay, pay off, report and deposit their own taxes in accordance with the amount of tax payable whose calculations are based on law and regulation of tax. The purpose of using a self-assessment system is to provide an opportunity for taxpayers to calculate their taxable income effectively and efficiently.

However, it causes some taxpayers doing tax avoidance and tax evasion, which become the challenges that the government faces in maximizing the revenue for the country. Tax avoidance that occurs in Indonesia is due to the low morale of taxes in society, this tax morale is a determinant of taxpayer compliance and other behaviors carried out by

taxpayers (Kustiawan et al., 2019). Tax avoidance aims to reduce one's tax burden by avoiding taxes in a country's tax regulations. One of the things that companies should do is deciding on using the best accounting system to reduce the tax burden.

The greater level of tax avoidance and evasion in Indonesia has resulted in tax revenues inability to achieve the target each year; income from the tax sector is essentially a source of funding for national development and the welfare of the people. The following table shows the realization and target of tax revenue in Indonesia from 2015 to 2020:

**Table 1. 1 Realizations and Target of Tax Revenue in Indonesia**

Year	Target (IDR)	Realization (IDR)	Percentage of Realization
2015	1.294 T	1.061 T	81,9%
2016	1.355 T	1.104 T	81,5%
2017	1.283 T	1.151 T	89,7%
2018	1.424 T	1.315 T	92%
2019	1.558 T	1.322 T	84,4%
2020	1.199 T	1.070 T	89,3%

**Source:** Director General of Taxes

Prepared by: Writer (2021)

According to data above, the percentage of tax revenues collected in Directorate General of Taxes Report from 2015 to 2020 indicates that taxes have not achieved the target for 6 consecutive years, as evidenced by the greatest percentage of tax revenues in 2018, which is 92%. This also demonstrates that there are implications of tax evasion and tax avoidance by firms in Indonesia.

Tax avoidance is a complicated problem since it is a type of tax planning that does not violate current rules, leading state tax revenues to be lower than they should be. There is phenomenon of tax avoidance that has occurred in Indonesia in the last 5 years, which is the phenomenon of Suzuki Motor Corp in 2016, Suzuki Motor Corp recently carried out a tax avoidance case by using the motorcycle business to conceal funds totaling Rp 38.6 billion in order to deceive the government into not subjecting them to higher taxes.

In this case, it is suspected that Suzuki recorded unwanted racing motorbike parts as expenses rather than inventory goods. Unused spare parts are classified as inventory goods and cannot be costed unless they have been utilized or disposed of. In this case, Suzuki must pay Rp 57.9 billion in taxes and penalties for doing fraud about them (Arfi, 2016).

There are also a case of tax avoidance by increasing the amount of debt occurs in the agricultural sector, particularly taxes from palm oil, as stated by Thomas (2018), who claims that Laode assures that at least 40% of palm oil firms are accused of failing to pay taxes in accordance with the regulations. According to him, when oil palm lands expand, tax income suffers in the other direction. Then, Yusuf Rendy Manilet, a fiscal researcher at the Center of Reform on Economics (CORE), responded that palm oil companies engaged in thin capitalization in term of decrease the amount of income taxes by borrowing a large amount of money from multiple sources, resulting in the

percentage of debt increasing rapidly while the percentage of company equity appears to be decreasing.

Another case of tax avoidance is the case of companies manipulating company profits, such as the alleged tax avoidance case by PT. Adaro Energy, which stated by Friana (2019) that the Investigation of the International NGO Global Witness discovered 5 cases of tax avoidance committed by PT. Adaro Energy, one of the major companies engaged in the coal sector. The business moved part of the proceeds from coal sales to a group of foreign companies in order to decrease the amount of taxable income.

This tax avoidance is a problem that needs to be resolved by taxpayers to lower their tax burden. Individual taxpayers and entity taxpayers are the two types of taxpayers that avoid taxation. From 2015 to 2019, the number of taxpayers registered in Indonesia rose year to year, including both individual and entity taxpayers. However, because the Directorate General of Taxes has not published statistics on taxpayers in 2020, it is unknown how many taxpayers there will be. According to DDTCNews (2021), Finance Minister Sri Mulyani Indrawati, the number of taxpayers were increased from 2002 to 2021. In the table below, the population of Indonesian taxpayers increased from 2015 to 2019:

**Table 1. 2 Number of Taxpayer in year 2015-2019**

<b>Year</b>	<b>Individual Taxpayer</b>	<b>Entity Taxpayer</b>
<b>2015</b>	30.139.164	2.666.594
<b>2016</b>	32.957.424	2.904.378
<b>2017</b>	35.491.280	3.101.839

**Table 1.2 Number of Taxpayer in year 2015-2019 (continued)**

<b>Year</b>	<b>Individual Taxpayer</b>	<b>Entity Taxpayer</b>
<b>2018</b>	38.651.308	3.320.020
<b>2019</b>	42.284.351	3.550.438
<b>Total</b>	<b>179.523.527</b>	<b>15.543.269</b>

**Source: Directorate General of Taxes**

**Prepared by: Writer (2021)**

From the total entity taxpayers, it shows that Indonesia entity taxpayer is increased from 2015-2019 with total 15,543,269 registered companies. In this research, the writer uses a building construction company that is listed on the Indonesia Stock Exchange since the construction service industry has a big potential in economic activities, especially in development activities. The growing development of public infrastructure and other developments indicate that there is a sizable market for the building construction sector in Indonesia, so it is likely that profits will increase every year.

According to the information provided by Cekindo (2020) the building construction sector in Indonesia is among the most important contributors to the country's economic growth, and it is now expanding at a steady pace. The construction sector is one of Indonesia's largest tax contributors, after mining sector.

The value of building construction in Indonesia in 2020, according to BCI Asia, a media group firm that offers construction project information, will be at its peak point in the past five years, from 2016 to 2020. Not only that, but it managed to set a new record in terms of building construction growth, despite the fact that building construction was extremely volatile at the time.

The construction value in 2016 was Rp 153.08 billion, however it has now depreciated to Rp 150.36 billion in 2017. A year later it fell to Rp 140.51 billion. Building construction just increased in 2019, growing 5.17% to Rp 147.77 billion compared to 2018. In 2020, the market size of the residential market is estimated to reach Rp 56.75 billion or a growth of 2.71% compared to 2019. Evidence of growth is shown by the presence of a good domestic market (Rusyanto, 2019).

The firm's growth can be seen from their financial performance and growth which is an indicator of the potential for increasing tax payment as a source of state revenue. Data on financial performance and tax avoidance indicators from a number of building construction companies listed on Indonesia Stock Exchange are presented below:

**Table 1. 3 Firm Size, DER, ROA and ETR**

Indicator	Company Name	Year					
		2011	2012	2013	2014	2015	2016
Firm Size	PT. Adhi Karya Tbk	29,44	29,69	29,91	29,98	30,45	30,63
	PT. Jaya Konstruksi Mangala Pratama Tbk	28,43	28,57	28,86	28,98	28,97	29,02
	PT. Total Bangun Persada Tbk	28,27	28,36	21,52	21,63	21,77	21,81
	PT. Wijaya Karya	15,93	23,12	16,35	16,58	23,70	24,16
	PT. Wijaya Karya Bangunan Gedung	13,04	13,45	27,35	27,64	27,93	28,34

Table 1.3 Firm Size, DER, ROA and ETR (continued)

Indicator	Company Name	Year					
		2011	2012	2013	2014	2015	2016
<b>Debt to Equity Ratio (DER)</b>	PT. Adhi Karya Tbk	5,17	5,67	5,28	5,37	2,25	2,68
	PT. Jaya Konstruksi Manggala Pratama Tbk	1,63	1,52	1,11	1,18	0,96	0,82
	PT. Total Bangun Persada Tbk	1,82	1,92	1,72	2,11	2,29	2,13
	PT. Wijaya Karya	2,75	2,89	3,18	2,74	2,60	1,49
	PT. Wijaya Karya Bangunan Gedung	3,56	4,75	0,39	3,98	3,70	2,14
<b>Return on Assets (ROA)</b>	PT. Adhi Karya Tbk	0,03	0,03	0,04	0,03	0,03	0,02
	PT. Jaya Konstruksi Manggala Pratama Tbk	0,06	0,07	0,06	0,06	0,06	0,08
	PT. Total Bangun Persada Tbk	0,10	0,06	0,10	0,07	0,07	0,07
	PT. Wijaya Karya	0,05	0,05	0,05	0,05	0,04	0,04
	PT. Wijaya Karya Bangunan Gedung	0,07	0,04	0,06	0,06	0,08	0,07
<b>Effective Tax Rate (ETR)</b>	PT. Adhi Karya Tbk	0,44	0,50	0,43	0,45	0,38	0,49
	PT. Jaya Konstruksi Manggala Pratama Tbk	0,33	0,31	0,30	0,31	0,19	0,18
	PT. Total Bangun Persada Tbk	0,28	0,25	0,27	0,32	0,03	0,02

Table 1.3 Firm Size, DER, ROA and ETR (continued)

Indicator	Company Name	Year					
		2011	2012	2013	2014	2015	2016
	PT. Wijaya Karya	0,38	0,37	0,36	0,34	0,06	0,07
	PT. Wijaya Karya Bangunan Gedung	0,44	0,48	0,45	0,36	0,00	0,00

Sources: Prepared by Writer (2021)

The writer chooses PT. Ahdi Karya, Tbk, PT. Jaya Konstruksi Manggala Pratama, Tbk, PT. Total Bangun Persada, Tbk, PT. Wijaya Karya and PT. Wijaya Karya Bangunan Gedung from 18 Building Construction Companies listed on Indonesia Stock Exchange. Those company is chosen because they had completed annual report from 2011-2016.

Based on table above, we can see that, on average, firm size increased in all companies from 2011 to 2016, except PT. Wijaya Karya. Based on the company's size between 2011 and 2016, PT. Wijaya Karya experienced fluctuations. This demonstrates that the overall assets of the 4 companies increase each year. In contrast to the debt to equity ratio (DER), which is an indicator of leverage, the data shows that from 5 companies, 4 of them experienced fluctuations and the rest experienced a decline. The higher the debt to equity ratio, the bigger the proportion of total debt to total equity, and vice versa.

Meanwhile, profitability uses the Return on Assets (ROA) indicator as a determinant of company performance. From these data it can be concluded that PT. Ahdi Karya, Tbk, PT. Jaya Konstruksi Manggala Pratama, Tbk, PT.



Total Bangun Persada, Tbk, and PT. Wijaya Karya Bangunan Gedung experienced fluctuations while PT. Wijaya Karya experienced a decline. A declining return on assets (ROA) value shows that a company's asset management is weak, whereas a rising return on assets (ROA) value suggests better asset management and more earnings.

From these data there are 2 companies namely PT. Ahdi Karya, Tbk and PT. Wijaya Karya Bangunan Gedung experienced fluctuations in its effective tax rate while PT. Jaya Konstruksi Manggala Pratama, Tbk, PT. Total Bangun Persada, Tbk, and PT. Wijaya Karya decreased. The lower the effective tax rate (ETR). The greater the value of a company's effective tax rate (ETR), the more successful its tax planning has been, and vice versa.

In addition, the results of research that has been carried out by Susilowati et al., (2018) shows that the firm's size may be characterized as large or small in a variety of ways, one of which will be the size of its assets. Companies will undoubtedly be in the eye of the public due to the profits earned by the company, as a result, businesses frequently attract the attention of taxpayers in order to be taxed in compliance with tax regulations. According to the research, the firm size has no significant effect towards effective tax rate.

The use of debt to pay for the operational activities of a company will generate fixed costs in the form of interest. The expense of interest is deductible, but using debt as operating financing collateral seems to have an impact on the effective tax rate. The better the effective tax rate generated by

the company is indicated by the lower the effective tax rate. As a result, leverage is thought to have a significant effect towards effective tax rate.

Meanwhile for profitability, the higher of return on assets (ROA), as an indicator that indicates the company's financial performance, the better the company's performance. Profitable firms are considered not to engage in tax avoidance since they can control their income and tax payments. So, according to his research, profitability as measured by return on assets (ROA) has a significant negative effect towards the effective tax rate (Susilowati et al., 2018).

According to Novianti et al., (2019) which has different results and opinion of firm size towards effective tax rate. In her research, firm size has a significant effect towards the effective tax rate (ETR), implying that a large firm may effectively utilize its resources to manage corporate taxes, resulting in more effective and efficient corporate taxes.

However the research of Rodiyah & Supriadi (2019), gives difference result. On their research, leverage has no significant effect towards effective tax rate. According to agency theory, if a firm is capable or performs well, it is more likely to have disagreements between principals and agents. The disagreement occurs as a result of each party's desire to pursue their own objectives. As a result, the larger the advantages obtained from the usage of leverage, the higher the company's tax rate.

They also assumed firms that are more efficient and profitable will have a higher tax burden. Profitability has no significant effect towards the

effective tax rate, according to his research, and an increase in a company's profitability might be produced by an increase in the company's capacity for financing sources in carrying out commercial operations. In order to solve this problem, new research is needed Rodiyah & Supriadi (2019).

Based on the results of several research by other writers, it still gives inconsistent, whether firm size, leverage and profitability have significant effect towards the effective tax rate. This research is being carried out in building construction companies listed on Indonesia Stock Exchange. Building Construction companies are one of the fourth main sectors that contribute to tax revenue, and also in general, the majority share ownership is from the government.

So, in accordance with the background of research that is already complied, writer is interested in conducting research entitled **“The Effect of Firm Size, Leverage and Profitability toward Effective Tax Rate in Building Construction Companies Listed on Indonesia Stock Exchange”**.

## **1.2 Problem Limitation**

Problem Limitation is needed to avoid major problems and help writer focus on research. In reference to the background and problem formulations, this research will discuss and focus on:

1. The independent variables of this research are Firm Size, Leverage using Debt of Equity Ratio (DER) and Profitability using Return on Assets (ROA) while the dependent variable is Effective Tax Rate.

2. The research objects are Building Construction Companies listed on Indonesia Stock Exchange.
3. The Research data period is from the year 2015 until 2020.

### **1.3 Problem Formulation**

Based on the background that has been made, there are several problem formulations to be carried out by the writer as follows:

1. Does Firm Size have significant effect towards Effective Tax Rate in Building Construction Companies listed on Indonesia Stock Exchange?
2. Does Leverage have significant effect towards Effective Tax Rate in Building Construction Companies listed on Indonesia Stock Exchange?
3. Does Profitability have significant effect towards Effective Tax Rate in Building Construction Companies listed on Indonesia Stock Exchange?
4. Do Firm Size, Leverage and Profitability simultaneously have significant effect toward Effective Tax Rate in Building Construction Companies listed on Indonesia Stock Exchange?

### **1.4 Objective of the Research**

According to the background of the research stated above, the writer generates the objectives of the research as follow:

1. To know and determine whether there is a significant effect of Firm Size towards Effective Tax Rate.
2. To know and determine whether there is a significant effect of Leverage towards Effective Tax Rate.

3. To know and determine whether there is a significant effect of Profitability towards Effective Tax Rate.
4. To know and determine whether there are significant simultaneous effect of Firm Size, Leverage and Profitability toward Effective Tax Rate.

## **1.5 Benefit of Research**

The benefits expected from this research include the following:

### **1.5.1 Theoretical Benefit**

The Theoretical Benefit from conducting this research is as follow:

1. For students majoring in accounting, this research is useful as reference material for further research and as a comparison for developing this research.
2. For the community, this research is useful as a means of information to increase the knowledge of accounting.
3. For the writer, this research is useful to add to and expand his knowledge base on this topic.

### **1.5.2 Practical Benefit**

The Practical Benefit from conducting this research is as follow:

1. For the tax policy maker so that they can pay more attention to things that can be used by companies which can reduce state revenues from the tax sector.
2. For companies so that companies can do better to reduce the tax expense generated by the company.