CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes are a very important source of state revenue for the implementation of national development, as well as being the main element to support economic activities in running the wheels of government and as a provider of public facilities for the community, so that taxes are expected to increase the prosperity and welfare of the community. Tax revenue to date continues to increase from year to year. Based on information from *Badan Pusat Statistik* (BPS), the realization of tax revenue in Indonesia in 2020 was recorded at only Rp. 1,069.98 trillion. This figure missed the target set by the government of Rp 1,198.82 trillion. Despite an increase in tax revenue, the amount of tax revenue is still far below the target set by the State Budget (APBN). This can occur because the company and the government have differing interests, and the company views taxes as a transfer of resources obtained by the company to the government (Utari, 2017).

One of the variables that are thought to impact tax aggressiveness is profitability. One indicator to measure profitability is Return on Assets (ROA). The profitability approach demonstrates how the organization's earnings are measured in relation to the revenue it generates by utilizing all of its resources. The higher this proportion, the better the organization's presentation in utilizing its resources for acquiring net benefit. On the off chance that an organization can deal with its resources appropriately by exploiting deterioration and amortization costs, just as innovative work expenses that can be utilized as a derivation from available pay, then, at that point, the organization benefits from tax incentives and other tax reduction, so the organization apparently is tax aggressiveness. Therefore, ROA is thought to have an effect on tax aggressiveness.

Another factor that can affect tax avoidance is leverage. Leverage is utilized to quantify the degree to which the organization's resources are financed by obligation. Debt can cause a decrease in taxes because there is an interest expense arising from debt owned by the company. The size of the leverage on the company can affect the size of the tax paid by the company. This is because interest costs from debt can be deducted in calculating the tax burden, so the tax burden becomes smaller. Although not all interest expenses can be charged according to the rules set by the tax authorities, here taxpayers can still “play” to reduce their taxes. Thus, it can be said that high leverage will increase the potential for tax aggressiveness. The leverage ratio commonly used is the Debt to Equity Ratio (DER), which is a balance between the debt owned by the company and its own capital (Barli, 2018).

Another factor that influences management’s decision to engage tax aggressiveness is the size of the company. Company size is considered to have an influence on tax aggressiveness that the longer a company has been in operation, the more experience the organization has and the Human Resources it has, the more gifted it is in dealing with the taxation rate so the propensity to find provisions in tax aggressiveness is getting higher. This is because when a company is registered on the Indonesia Stock Exchange and goes public, the company should distribute its financial reports to general society and clients of financial reports so the data contained in them can be quickly utilized by parties out of luck. The longer a company has been in operation, the more experience it has gained, and the more likely it is to engage in tax aggressiveness. The more noteworthy the complete resources demonstrated the bigger the size of the company. The greater the size of the company, it is assumed that the transactions carried out by the company will be more complex. So, it is assumed that the bigger the gap that can be used by taxpayers to carry out activities tax aggressiveness (Indriani & Juniarti, 2020).

Banks and financial institutions, according to Ah Maftuchan of Perkumpulan Prakarsa, are one of the business sectors that evade a significant amount of taxes. Tax evasion by banks and financial institutions, he claims, causes state losses of Rp 10-12 trillion per year. A common mode of tax avoidance used by Maftuchan is the aggressive tax planning method of circumventing existing tax rules. In order to avoid corporate taxes, bank and financial institution managers often include excessive spending to make it appear as if the company is losing money. Maftuchan refused to say which bank was accused of tax evasion. He only stated that small and large banks, as well as financial institutions like insurance and investment companies, often engage in this practice. (Ah Maftuchan, 2014)

Because of the previously mentioned issue, this study uses companies from the insurance industry sector; however, there have been numerous previous studies that used samples of companies from the manufacturing, automotive, mining, real estate, and infrastructure sectors, among other industries, as well. The use of companies from the insurance industry sector in research is still uncommon, so the findings of this study can be used to support previous research conducted with companies from other industries.

Based on the description above, the writer is interested to conduct research entitled **"The Influence of Profitability, Company Size, and Leverage Towards**

Tax Aggressiveness of Insurance Industry Listed in Indonesia Stock Exchange."

1.2 Problem Limitation

In order to make this research to be more focused and does not expand from the discussion in question, the researcher limits it to the scope of the research including independent variables, which consist of Profitability (X_1) uses Return on Assets as the indicator, Company Size (X_2), Leverage (X_3) uses Debt to Equity Ratio as the indicator, dependent variable is Tax Aggressiveness (Y). This research will be conducted at insurance companies listed in Indonesia Stock Exchange and the period of financial statement used in this research is 2016-2020.

1.3 Problem Formulation

Based on the background outlined before, the formulation of the research problems are as follows:

1. Does Profitability have influence toward Tax Aggressiveness of insurance industry listed in Indonesia Stock Exchange?
2. Does Company Size have influence toward Tax Aggressiveness of insurance industry listed in Indonesia Stock Exchange?
3. Does Leverage have influence toward Tax Aggressiveness of insurance industry listed in Indonesia Stock Exchange?

1.4 Objectives of the Research

Based on research formulation stated above, the research objective in this study are as follows:

1. To analyze whether Profitability have influence toward Tax Aggressiveness of insurance industry listed in Indonesia Stock Exchange.

2. To analyze whether Company Size have influence toward Tax Aggressiveness of insurance industry listed in Indonesia Stock Exchange.
3. To analyze whether Leverage have influence toward Tax Aggressiveness of insurance industry listed in Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the results of this study are expected to be useful to strengthen the theory in accounting, especially about the impact of Profitability, Company Size and Leverage towards Tax Aggressiveness. This research will provide a deeper understanding for further researchers in researching related theories.

1.5.2 Practical Benefit

Based on the research objective, the research is expected to generate practical benefits as follows:

1. For the investor

   The research is expected to be used as reference with empirical evidence that guide further research, to add understanding about the impact of Profitability, Company Size and Leverage towards Tax Aggressiveness.

2. For the government

   The results of this study can be used as a source of additional input and knowledge for the government to pay attention for manipulation of financial statements by companies that carry out Tax Aggressiveness action.