CHAPTER 1

INTRODUCTION

1.1. Background of the Study

The Indonesian government is putting more emphasis on infrastructure development in order to foster economic growth and improve the investment climate. The development of a country is often marked by the development of country infrastructure. Example of the infrastructure development efforts is the construction of toll road, which is still ongoing right now. There are 1,914 km toll road are still under construction, which include from Sumatera until Bali-Nusra. Additionally there are 10.351 km of toll road construction is still under planning (*Kementrian Pekerjaan Umum dan Perumahan Rakyat Republik Indonesia*, 2020*)*.

To build such infrastructure, government requires proper funding. The financing is crucial to execute comprehensive infrastructure. The adequate financing aids the development of conducive infrastructure. The state budget used by the Indonesian government for infrastructure allocation in 2020 is IDR 423.3 trillion. The funding is distributed into three categories: Central Government (191.2 trillion), Transfer to Regions and Village Funds (200.3 trillion), and Financing (31.8 trillion). The allocation was 5.9 percent more than the previous year allocation of 399.7 trillion (*Kementrian Pekerjaan Umum dan Perumahan Rakyat Republik Indonesia*, 2020*)*.

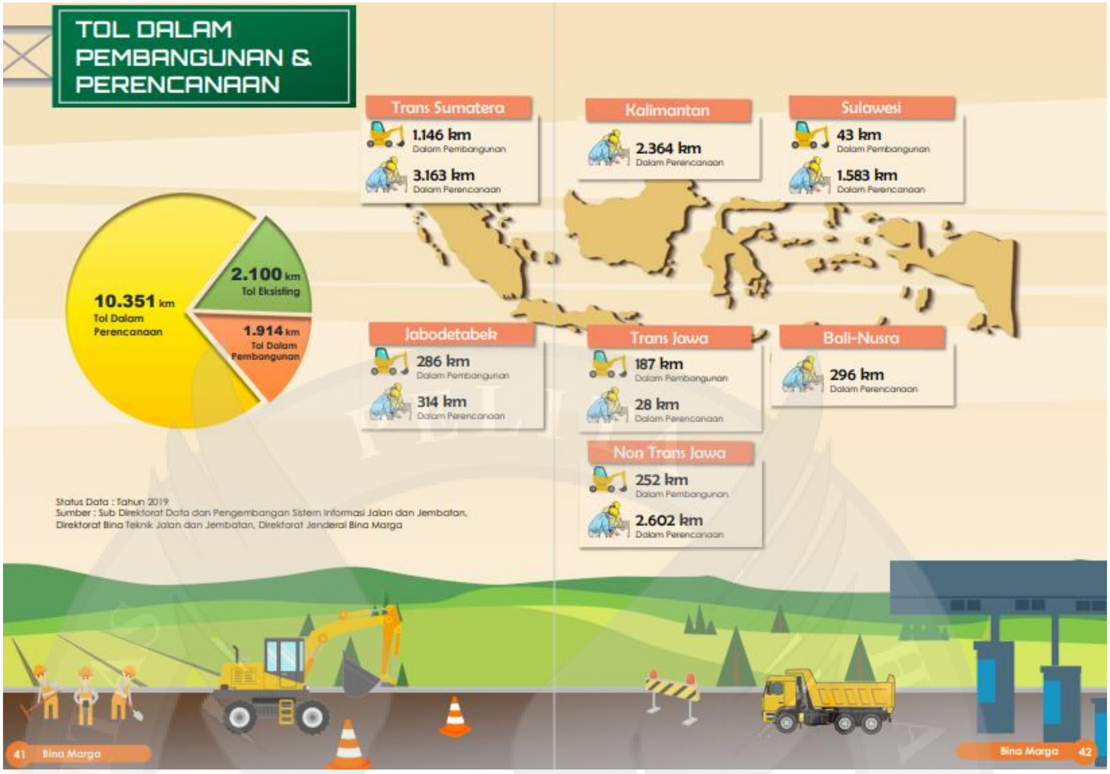

Figure 1. 1 Infrastructure Realization

Source: *Kementrian Pekerjaan Umum dan Perumahan Rakyat Republik Indonesia* (2020)

Due to huge amount of fund used in infrastructure, the government is actively collecting taxes in order to maximize state revenue. Taxation as a budgetary function, is used to fund government operations. In 2020, tax collection was IDR 1,865.7 trillion, increased by13.5 percent compared to previous year (*Kementerian Keuangan*, 2020).

Table 1. 1 Tax Collectible

Year	Tax Collection
2015	Rp 1.240,4 trillion
2016	Rp 1.2850 trillion
2017	Rp 1.343,5 trillion
2018	Rp 1.518,8 trillion

2019	Rp 1.643,1 trillion
2020	Rp 1.865,7 trillion

Source: Prepared by writer (2022)

In relation to the issue of tax collection, there is a global measure to measure tax performance in certain countries. It is the proportion of tax revenue to GDP or often called as the tax ratio. This ratio is the comparison of the country tax revenue with GDP in a certain period of time. The increase in the tax ratio indicates the better tax collection by the government. According to report from the Organization for Economic Cooperation and Development, Indonesia tax-to-GDP ratio was 11.6 percent in 2019, 9.5 percentage points lower than the Asia and Pacific average of 21.0 percent which include Singapore 13.3 percent, Malaysia and Papua New Guinea 12.4 percent. It was also 22.3 percentage points lower than the OECD average (33.8 percent). This demonstrates the need for improved tax collection in Indonesia in order to support economic growth (Organisation for Economic Co-operation and Development, 2021).

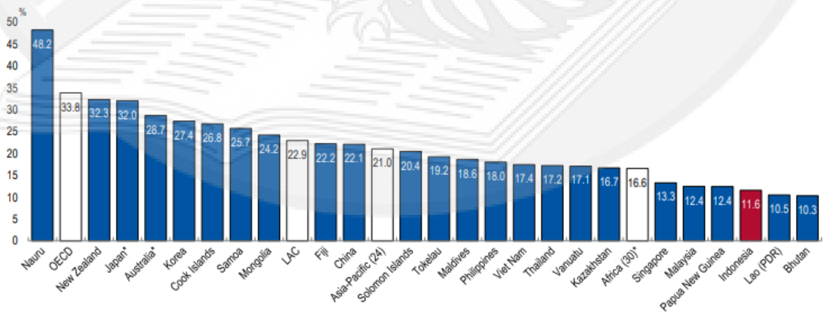

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Figure 1. 2 Tax Revenue Asia Pacific

Source: Organization for Economic Cooperation and Development (2021)

The government efforts to increase tax revenues include tightening and reforming tax collection to be more effective, in order to avoid individuals committing tax evasion and cause state losses. For example, is the property sales tax. Taxpayers evade tax by applying object selling value that is different from the original transaction price, is one example of a tax issue in the infrastructure sector.

Tax avoidance and tax evasion both reduce the tax burden. The difference is that tax avoidance utilizes the grey area of tax regulation. Tax avoidance can legally reduce the tax burden. Tax avoidance must be implemented in a measurable manner while adhering to applicable tax laws and regulations, with changes in regulations requiring companies to restructure their tax avoidance plans. On the other side, it is called as tax evasion when taxpayers try to reduce their tax liability in ways against the regulations. Tax avoidance is the practice of a business taxpayers reducing their tax liability by employing real-world alternatives that are acceptable to the tax authorities.

Tax avoidance can be executed on any tax object, but it is most effective when implemented by a large corporation. Implementing tax avoidance in a large company has a significant impact, especially compared to the resources and time required. Other factors that influence a company decision to engage in tax avoidance include the company desire to generate profit, whether through debt or equity. Whereas an increase in profit will result in higher taxable income and tax burden. Several factors affect tax avoidance are profitability, capital structure, and firm size.

Profitability is company ability to generate profit. According to Sukamulja (2019), profitability is a ratio used to assess a company ability to generate profits from its normal business operations. An effectiveness of the company is often seen in the company ability to generate profit from the existing resources. One of the ratios that is often used to calculate profitability is return on asset (ROA).

According to Berl and DeMarzo (2020), capital structure is the company permanent finance, which is generally represented by long-term debt and equity. Decision on the appropriate capital structure is a crucial decision for financial management because it is strongly tied to the firm value. Utilization through debt can cause the company interest expense to be paid regularly, while utilization through equity requires the company to reduce net income through profit sharing. One of the ratios that is often used to calculate profitability is debt to equity (DER).

Firm size can be calculated through the total asset owned by the company to reflect the current situation of the company (Meiryani et al., 2020). Company size will affect the company funding structure. Companies tend to require larger funds than smaller companies. The additional funds can be obtained from the issuance of new shares or additional debt.

Tax avoidance can be affected by many factors. The writer determines the factors such as profitability, capital structure, and firm size. Through utilizing these factors, we can compare the significant effect of the tax avoidance in the company. The company profitability, capital structure, firm size, and tax avoidance of some infrastructure firm can be presented as follows:

Table 1. 2 Profitability, Capital Structure, Firm Size, and Tax Avoidance of Infrastructure Firms Listed on the Indonesia Stock Exchange for the period 2017-2020

Company	Year	Profitability (ROA)	Capital Structure (DER)	Firm Size	ETR
PT. Wijaya Karya Tbk (WIKA)	2017	2.6	2.5	31.45	7.27%
	2018	2.9	2.8	31.71	12.09%
	2019	3.7	2.6	31.60	6.03%
	2020	0.3	4.0	31.57	-3.90%
PT. Link Net Tbk (LINK)	2017	17.5	0.3	29.38	24.8
	2018	13.1	0.3	29.43	29.6
	2019	13.4	0.4	29.53	27.88
	2020	12.1	0.7	29.69	24.46
PT. Sarana Menara Nusantara Tbk (TOWR)	2017	11.2	1.6	30.56	25.07
	2018	9.6	1.9	30.76	24.86
	2019	8.5	2.2	30.95	18.98
	2020	8.3	2	31.16	10.65

Source: Prepared by writer (2022)

From the table 1.1, shows tax avoidance fluctuations in 2017-2020 of three infrastructure companies. The increase in the profitability of PT Wijaya Karya Tbk was not followed by the increase in tax payment in 2018-2019. The significant increase in net income occurred as a result of a decrease in infrastructure and building expense in the cost of revenue section. Normally, the increase in profitability should be followed by the increase in tax payment. However, there is a significant decrease in ETR due to the decrease of tax payment. The company current tax decreased by Rp 16,354,869 which is the result from a decrease in the difference in the tax base of Rp 65,419,476.

In PT Link Net Tbk, the increase in debt in 2019-2020 was followed by the increase of tax avoidance. The increase in short-term and long-term debt outpaced the increase in the equity in capital structure. Increase in short-term bank loans obtained from PT Bank CIMB Niaga and Citibank have a significant influence on the debt of the company. The increase of debt leads to the occurrence of interest expense. Due to the implementation of tax avoidance in the company, resulting in the decrease in ETR. The significant decrease in ETR was caused by the decreasing in the tax burden, which was previously Rp 345,776 million in 2019 to Rp 304,922 million in 2020.

In PT Sarana Menara Nusantara Tbk, the increase in firm size was not followed by an increase on tax payment in 2019-2020. The increase in total asset of company from Rp. 27.665.695 million in 2019 to Rp 34.249.550 million in 2020. The company experienced an increase in overall short-term assets and long-term assets, but the significant increase was caused by an increase in fixed assets which could be towers, office equipment and project equipment. The increase in company size is presumed used as a tool for tax reduction in some areas, such as inventory, accounts receivable and fixed assets in the normal condition. The decrease of current tax expense is supported with the difference in the 2019 and 2020 tax rates, which are 25% and 22%.

After analyzing the phenomena of profitability, capital structure, firm size, and tax avoidance of infrastructure firms in the period 2017-2020, the analysis is conducted on research gap between previous researches. There is occurrence of inconsistent between previous research on tax evasion, which make tax evasion topic is interesting to study.

Previous research Alfina et al. (2018), found that return on asset has no effect on tax avoidance. It is different from other studies that claim a return on asset has effect on tax avoidance in the research conducted by Putra et al. (2018) and Pangaribuan et al. (2018). The author aims to demonstrate how the level of profitability affects tax avoidance in infrastructure sector companies between 2017 to 2020 using the two studies described.

Other research has found that DER as capital structure has significant effect on tax avoidance. This study was conducted by Pangaribuan et al. (2021) and Alfina et al. (2018). Other study findings indicate that DER has no significant effect on tax avoidance by Chytis et al. (2018). The author intends to demonstrate the impact of capital structure on tax avoidance in infrastructure sector companies from 2017 to 2020 based on the research that has been described.

Previous research Chytis et al. (2018) and Alfina et al. (2018), resulted firm size has a significant effect on tax avoidance, and research done by Waruru and Kartikaningdyah (2019) shows firm size has no effect on tax avoidance. From the two studies that have been described, the author wants to ascertain how the level of firm size influences tax avoidance in infrastructure sector companies in 2017-2020.

Based on the background stated above, the example provided and the difference result of previous research, the writer decided to conduct a research entitled, "**The Effect of Profitability, Capital Structure, and Firm Size Toward Tax Avoidance of Infrastructure Firms Listed on the Indonesia Stock Exchange**".

1.2. Problem Limitation

There are many ways to indicator to measure the significant on tax avoidance. Prior studies have examined the influence of profitability, capital structure, and firm size on tax avoidance in various sectors. However, the previous research was very old and did not reflect the current situation. Based on the above phenomenon and the gap in research, the author is interested in doing research on infrastructure firm characteristics on tax avoidance. Firm characteristics variable examined by this study include profitability, capital structure, and firm size.

Due to limited time and resources, this requires the writer to limit its research to only cover the infrastructure industry in 2017-2020 to sees whether there is any impact of those characteristics on tax avoidance. The aim is to reduce the tax avoidance that happen in the infrastructure company. Therefore, tax avoidance can be a way out to reduce tax burden and initiated by the comparison of current tax and the income of the firms.

1.3. Problem Formulation

The problems in this study can be formulated as follows:

1. Does profitability has significantly effect tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020?
2. Does capital structure has significantly effect tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020?
3. Does firm size has significantly effect tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020?

4. Do profitability, capital structure, firm size simultaneously has significant affect tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020?

1.4. Objective of the Research

There are some objectives of the research, which are:

1. To ascertain the significant effect profitability on tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020.
2. To ascertain the significant effect capital structure on tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020.
3. To ascertain the significant effect firm size on tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020.
4. To ascertain the significant effect profitability, capital structure, and firm size simultaneously on tax avoidance of infrastructure firms listed on the Indonesia Stock Exchange in the period 2017-2020.

1.5. Benefit of the Research

1.5.1. Theoretical Benefit

1. This research is expected in giving contribution for adding reading material for student of Universitas Pelita Harapan.
2. This research can give benefit in understanding the theory of accounting and taxation in Infrastructure.

1.5.2. Practical Benefit

1. This research is expected in giving input and suggestion for company in conducting its taxation by paying attention to certain firm characteristics.
2. This research is expected in giving the information to shareholders for understanding the factors that have impact on infrastructure company value
3. This research can be used as reference for other researchers in conducting research with same topic.