

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The need for mineral resources for human survival is increasing all the time. This is in accordance with the expanding human population and changes in the living patterns that are becoming more technologically oriented. This has led to an increase in raw material supply, and Indonesian suppliers are no exception. Consequently, national, and multinational companies are striving for market dominance and for control of Indonesia's economy. Because of this competition, the tax revenue would rise (Prihatmoko, 2020).

In Indonesia, tax revenue is used by the government to fund both the implementation of policy and the welfare of its citizens. According to Goh et al. (2019), a country's primary source of income comes from a variety of sources, one of which is taxation. When compared to other revenue sectors, tax revenue is the greatest source of revenue. Ayem & Setyadi (2019) stated that taxation is the state's primary source of revenue, which is utilized to support both regular and national development expenditures. As a corporate taxpayer, the companies are required to pay taxes on its net income. On the other hand, taxes are viewed as a burden on business that might diminish profitability. This will push company to make efforts to minimize their tax liability, which results in being perceived as tax aggressiveness. Meanwhile, taxes are a source of revenue for the government and play a significant part in the administration of government. Companies tend to exert

considerable effort to reduce the amount of taxes that must be paid due to the fact that they have a variety of conflicting priorities.

Christian & Widhianto (2021) stated that it is valid that the mining industry is frequently in the spotlight since it is the country's primary stream of revenue as well as a source of tax revenue. The mining sector contributes to regional or national economic development in a variety of ways, including by increasing state income, generating foreign exchange through exports, and promoting electrification and national energy security. Individuals or organizations who benefit from the state's resources and rights are required to pay a tax known as *Penerimaan Pajak Bukan Negara* or non-state tax revenue. It is based on *Undang-Undang Nomor 9 Tahun 2018*. According to the Ministry of Energy and Mineral Resources, non-tax state revenue from the mining sector was Rp 34.6 trillion in 2020. Meanwhile, the target for the revenue is only Rp 31.41 trillion (CNBC Indonesia, 2021). It means that the amount of realization has already exceeded and amounted 110% greater than the target. This proves that state revenue through the mining sector which is an important element of the country's economy is a fact.

Tax aggressiveness can happen in Indonesia and another country. Tax aggressiveness is known as the activities in which companies try to avoid paying higher taxes and manipulate the nominal of taxes that should be paid by them. According to Windaswari & Merkusiwati (2018), it exploits legal loopholes and flaws in the current tax system in order to pay less taxes. Additionally, it can be accomplished legally using tax avoidance or illegally using tax evasion. Tax avoidance is the technique used by companies to reduce income tax or tax burden

by utilizing loopholes in the laws of the country. Meanwhile, tax evasion is the type of tax violation committed by the taxpayer in which the amount of tax payable is consciously reduced. In some cases, the responsibility to pay taxes is also eliminated. Regardless of whether it violates the law, it cannot be defended on moral grounds. Companies that are compliant with taxation have aided the government in its efforts to undertake economic development initiatives. Meanwhile, companies that engage in tax aggressiveness face larger risks than companies that do not engage in it. The dangers include the possibility of fine, drop in the value of the company's stock price and a deterioration in its public image. When it comes to deciding whether or not to invest to a company, risk has become a crucial consideration for investors.

However, the mining industry is also a subject of controversy. Not only the good impact, mining sector is one of the sectors that engage in a lot of dishonesty in it (Christian & Widhianto, 2021). Corruption in the mining industry has long been a focus of several agencies, including *Komisi Pemberantasan Korupsi* or Corruption Eradication Commission. They have been publishing reports on the significant danger of corruption in this area for numerous years. Corruption Eradication Commission has emphasized that the hazards in the mining industry are frequently associated with money laundering and tax evasion. According to Suwiknyo (2021), Corruption Eradication Commission found a lack of mining tax payments in forest areas of Rp 15.9 trillion per year in mining sectors in 2019. In addition, 84% of the 7.519 mining companies permit registered with the Directorate

General of Taxes do not have a Taxpayer Identification Number or known as *Nomor Pokok Wajib Pajak* (NPWP).

Tax evasion is practiced by many companies in Indonesia. Tax evasion case committed by PT. Adaro Energy Tbk is one of many cases that have occurred in mining sector. According to the article published by Kompas (2008), it was revealed that PT. Adaro Energy Tbk is indulging in tax fraud by supplying coal to its subsidiary Coaltrade Services International at a price that is below the market price. By selling the coal on the worldwide market, Coaltrade Services International was able to make profit on the transaction. As a result, PT. Adaro Energy Tbk reported lower than expected sales and profitability in Indonesia. Hence, the amount of income tax that should be paid to the Indonesian government was decreasing.

There has been a fluctuation in mining sector tax revenue growth over the past five years. The mining sector's growth in tax revenue declined by 28% in 2016, but it increased by 40.2% the following year. Then, it increased by a further 49.4% in 2018. The mining sector's tax revenue fell by 20.6% in 2019, and the decline rose to 43.7% in 2020 (Lidwina, 2021).

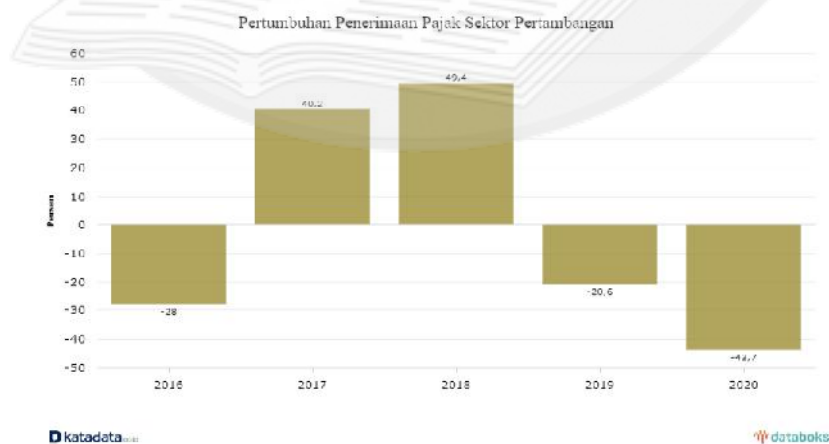


Figure 1.1 Mining Sector Tax Revenue Growth
Source: Kementerian Keuangan in Databoks (2021)

During the year 2016 to 2020, some of the following are the data gathered from mining companies listed on the Indonesia Stock Exchange which include 3 companies as the analysis which is ADRO (PT. Adaro Energy Tbk), BYAN (PT. Bayan Resources Tbk), and ITMG (PT. Indo Tambangraya Megah Tbk). The data are as follows:

Table 1.1 The Phenomenon of Good Corporate Governance, Firm Size, Profitability, Liquidity, and Leverage toward Tax Aggressiveness on Mining Companies Listed on the Indonesia Stock Exchange from 2016-2020

Company Name	Year	IC	SIZE	ROA	CR	DAR	ETR
PT. Adaro Energy Tbk (ADRO)	2016	0.400	22.598	0.052	2.471	0.420	0.377
	2017	0.400	22.642	0.079	2.559	0.400	0.423
	2018	0.250	22.678	0.068	1.960	0.391	0.418
	2019	0.400	22.700	0.060	1.712	0.448	0.340
	2020	0.400	22.577	0.025	1.512	0.381	0.287
PT. Bayan Resources Tbk (BYAN)	2016	0.400	20.531	0.022	2.546	0.772	0.389
	2017	0.400	20.605	0.380	1.024	0.420	0.195
	2018	0.330	20.864	0.456	1.237	0.411	0.247
	2019	0.400	20.969	0.183	0.894	0.516	0.248
	2020	0.400	21.206	0.213	3.250	0.468	0.193
PT. Indo Tambangraya Megah Tbk (ITMG)	2016	0.400	20.914	0.108	2.257	0.250	0.319
	2017	0.140	21.030	0.186	2.434	0.295	0.302
	2018	0.200	21.090	0.179	1.966	0.328	0.296
	2019	0.330	20.913	0.105	2.012	0.268	0.320
	2020	0.280	20.871	0.033	2.026	0.270	0.479

Source: Prepared by Writer (2022)

According to the data in Table 1.1 above, there are some conflicting phenomena between good corporate governance (IC), firm size (SIZE), profitability (ROA), liquidity (CR), leverage (DAR), and tax aggressiveness (ETR) on mining companies listed on the Indonesian Stock Exchange for the years 2016 to 2020 that have met specific criteria.

The independent commissioner ratio of PT. Adaro Energy Tbk (ADRO) for the period 2017 to 2018 shows that there is a decrease in the independent commissioner ratio, whereas their effective tax rate has also decreased during this period. There were other situations that occurred with PT. Bayan Resources Tbk

(BYAN), which demonstrates that the independent commissioner ratio was decreased as same as with PT. Adaro Energy Tbk (ADRO) during the period 2017 to 2018. Meanwhile, the effective tax rate of PT. Bayan Resources Tbk (BYAN) has been increasing. As for the years 2018 to 2019, the independent commissioner ratio of PT. Adaro Energy Tbk (ADRO) and PT. Bayan Resources Tbk (BYAN) is increasing. On the other hand, both companies effective tax rates are in different situations. PT. Adaro Energy Tbk (ADRO) experienced decrease on their effective tax rate, while PT. Bayan Resources Tbk (BYAN) experienced increase on their effective tax rate. According to Romadhina (2020), there is a positive effect of the independent commissioner on tax aggressiveness. This demonstrated that the greater proportion of the independent commissioners, the lower percentage of tax aggressiveness will occur. It is because the greater proportion of independent commissioners will influence the company in implementing tax regulations in which tax aggressiveness actions can be minimized.

Another contradicting pattern emerged when the firm size was compared to its tax aggression. PT. Bayan Resources Tbk (BYAN) experienced an increase in their firm size ratio from 2018 to 2019 in which coincided with an increase in the company's effective tax rate during the period. However, different situations occurred for the following period. PT. Bayan Resources Tbk (BYAN) also experienced an increase in their firm size ratio while their effective tax rate decrease during the year 2019 to 2020. Sari & Rahayu (2020) stated that there is a negative relationship between firm size and tax aggressiveness. Large companies will disclose financial position more precisely, reducing the possibility for managers to

falsify results compared to managers in small companies. While the tax authorities are monitoring tax report that should be incurred by the company, it is assumed by tax authorities that a larger company will not engage in tax fraud through tax aggressiveness because the company is more concerned with their image in the eyes of the tax authorities. When the company commits fraud, there will be numerous procedures that must be taken by the company.

PT. Indo Tambangraya Megah Tbk (ITMG) shows that the profitability for the year 2017 to 2018 decreased as well as their effective tax rate. Meanwhile, the opposite happened for the following period. The profitability of PT. Indo Tambangraya Megah Tbk (ITMG) decreased while their effective tax rate is increase during the year 2018 to 2019. Herlinda & Rahmawati (2021) stated that there is a positive and significant effect between profitability and tax aggressiveness. High return on assets demonstrated a company's ability to effectively manage company resources in order to generate higher profit. On the other hand, low return on assets indicates a company's profit is lower than expected. It is most likely caused by a declining market that has an impact on the company's resources and profit. Companies with substantial earnings also have a high tax burden to pay. It means there is a chance for tax planning to be able to minimize the company's effective tax rate as well.

PT. Bayan Resources Tbk (BYAN) liquidity also shows a variety of contradictory patterns. Between 2017 and 2018, both liquidity and the effective tax rate increased. It is quite a little different in the next period. Effective tax rates increased in 2018 to 2019, despite PT. Bayan Resources Tbk (BYAN) declined in

their liquidity. According to Yuliana & Wahyudi (2018), liquidity has a negative but significant effect on tax aggressiveness. This demonstrates that when liquidity increases, tax aggressiveness decreases significantly. Companies with a high level of liquidity have a healthy cash flow because they can satisfy their short-term obligations rapidly by converting assets to cash. A high cash turnover rate shows the complexity of the business's operational operations, which results in high operating expenses and thus low profits. The lower the profit margin, the lower the tax burden. Because the tax burden for that year is already relatively low, the company decreases their tax aggressiveness.

PT. Adaro Energy Tbk (ADRO) shows that their leverage for the year 2016 to 2017 decreased while their effective rate increased. On the following period, PT. Adaro Energy Tbk (ADRO) shows that leverage for the year 2017 to 2018 is decreased while their effective tax rate is also decreased. Different situation happened if we compare those three years of period. Gunawan & Kris Resitarini (2019) stated that leverage has negative effect on tax aggressiveness. This indicated that the greater the amount of leverage, the less aggressive the tax aggression will be. The reason for this is that companies with high leverage would pay interest charges if they borrowed more money than they had. Because of the greater interest burden, the tax burden that should be paid by them will be reduced. This is what causes businesses to avoid using aggressive tax strategies.

Based on the background, example and the table phenomenon that has been provided and explained before, it encourages writer to do research entitled, **“The Impact of Good Corporate Governance, Firm Size, Profitability, Liquidity,**

and Leverage toward Tax Aggressiveness on Mining Companies Listed on the Indonesia Stock Exchange”.

1.2 Problem Limitation

Problem limitations have been established by the writer in order to prevent any deviations from the research topic such as follows:

1. The research object is limited to the mining companies that listed on the Indonesia Stock Exchange.
2. The dependent variable in this research which is tax aggressiveness, is measured by effective tax rate (ETR).
3. The independent variables in this research which contains of good corporate governance is measured by independent commissioner ratio, firm size is measured by natural logarithm of the company size, profitability is measured by return on assets (ROA), liquidity is measured by current ratio (CR) and leverage is measured by debt-to-assets ratio (DAR).
4. The research period is from 2016 to 2020.

1.3 Problem Formulation

Based on the previously stated background, the problem formulation in this research are as follows:

1. Does good corporate governance have a significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially?

2. Does firm size have a significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially?
3. Does profitability have a significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially?
4. Does liquidity have a significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially?
5. Does leverage have a significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially?
6. Do good corporate governance, firm size, profitability, liquidity, and leverage have a significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

In accordance to the problem formulations that have been described above, the objective of research which supposed to solve the problems that already been found are as follows:

1. To find out whether good corporate governance has significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially.
2. To find out whether firm size has significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially.

3. To find out whether profitability has significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially.
4. To find out whether liquidity has significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially.
5. To find out whether leverage has significant impact toward tax aggressiveness on mining companies listed on the Indonesia Stock Exchange partially.
6. To find out whether good corporate governance, firm size, profitability, liquidity, and leverage have significant impact toward mining companies listed on the Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

This research is supposed to be beneficial to all parties involved and the benefits can be divided into two categories, such as:

1.5.1 Theoretical Benefit

This research is expected to be used as a guide in developing economics, especially in tax accounting. Furthermore, this research is expected to be used as literature and to generate new ideas and concepts for future research in the areas of tax aggressiveness, good corporate governance, firm size, profitability, liquidity, and leverage.

1.5.2 Practical Benefit

This research is intended to provide information and serve as a reference for other parties involved in making decisions or implementing policies. This research can help businesses gain insight on tax aggressive behaviour in order to avoid repercussions and tax sanctions. For investors, this research can aid them in managing their companies tax policies. This research also can be used to inform future tax policy decisions by the Directorate General of Tax.

