CHAPTER I

INTRODUCTION

1.1 Background of Study

Tax is the amount of money that should be paid either by individual or entity who are qualified as taxpayer. Every taxpayer should pay tax according to the regulation set by the government as a sign of obedience to the state, in which the government will use the collected tax to build the infrastructures in order to improve the citizens' welfare.

According to UU KUP Law Number 28 Year 2007, Article 1 Paragraph 1, tax is defined as any compulsory contribution that either the individual or corporate taxpayers should pay to the state based on the regulations, without receiving direct compensation, which is the amount of money collected will be utilized for the state in order to maximize the prosperity of the community.

Although the amount of tax imposed on the taxpayers is only a small percentage of their income, the regulation regarding tax collection issued by the government does not always obtain a positive response from the taxpayers, especially entity taxpayers. As the amount of tax imposed depends on the income earned, the tax collection will reduce the income earned. The tax collection of the firms is not in line with the government target, because it is considered as a burden that reduces the net income of the company.

Every year the government sets a target for the tax revenue to fund the Income Budget and State Expenditures (APBN), but the realization is still below target, as shown below.

Table 1 1Target and Realization of Tax Revenues in the year 2017 to 2020 (in Trillion Rupiah)

Year	2017	2018	2019	2020
Revenue Target	1,283.6	1,424	1.577.56	1,198.82
Revenue Realization	1,147.5	1,315.93	1,332.06	1,069.98

Source: Ministry of Finance, Republic of Indonesia, processed 2021

Tax has a compulsive nature that every registered taxpayer must obey. However, many corporate taxpayers seek for ways to lower the charged tax in order to increase their income. From the above table, it is presumed that taxpayers, especially corporate taxpayers are not obeying the regulation in paying taxes. They might do such things like tax avoidance and tax evasion.

Practically, tax avoidance and tax evasion have the same objectives, which are to reduce the tax burden, but having different legality. Tax avoidance has a legal nature; meanwhile, tax evasion is illegal. When practicing tax evasion, the taxpayer avoids taxes either by not reporting their income, reporting the wrong amount of their income, or even manipulating their transactions to raise the unreal costs which can reduce their income or even cause losses. Besides, tax avoidance practice is similar to tax evasion, which reduces the amount of tax burden, but in a legal way, which is by seeking and exploiting loopholes in taxation provision in a country by looking an opportunity to the weak regulation that can reduce the tax burden. The practice of tax avoidance utilized by the taxpayer is said to be legal because it does not break any regulation. Still, this action could negatively impact the state as it could reduce the state's earnings that will be used to build the infrastructure and will impact the welfare of the citizens.

The tax collection has an opposite interest on both parties, including the government and taxpayers. From the government perspective, if the amount of tax paid is obliged, it will reach the target of the tax revenue, which could be used for building the infrastructure. Meanwhile, from the taxpayers' perspective, the high amount of tax will reduce their income, leading taxpayers in doing tax avoidance. Therefore, although tax avoidance is not prohibited according to the laws, it often gets unfavorable interest because it is considered to have poor connotations, which is considered less nationalistic for those who have implied it. The implementation of tax avoidance is by using the legal methods to modify the taxpayers' financial situation to decrease the income tax while still complying tax regulation, by utilizing exceptions and deductions that are allowed.

According to Badan Pusat Statistik (BPS), the total number of citizens per September 2020 are 270.20 million people, which increased by 32.56 million compared to 2010 (https://bps.go.id). This population growth results in the increase demand for property and real estate. Furthermore, Indonesian Real Estate Center (REI) stated that the property sector, particularly residential products, attracts consumers. As the

Minister of Finance, Sri Mulyani Indrawati, stated in (https://liputan6.com), property industry development will significantly impact to the national economic growth because it could move many other industries such as materials, services, financial, logistics, and many more industries affected positively. Therefore, this sector is said to be crucial to empower the economic growth in Indonesia, which could also affect the tax revenues in Indonesia. Moreover, property and real estate are good investments in long term because the price of the property and real estate are increasing every year as the demand is always high while the supply of land is constant.

In 2017, the sales of property and real estate were experiencing a depression. The low sales was caused by several factors; one of the factors that influenced it was the tax, with the percentage of influence at 16,13% (https://finance.detik.com). Even though the market is still sluggish, the number of housing and apartments still presents good sales. According to (Purba, 2019), the property and real estate industry is one of the sectors that can be utilized by the state to analyze the economic growth. This statement arises because of the demand for buildings keep increasing while the supply is constant, which can contribute to increase the level of the state's economy.

The high income influences the tax burden that should be paid by property and real estate companies. Therefore, the property and real estate companies might seek for the opportunities to decrease the tax burden to do tax planning by doing tax avoidance. As the matter of fact, the property and real estate companies tend to do tax avoidance to maximize their income and not suffer losses considering the stagnant condition of the property sector.

This research implements an Effective Tax Rate (ETR) as the indicator in evaluating tax avoidance tendency of company. Various factors might influence tax avoidance activity. This research will focus on sales growth, capital intensity, and firm size as the factors that affect the tax avoidance practice.

Table 1 2 Sales Growth, Capital Intensity, Firm Size, and Tax Avoidance in Year 2017-2019

Company	Year	Sales Growth	Capital Intensity	Firm Size	ETR
PT. Bumi Serpong Damai Tbk.	2017	0.5671	0.0168	31.4586	0.0075
	2018	-0.3594	0.0130	31.5842	0.0333
	2019	0.0688	0.0116	31.6282	0.0111
PT Pakuwon Jati Tbk	2017	0.1318	0.0720	30.7820	0.0023
	2018	0.2316	0.0693	30.8506	0.0094
	2019	0.0171	0.0795	30.8928	0.0009
PT Jaya Real Property Tbk	2017	0.0102	0.1269	27.5769	0.0389
	2018	-0.0311	0.0127	29.9863	0.0293
	2019	0.0398	0.0134	30.0438	0.0175

Source: Prepared by Writer (2022)

According to the data shown above, the high sales growth influences the ETR. In 2019, PT. Jaya Real Property Tbk, the sales growth is increasing to 0.0398 but the ETR decrease to 0.0175. The sales of this company were experiencing positive growth mainly caused by the sales of land lots and building units. However, the sales growth was accompanied with the increasing of COGS by 7% from the year 2018, and also the operating expenses causing the income before tax became lower, which indicates that the company will pay less tax. The increase in sales growth usually indicates that the company will pay more taxes according to the nature of tax regulation. Still, in this situation, the company paid less tax, and it might have the possibility that the company commit to tax avoidance.

Sales growth according to Arasteh et al. (2013) is one of the indicators that can show the company's performance to see the financial strength from year to year. Out of several factors, sales growth is said to be the one that can affect tax avoidance, because from the sales growth it can be seen that the company is growing smoothly, which increases their income. As the income increases, it will also lead to an increase in the amount of tax the company should pay. Therefore, the company tends to do tax avoidance.

As seen in the table, the high rate of capital intensity resulted in the low rate of ETR, which lead the presumption that the company used its capital to do tax avoidance. During the observed years, PT. Summarecon Agung Tbk had consistent decrease of its capital intensity rate, but the ETR is increasing from 0.0149 in 2018 to 0.0434 in 2019. It was caused by the lower depreciation expenses, as the fixed assets also decreased. This implies that the company is lowering its tax avoidance practices.

Capital intensity is said to be the factor that probably can lead to tax avoidance because it represents how much capital the company needs to earn income from a decrease in fixed assets or an increase in fixed assets. Capital intensity is the proportion of ratio between the fixed assets to the company's total assets. The advantage for the company that has invested in assets is the tax reduction through deductible depreciation expenses. By investing in fixed assets, the company can deduct depreciation costs so can lessen the tax owed. The higher assets of the company provide opportunity to decrease the tax burden, which can be one of the methods of tax avoidance.

Lastly, the firm size rate presents above shows that the increasing rate of firm size influences the ETR. As seen in PT. Bumi Serpong Damai Tbk., the firm size rate in 2019 has increased, while the ETR decreased. The firm size was due to advance received. There is also increasing in inventories caused by the land's appreciation, which affects the increase of total assets. The high rate of firm size is usually able to boost their productivity, making higher earnings, leading to higher charged tax and attract more attention of the government. Therefore, there was possibility that the company is doing tax avoidance when firm size increase.

The three sizes of firm, such as large, medium, and small firm. Basically, the company's size can refer that the company is developing well and its existence is acceptable by the citizen, in which related to the high total assets owned; the company can use that to support its production. The big-sized company will usually also get a high amount of tax burden because it is expected that the company develops well caused of the fixed asset that can boost their productivity and related to the high income earned. Therefore, there is a tendency of tax avoidance that the company could do.

In this opportunity, the strategy that the writer will discuss to reduce the tax burden is the legal way, which is tax avoidance, analyzed in the property and real estate sector, because previous researches related with tax avoidance is still interesting to study as it presents different results. Some previous research related to the factors that the writer will discuss was by Aksoy Hazır (2019), with the related variables of firm size and capital intensity resulting that capital intensity has a significant positive impact on tax avoidance while the firm size has a significant negative impact on tax avoidance. Besides, the result presented by Irianto & S. Ak (2017) shows that firm size has a positive influence on tax avoidance and capital intensity has positive and no significant influence on tax avoidance. Moreover, according to Wahyuni et al. (2018), it is said that sales growth has a positive influence on tax avoidance, while Prawati & Hutagalung (2020) stated that capital intensity has significantly influence the tax avoidance, however, the sales growth has insignificant impact on tax avoidance.

The difference on both this research and previous researches was conducted during the financial reporting period from the year 2017 to 2019 in property and real estate companies listed on Indonesia

Stock Exchange, because many companies suffer losses in 2020 which will resulting the lessen sample to be used. On the other hand, the indicator in calculating tax avoidance is using ETR, with the focus on some independent variables which have an influence on tax avoidance, such as sales growth, capital intensity, and firm size.

Thus, in this research, the writer would like to conduct a Final Paper titled "**The Effect of Sales Growth, Capital Intensity, and Firm Size towards Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange**".

1.2 Problem Limitation

The writer declares that the problem limitations of doing this research and will be stated as follows:

1. The research objects are the property and real estate companies listed on the Indonesia Stock Exchange, as it is one of the sectors that directly impact on economic growth.
2. The research data is taken from the annual reports of the financial statement of the year 2017 to 2019, which were conducted in 2022.
3. The independent variables are sales growth, capital intensity, and firm size, while the dependent variable uses is tax avoidance.

1.3 Problem Formulation

Below are the problem formulations of this research:

1. Does the sales growth has a partial effect of significance towards tax avoidance in property and real estate companies listed on Indonesia Stock Exchange from the year 2017 to 2019?
2. Does the capital intensity has a partial effect of significance towards tax avoidance in property and real estate companies listed on Indonesia Stock Exchange from the year 2017 to 2019?
3. Does the firm size has a partial effect of significance towards tax avoidance in property and real estate companies listed on Indonesia Stock Exchange from the year 2017 to 2019?
4. Do sales growth, capital intensity, and firm size simultaneously have a significant effect towards tax avoidance in property and real estate companies listed on Indonesia Stock Exchange from the year 2017 to 2019?

1.4 Objective of the Research

The objectives of doing this research in accordance to the description problem formulation stated above are as follows:

1. To analyze whether the sales growth has a partial effect of significance towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange on the year 2017 to 2019.
2. To analyze whether the capital intensity has a partial effect of significance towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange on the year 2017 to 2019.

3. To analyze whether the firm size has a partial significant effect towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange on the year 2017 to 2019.
4. To analyze whether the sales growth, capital intensity, and firm size simultaneously have a significant effect towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange on the year 2017 to 2019.

1.5 Benefit of the Research

The benefits achieve of conducting this research are as follows:

1.5.1 Theoretical Benefit

The theoretical benefits are provided to:

1. Writer

This research is conducting the analysis of the effect of sales growth, capital intensity, and firm size on tax avoidance in property and real estate companies listed on Indonesia Stock Exchange. By that, the writer hopes to get a better understanding and more knowledge.

2. Readers

The result of this research is hoped to provide knowledge for the readers to figure out the effect of sales growth, capital intensity, and firm size towards tax avoidance.

1.5.2 Practical Benefit

This research is practically provide several benefits to:

1. The company

This research is hoped to be an additional consideration for the company's management in calculating their tax by minimizing it using tax avoidance without violating the tax laws.

2. Investors

This research is hoped to be helpful for investors in order to get a better understanding of the factors that have significant effects on tax avoidance.

3. The next researchers

This research is expected can be helpful as an additional reference and data related to the variable used for those who are doing the research and has the same topic as this research, or the variable that is related to this topic.