

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

A country considers taxes to have an important role because the existence of tax levies makes the state revenue budget increase and the budget can be used to finance all aspects that will be useful for the development of the country. This is also adopted by Indonesia, where Indonesia as a developing country will need a lot of funds to advance the country so that it will pay great attention to the tax sector.

Taxes and non-taxes are the largest source of funding for the Indonesian state. Taxes have become the largest source of funding accounting for around 70% of total government revenues (Savitri & Rahmawati, 2017). Sources of tax in Indonesia, of course, come from individual and corporate taxpayers.

Own tax according to law no. 28 of 2007 concerning taxation is a mandatory contribution to the state that is owed by an individual or entity that is coercive under the law, without getting a direct reward by being used for the purposes of the state for the greatest prosperity of the people. According to the philosophy of tax law, paying taxes is not only an obligation, but is the right of every citizen to participate in the form of participation in state financing and national development (Susilowati et al., 2020).

The process of developing and developing the country requires high tax revenues so that the government seeks to optimize tax revenue, which is inseparable from several obstacles, moreover, the tax system in Indonesia adheres to a self-

assessment system, which means that the tax collection system gives taxpayers the responsibility to calculate, pay, and pay taxes, and self-report the amount of tax in accordance with the tax laws and regulations.

It can be concluded that although literally no law has been violated, all parties agree that tax avoidance is an unacceptable practice. This is because tax avoidance has a direct impact on the erosion of the tax base, which results in reduced tax revenues required by the state.

Therefore, tax avoidance is characterized by *fraus legis*, namely the gray area whose position is between tax compliance and tax evasion.

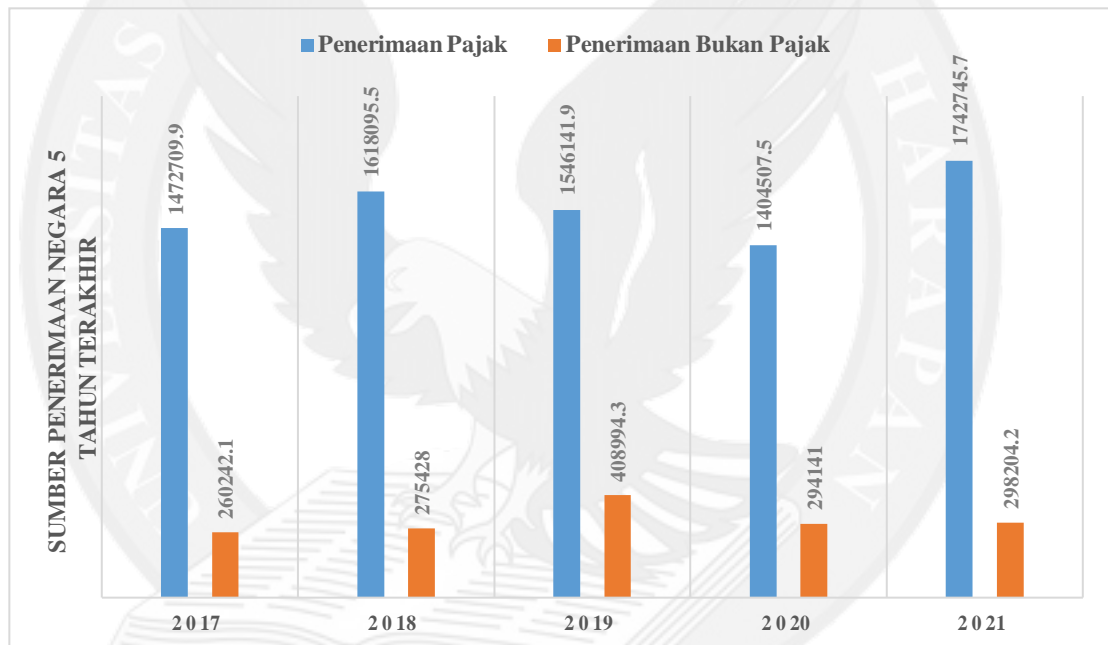
According to James Kessler, the notion of tax avoidance is divided into 2 types, namely acceptable tax avoidance and unacceptable tax evasion.

Taxes are the main source of income for the state, but for companies, taxes are a burden that will reduce their net income. Because of this, expenses that will reduce net income encourage companies to make maximum efforts to be able to pay as little taxes as possible and try to avoid their tax obligations. This difference in interests ultimately causes taxpayers to reduce the amount of their tax payments. Because it is assumed that the government's goal to maximize revenue from the tax sector is contrary to the goals of companies pursuing high profits.

A form of effort to minimize the legal tax payable is also known as tax avoidance. Tax avoidance or avoidance of taxes is a way to reduce the tax burden borne by the company legally that does not violate tax regulations because tax regulations allow tax avoidance. By allowing tax avoidance, many take advantage

of this loophole to reduce the deferred burden on individual or corporate taxpayers (Susilowati et al., 2020).

The problem of avoiding the tax burden is a complex and unique problem. On the one hand, tax avoidance is allowed, but on the other hand, this is not desired by the government. This tax avoidance is said to be not contrary to tax laws because it is considered that practices related to tax avoidance take advantage of loopholes in the tax law which will affect state revenues from the tax sector (Mahdiana & Amin, 2020).



**Figure 1.1 The data on tax revenue for the last 5 years**  
source: bps.go.id and Kementerian Keuangan (2022)

The data above has fluctuated changes over the last 5 years for domestic tax revenues. Fluctuating figures can be stated that tax revenue has not been maximized. The lack of maximum tax revenue indicates that there are tax avoidance actions carried out by taxpayers, or whether the collection has not been able to run optimally. This statement is based on the phenomenon on the sindonews news site,

where the Directorate General of Taxes (DGT) notes that there are still hundreds of companies that have not reported their income tax returns. For information, DGT targets 1.2 million taxpayers for business entities in 2021. Director of Counseling, Services and Public Relations of DGT, Neilmaldrin Noor said that the annual SPT that has been submitted by corporate taxpayers currently only reaches 766,203 thousand. This phenomenon raises the assumption that companies are really trying to avoid collecting taxes that are a burden on the company. (sindonews.com)

As for other phenomena related to tax avoidance by companies. The Director General of Taxes at the Ministry of Finance Suryo Utomo spoke about the findings of tax avoidance or tax avoidance which is estimated to cost the state up to Rp 68.7 trillion per year. The findings announced by the Tax Justice Network reported that due to tax avoidance, Indonesia is estimated to lose up to US\$ 4.86 billion per year. This figure is equivalent to Rp. 68.7 trillion when using the rupiah exchange rate at the close of the spot market on Monday (22/11) of Rp. 14,149 per United States (US) dollar. The findings of the Tax Justice Network show that in practice, multinational companies transfer their profits to countries that are considered tax havens. The goal is not to report how much profit is actually being made in the country where it does business. Corporate tax abuse, in which low-income countries lose the equivalent of 5.5% of tax revenue collected and high-income countries lose 1.3%. (nasional.kontan.co.id)

PricewaterhouseCoopers (PwC) Indonesia said that only 30 percent of the 40 large mining companies that had adopted tax transparency reporting in 2020. While the rest, their tax reports were not yet transparent. This was revealed in PwC's

latest publication under the title Mine 2021 Great Expectation, Seizing Tomorrow. The results of Bisnis' coverage show that several large mining companies are not fully compliant with tax provisions and other levies stipulated by the government. The AO company, for example, has been in the spotlight for its tax evasion practices. Through its subsidiary in Singapore, the company seeks to transfer profits to Singapore, which is a tax haven country. As a result, the value of the tax paid in Indonesia is lower than the obligation that should be borne by the company concerned. (ekonomi.bisnis.com)

Still about mining companies. Reporting from the news website tirto.id, the Directorate General of Taxes (DGT) is currently studying tax avoidance by PT Adaro Energy with a transfer pricing scheme by its subsidiary in Singapore. Transfer pricing itself is the price determined in transactions between division members in a multinational company, where the specified transfer price can deviate from the market price and match between divisions (Refgia et al, 2017) According to the news website merdeka.com, Global Witness said PT Adaro Energy Tbk diverts profits thereby avoiding bigger taxes

Global Witness said its financial report showed that the total sales commission value received by Coaltrade under low tax in Singapore increased on an annual average from USD 4 million before 2009 to USD 55 million from 2009-2017. More than 70 percent of the coal it sells comes from Adaro Energy's subsidiary in Indonesia. This is to avoid taxes in Indonesia. Adaro may have reduced Indonesia's tax bill and the money available to the Indonesian government for essential public services by nearly USD 14 million per year. (tirto.id)

A similar phenomenon is expressed by the news website [news.ddtc.co.id](http://news.ddtc.co.id), which states that mining companies are companies that are prone to tax avoidance with a transfer pricing strategy. The Corruption Eradication Commission also sees the mining sector as a sector prone to corrupt practices, one of which is tax evasion. The Corruption Eradication Commission has recorded a shortage of mining tax payments in forest areas of Rp. 15.9 trillion per year. Even as of 2017, arrears of non-tax state revenues in the mineral and coal sector reached IDR 25.5 trillion. This shows how much potential state revenue is lost from year to year. These negative issues have become their own fiscal challenges, one of which is related to transfer pricing practices.

In this case, multinational companies are considered to always minimize the amount of their tax through price manipulation that is transferred, especially to affiliated entities abroad. There are two major challenges in the mining sector related to transfer pricing by multinational companies, namely the determination of the selling price and efforts to minimize taxes in the source country through changes in the overall supply chain scheme. Regarding the determination of the selling price for the products that are mined, especially for sales transactions to affiliates who are abroad, determining the fairness of the selling price of these products is basically very difficult to identify.

This is due to the characteristics of the product, especially the specifications for the quality and content of the product. For example, the content of calories, water, ash, and sulfur in coal must be different. Other products such as iron ore also have different silica and alumina contents. Each of these specifications certainly

has an influence in the processing and delivery so that it can directly affect the selling price. (news.ddtc.co.id)

Based on the descriptions of the phenomena above, several variables that could affect tax avoidance were obtained, namely profitability, leverage, and also sales growth. This research will certainly focus on researching mining companies in the coal sub-sector because it is based on the phenomena described above.

Profitability is a ratio that measures the effectiveness of the overall management which is indicated by the size of the level of profit obtained in relation to sales and investment (Ariska M & et al, 2020). Profitability is also said to be the end result of a number of policies and decisions made by the company. So, it can be concluded that profitability is a company's ability to earn profits that can be used to measure the efficiency of asset use and is also the final result of policies and decisions taken by the company (Artinasari & Mildawati, 2016).

Several experts expressed their opinion regarding the meaning of tax avoidance. James Kessler provides an understanding of tax avoidance as efforts made by taxpayers to minimize taxes in a way that is contrary to the intent and purpose of the legislators.

Understanding tax from the aspect of Economics, namely the transfer of wealth from the private sector to the public sector based on law that can be enforced without getting a direct reward that can be appointed, used to finance general expenditures and as a driver, barriers, or deterrents to achieve goals that are outside state finance. While taxes from a legal standpoint are obligations that arise as a result of laws that require a person to fulfill the conditions specified by law in order

to pay money to the state that can be coerced, without receiving a reward that can be directly appointed, which is used to finance state expenditures and use as a means of encouragement or inhibition to achieve goals in the state sector.

In this study, the profitability ratio will be prorated by Return On Assets (ROA). Pratiwi et al. (2020) states that if the company's ability to generate profits increases, the company's operating profit will also increase and the tax value will also increase because, this is why profitability affects tax avoidance, but if profits increase tax avoidance decreases this is because the company does not take efficiency measures in payment. the tax.

Research with the same results was obtained by (Sholeha, 2018) and (Anasta, 2021) that profitability has a significant effect on tax avoidance. However, research from (Permata et al., 2017) states that profitability has no effect on tax avoidance. In contrast to research from (Rozak et al., 2018) which states that various industrial sector manufacturing companies have a significant negative effect on tax avoidance, or in other words, there is a strong influence between the level of company profitability on tax avoidance.

Next is leverage which is the company's ability to meet the payment of all its obligations, both short-term obligations and long-term obligations (Rozak et al., 2018). *Leverage shows* the relationship between total assets and ordinary share capital and shows the use of debt to increase company profits.

A large company tends to use the company's resources rather than using debt financing. The higher the level of leverage of a company, the greater the agency cost. In this case, the company will tend to disclose why the condition of



their obligations is at that number to the public so that investors are expected to be clear enough to know the condition of the company's obligations (Oktamawati, 2017).

The bigger the debt, the smaller the taxable profit because the tax incentives on debt interest are getting bigger (Permata et al., 2017). Research with the same results revealed by (Mahdiana & Amin, 2020) that leverage has a positive effect on tax avoidance. In contrast to research from (Artinasari & Mildawati, 2016) which states that leverage cannot affect tax avoidance.

The last variable is sales growth. Sales growth is a growth ratio measured by how big the company is able to survive in the industry and in general economic development (Puspita et al., 2018). The company's sales may decrease or increase. Increased sales growth will make the company get a big profit. This causes the company's tax burden to be large too, thus encouraging companies to practice tax avoidance (Sholeha, 2018).

The role of sales growth in a company can be said to be very important in working capital management. This is because increased sales can result in the company getting higher profits, which will cause tax payments to also increase. Therefore, companies will tend to practice tax avoidance (Nugraha & Mulyani, 2019).

(Pratiwi NPD & et al, 2020) states that if sales growth increases, companies tend to get large profits, therefore companies will tend to practice tax avoidance because large profits will cause a large tax burden as well. Research with the same results was obtained by (Tebiono & Sukadana, 2019). In contrast to research from

(Mahdiana & Amin, 2020) which states that sales growth cannot affect tax avoidance.

In addition to previous studies, this research is based on agency theory which states that each part is motivated by its own interests so that it can cause conflict between principal and agent. In this case, the Fiscus acts as the Principal and the Corporate Taxpayer as the Agent who complies with the applicable tax regulations.

In addition, this research is also able to be based on the Theory of Planned Behavior where the contribution of this theory is to determine the nature of taxpayers in the form of companies that do not want to pay taxes so they decide to avoid it.

Based on the descriptions above, this research will be carried out with the title **“The Effect of Profitability, Leverage, and Sales Growth toward Tax Avoidance on Mining Sector Companies listed on the Indonesia Stock Exchange”**.

## **1.2 Problem Limitation**

The problem limits are taken from the above phenomena:

1. The object of this research is Mining Sector companies which included into the coal mining subsectors listed at Indonesia Stock Exchange from 2016 to 2020.

2. In this research, the dependent variable is Tax Avoidance, while the independent variables are Profitability (Return on Assets), Leverage (Debt Ratio or Debt-to-Assets Ratio, and Sales Growth.

### **1.3 Research Problem**

Based on the background and limitations of the problem above, the formulation of this research is:

1. Does Profitability have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange partially?
2. Does Leverage have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange partially?
3. Does Sales Growth have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange partially?
4. Do Profitability, Leverage, and Sales Growth have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange simultaneously?

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

The formulation of the problem above, leads researchers to the following goals:

1. To find out whether Profitability have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange partially.
2. To find out whether Leverage have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange partially.
3. To find out whether Sales Growth have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange partially.
4. To find out whether Profitability, Leverage, and Sales Growth have significant impact toward Tax Avoidance in Mining Sector Companies listed at Indonesia Stock Exchange simultaneously.

## **1.5 Benefit of the Research**

### **1.5.1. Theoretical Benefit**

1. As a discourse in economics, as well as enriching theories related to Tax Avoidance
2. Can add scientific information that is used as a reference in the next research study with the same topic

### **1.5.2. Practical benefit**

1. Share Entities

This research is expected to provide useful information and understanding to help mining companies avoid tax evasion that is detrimental to the state.

2. For institutions

To enrich the results of research related to Tax Avoidance

3. For other parties

This research is expected to provide benefits as an additional reference and increase knowledge for further research on the same topic.

