CHAPTER I

INSTRUCTION

1.1 Background of the Study

Each country's source of revenue must be distinct to the country's characteristics. Indonesia, being a developing country on the Asian continent with a strategic position, is one of the most preferred destinations for local and international companies to conduct business. Indonesia also has a large human resource base with a variety of potentials for meeting future growth. National development is a process of ongoing improvement that attempts to improve people's material and spiritual health. To achieve this aim, the government must look for income sources within the country. Taxes are the greatest source of revenue for every government, including Indonesia. Hence they play a critical role in ensuring a country's financial independence. As a result, tax income is determined by the amount of compliance and knowledge of taxpayers in carrying out their tax duties.

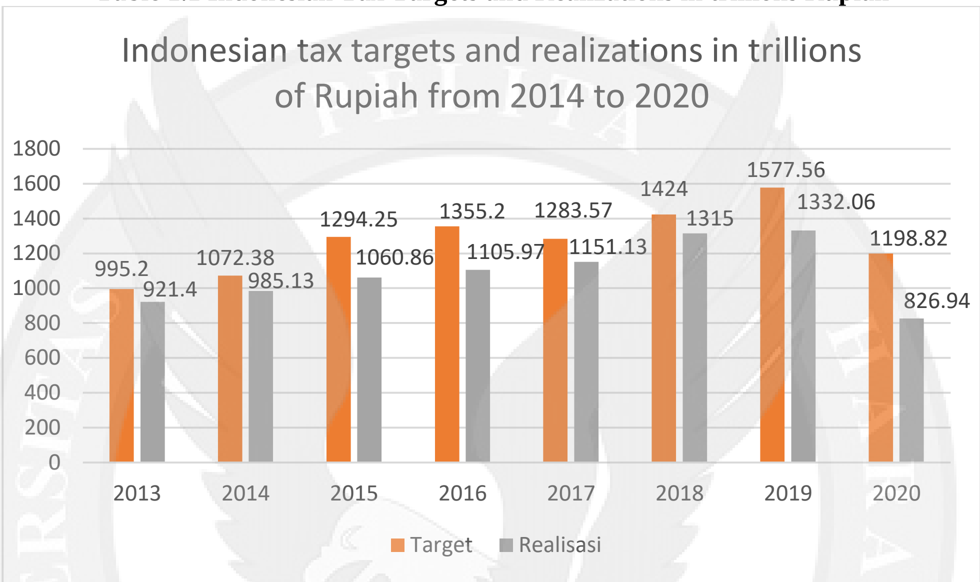
The government may require a considerable sum of money as support material to accomplish development ambitions in all sectors. The tax system is one of the most important sources of money for this. Different businesses, including taxation, are a country's main source of revenue. Tax collections are critical in many countries for national construction activities and financing sources for community welfare. Individuals and companies in Indonesia pay income tax, which is collected through a self-assessment system based on their location. It is in charge of registering with the government, calculating, paying, and reporting tax obligations.

Tax is one of the sources of state revenues. State revenues Indonesia sourced 90% are from local taxes (Ministry of Finance, 2020). Income tax, value-added tax, property, and construction tax, excise tax, other taxes, import duty tax, and export duty tax all contribute to the state's tax revenue. Tax is used by the government to fund development and improve the welfare of its people. It is used to fund government expenses such as building, infrastructure, spending for government personnel, purchasing products, and so on. Taxpayers, both individuals, and corporations, must contribute to the growth of a country's economy by willingly or compulsorily paying taxes to the government.

Indonesia's income revenue will rise as the country's economy grows. A growing number of small and large businesses are being developed. Companies with broad market sizes, such as those listed on the Indonesia Stock Exchange, face more competition (public go companies). Financial results must be submitted annually by companies that go public. Financial statements serve as a means of reporting to stakeholders such as owners, employers, vendors, borrowers, regulators, consumers, the economy, and the general public. Taxes that are supposed to be losses or investments have a significant impact on management's ability to increase earnings.

For corporations, taxes are considered a cost that will reduce profits for Company. That led to many companies trying to find ways to reduce the tax costs that must be incurred by the company to be paid. The greater the tax savings conducted by the company, the company is considered increasingly aggressive toward tax (Fadli, 2016). Taxes must be collected optimally for tax receipts to increase state and local expenditures. However, in reality, the reception tax in Indonesia is still not able to be achieved to the maximum (Nofia, 2018).

Table 1.1 Indonesian Tax Targets and Realizations in trillions Rupiah



Source: Lokadata (2020)

In the field of coal mining, Indonesia is a major player. The state has been concerned about the coal sector for decades because of its significant contribution to the national economy. Based on data from the Ministry of Finance of the Republic of Indonesia attached in table 1.2, it can be seen that mining sectors are included in the 5 largest sectors in the contribution of tax revenues for the country of Indonesia even though the nominal is not as large as other sectors.

Table 1.2 The 5 largest sectors in the contribution of tax revenues (in Trillions Rupiah)

Year	Manufacture Industry	Trade Industry	Financial Services & Insurance	Construction & Real Estate	Mining
2017	367,2	57,375	229,5	57,38	160,65
2018	363,6	234,46	162,15	83,51	80,55
2019	365,39	246,85	175,98	89,65	66,12
2020	291,54	200,10	150,80	69,42	37,21
2021	363,35	270,06	158,35	72,42	61,38

Source: Kemenkeu (2022), Data processed by the writer.

After oil, gas, and geothermal, coal is the second-largest contribution to the extractive sector. The tax contribution of the coal mining business, despite its enormous economic worth, turns out to be quite low. This is due to the possibility of taxpayers not reporting their tax returns in accordance with the realities in the field. Many others file annual tax returns correctly but are the result of Tax Avoidance and tax savings such as aggressive tax planning, corporate inversion, profit shifting, and transfer pricing.

The government wants to increase tax collection as much as possible. These goals, on the other hand, are in direct opposition to the company's intent as a taxpayer, which is to minimize expenses to maximize benefits. The amount of tax can reduce the profit earned by the company so that the tax is considered to be a burden borne by the company (Nofia, 2018). Tax-cutting businesses or policies are often referred to as "violent behavior against taxes" or "Tax Avoidance."

As can be seen in table 1.2, the Ministry of Finance's tax income report for the 2020 budget year, as mentioned in presidential regulation (*Perpres*) Number 72 of 2020, has fallen (significant decrease). The processing industry declined by 20.21%, the trade sector decreased by 18.94%, the financial services and insurance sector decreased by 14.31%, the construction and real estate sector decreased by 22.56%, the transportation and warehousing sector decreased by 15.41%, and the mining sector decreased by 43%. This, of course, does not rule out the possibility of the consequences of violent behavior against taxes or Tax Avoidance.

The use of a cash-effective tax rate may also be used to assess active tax planning (CETR). Several variables influence a company's ability to avoid paying taxes, including Ownership Structure, Profitability, Capital Intensity, and Leverage. In general, institutional ownership controls enterprises in developing countries. Governments, financial institutions, incorporated institutions, foreign institutions, trust funds, and other institutions own shares at the end of the year, referred to as institutional ownership. Because of share ownership, the presence of institutional ownership in a firm will induce higher oversight to be more ideal for management performance. It symbolizes a source of power that may be applied to enhance or hinder managerial performance in many ways.

The Ownership Structure of a subsidiary will influence management's decision on whether or not to conduct Tax Avoidance (Safa, 2017). Because the decisions made would influence the firm, share ownership by the board of directors is claimed to lower the amount of Tax Avoidance. In contrast to the result, Endari, et al. (2016) discovered that management ownership had no impact on Tax Avoidance. This is because the manager's share of ownership is still small. Therefore he or she does not have a lot of decision-making power.

Research conducted by Subagiastara (2016) stated that Tax Avoidance actions carried out by the company are not influenced by whether the company is a family-owned company or not a family-owned company. The institution's ownership of the firm is anticipated to supervise the performance of managers, allowing them to make better judgments and reducing aggressive tax actions by management. According to Endari, et al (2016), found that when an entity is owned by an institution, the rate of aggressive tax action decreases.

The phenomena listed below were obtained from different companies:

Table 1.3 Table of Phenomena

COMPANY	YEAR	IO	ROE	CIR	DER	CETR
ADRO	2016	50,09	9,00	23,68	72,28	28,45
	2017	50,09	13,11	22,11	66,54	55,45
	2018	50,09	11,10	22,80	64,10	49,62
	2019	50,09	10,92	23,87	81,18	46,57
	2020	50,09	4,01	24,12	61,49	81,13
GEMS	2016	97,00	13,21	13,33	42,56	10,08
	2017	97,00	41,10	9,37	102,06	10,76
	2018	97,00	31,84	10,23	121,98	52,13
	2019	97,00	18,64	10,87	117,90	4,21
	2020	97,00	27,43	10,01	132,87	0,86
HRUM	2016	73,60	5,06	21,53	16,30	4,72
	2017	74,05	14,08	17,52	16,06	18,93
	2018	74,05	10,35	17,56	20,46	57,82
	2019	79,08	5,04	16,76	11,87	57,35
	2020	79,79	13,26	13,52	9,65	5,93

Source: Prepared by the writer (2022)

The Ownership Structure is determined by how much one large party owns. The ability to decide one's voting rights is enabled by high ownership. In the same way that the owner is liable for the loss in every choice based on the ownership percentage, the owner is accountable for the loss in every decision based on the ownership percentage. As a result, the market is more likely to trust a firm that is majority owned by a single large party in the hopes that this party will not make a decision that would cause the company to lose money. However, based on the fact, ADRO will have the highest cash effective tax rate in 2020 with the simplest Ownership Structure. Meanwhile, GEMS had a greater ownership structure than ADRO, which had the lowest cash-effective tax rate in 2020.

The contradiction between Profitability and the cash effective tax rate is seen in the table above. For example, the Profitability of PT. Adaro Energy Tbk (ADRO) will be lower in 2020 than it was in 2019, and the cash effective tax rate will be higher in 2020 than it was in 2019. The situation is inverted at PT. Golden Energy Mines Tbk (GEMS), whose Profitability in 2018 was better than in 2019, and the cash effective tax rate was lower in 2019 than in 2018.

In PT. Adaro Energy Tbk, there are significant inconsistencies between Capital Intensity and cash effective tax rates (ADRO). The Capital Intensity was higher in 2019 than in 2018, reflecting a lower effective cash tax rate in 2019 than in 2018. Meanwhile, Capital Intensity in PT. Golden Energy Mines Tbk (GEMS) was higher in 2018 than in 2017. The effective tax rate was, however, lower in 2017 than it was in 2018.

Leverage was higher in 2019, according to PT. Adaro Energy Tbk (ADRO). The cash effective tax rate of the ADRO was lower in 2019 than in 2018. Instead, in 2018, the Leverage of PT. Golden Energy Mines Tbk (GEMS) is higher than in 2017. However, the cash effective tax rate in 2018 was greater than in 2017, indicating that Leverage and Cash Effective Tax Rates are inconsistent.

Based on previous information, it is critical to look at Ownership Structure, Profitability, Capital Intensity, and Leverage ratio as variables that might influence the Cash Effective Tax Rate. As a result, the author wishes to do a study on **"The Impact of Ownership Structure, Profitability, Capital Intensity, and Leverage towards Tax Avoidance on Mining Companies Listed on Indonesia Stock Exchange."**

1.2 Problem Limitation

The scope of this study is confined to mining businesses that are listed on the Indonesia Stock Exchange. The financial records of the selected firms from 2016 to 2020 are used in this study. Institutional measures by Institutional Ownership ratio (X1), Profitability measurements by return on asset (X2), Capital Intensity measures by capital intensity ratio (X3), and Leverage measures by debt-to-equity ratio are the independent variables in this study (X4). In this study, the dependent variable is Tax Avoidance, which is measured by the cash effective tax rate (Y).

1.3 Problem Formulation

Based on the study's history and problem limitations, the author formulates the problem as follows:

1. Does Ownership Structure have a significant impact towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange?
2. Does Profitability have a significant impact towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange?

3. Does Capital Intensity have a significant impact towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange?
4. Does Leverage have a significant impact towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange?
5. Do Ownership Structure, Profitability, Capital Intensity, and Leverage simultaneously have a significant impact toward Tax Avoidance at mining companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

According to the issue statement, the objective of this research is to collect empirical data on:

1. To know the impact of Ownership Structure towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange.
2. To know the impact of Profitability towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange.
3. To know the impact of Capital Intensity towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange.
4. To know the impact of Leverage towards Tax Avoidance on mining companies listed on Indonesia Stock Exchange.
5. To know the impact of Ownership Structure, Profitability, Capital Intensity, and Leverage towards Tax Avoidance at mining companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

The researcher expects that, as a result of the research goal described above, this research will have some impacts and advantages to:

1.5.1 Theoretical Benefit

This study can add to the understanding of the factors that affect Tax Avoidance in mining companies listed on the Indonesia Stock Exchange, as well as serve as a guide for other academics researching the same topic.

1.5.2 Practical Benefit

The following are some of the parties that will benefit from this research:

a. For the author, the purpose of the study is to help the author have a better understanding of taxes for businesses and to become more aware of his or her legal duties as a taxpayer.

b. For the company, it may be utilized as a factor when designing efficient tax planning to pay more attention to the company's situation for the amount of Ownership Structure, Profitability, Capital Intensity, and Leverage of each annually and also to improve awareness of tax knowledge in order to lower an entity's tax burden in compliance with the law and to be more conscious of one's obligations as a taxpayer.

c. For academics and researchers, it may be used to provide empirical data, insight, and a point of reference for future study.

d. For the Directorate General of Taxes (DJP), it may be used to give information regarding the impact of how Ownership Structure, Profitability, Capital Intensity, and Leverage can impact Tax Avoidance of mining companies. By having additional information, the Directorate General of Taxes (DJP) can evaluate whether the taxpayer has fulfilled their duties or not.