CHAPTER I

INTRODUCTION

1.1 Background of Study

In Indonesia, one of the most significant sources of income is taxation. Every individual and company must pay taxes to the government. According to Kementerian Keuangan, tax has contributed 1,082,56 trillion rupiahs or equivalent to 88,04 percent to the state budget (Anggaran Pendapatan dan Belanja Negara) for the year 2021.

Table 1.1 Tax Revenue from Year 2017 – 2021 (Trillion Rupiah)

	2017	**2018**	**2019**	**2020**	**2021**
Income Tax	646,8	651,44	668,61	521,73	600,64
a. Non – Oil and Gas	596,5	59,77	615,72	492,57	554,65
b. Oil and Gas	50,3	591,67	52,89	29,16	45,99
VAT & Sales Tax on Luxury Goods	480,7	459,91	441,18	378,77	453,69
Land and Building Tax	16,8	25,30	20,40	19,10	17,91
Other Taxes	6,7	-	5,97	5,74	10,32
Total	1.151	1.136,66	1.136,17	925,34	1.082,56

Source: Kementerian Keuangan (APBN-Kita) 2017 – 2021
Prepared by writer (2022)

The following table shows how taxes contribute significantly to state revenue. The state budget (APBN) is allocated for education, health, infrastructure, and subsidies. The government has to pay more attention to taxpayers as taxes are the nation's primary income source, and taxpayers are obliged to obey all laws and regulations.

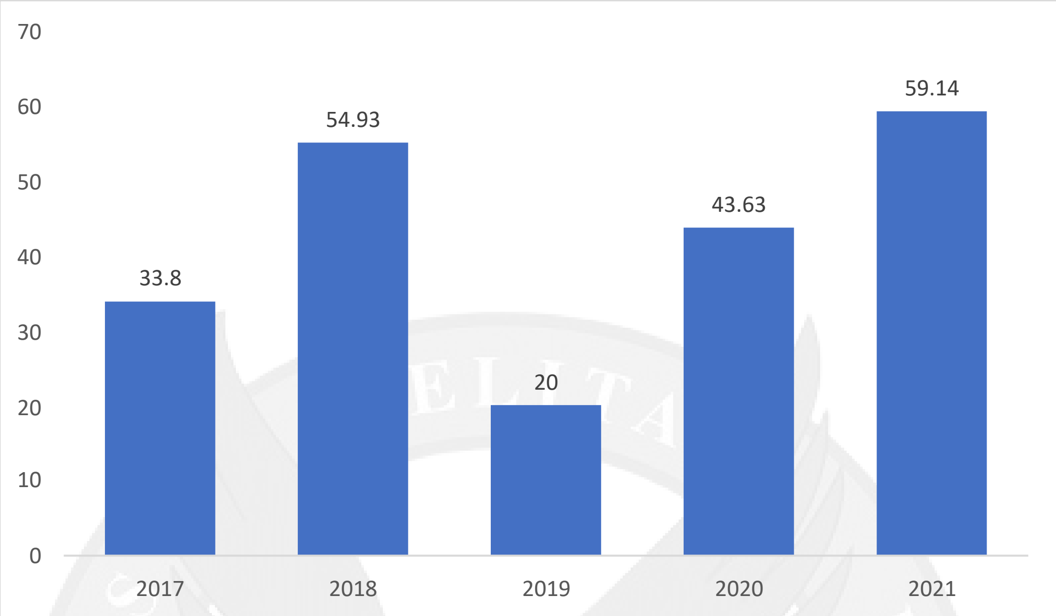

Figure 1.1 Mining Sector Tax Revenue Growth from Year 2017 – 2021 (Percentage)
Source: Kementerian Keuangan (APBN-Kita) 2017 – 2021
Prepared by writer (2022)

Minister of Finance, Sri Mulyani, has claimed that the state revenue grew positively by 114,9%.In comparison, the mining sector recorded positive growth with 59,14% throughout2021.

Figure 1.1 shows that 2019 experienced a slowdown caused by pandemic, but in 2020 mining sector recovered by a growth of 43,63%. The mining sector was driven by global demand and increasing commodity prices.

Even though taxes are one of the country's most significant incomes, the government faces obstacles to collect taxes from taxpayers. Tax collection system in Indonesia applies self-assessment system in which taxpayers are responsible for calculating, paying, and reporting their own taxes per the applicable tax laws and regulations. However, the Directorate General of Taxes has the authority to issue a tax assessment letter to taxpayers who fail to comply with the tax regulation. Self-assessment tax collection causes the risk of tax avoidance.

Tax avoidance is an attempt to reduce the tax burden that the taxpayer should pay. Taxes are costs or expenses that deduct net profit and affect a company'snet profit. When a company earns large profits, a large amount of income tax is alsopaid to the cash country (Astuti & Aryani, 2016). Therefore, the government is concerned about this matter so that companies commit no fraud for personal gain. However, tax avoidance is considered legal compared to tax evasion. Tax avoidance only reduces the tax burden while tax avoidance eliminates taxes.

The phenomenon of tax avoidance that occurred in mining companies was PT Adaro Energy. PT Adaro Energy utilized one of its subsidiaries in Singapore, Coal trade Services International, for tax purpose and saved US$125 million of its tax obligation. Part of the significant earnings recorded in Singapore was shifted to one of PT. Adaro Energy's subsidiaries in the Mauritius tax haven, where they were not taxed at all prior to 2017. It is clear that PT. Adaro Energy exploits the gaps in Law No. 36 of 2008 article 4 paragraph (1), which states that all foreign income will be taxed according to the tariff in effect, but the transfer of the revenues of PT. Adaro Energy's to a tax haven country make it tax-free until 2017, created to a transfer pricing activity (Hariana, 2022).

Another case of tax avoidance is when the Directorate General of Taxes sued the coal company PT Multi Sarana Avindo for illegally transferring Mining Authorization, resulting in the lack of obligation to pay Value Added Tax (VAT). Directorate General of Taxes sued three times in 2007, 2009, and 2010 with a lawsuit amounting to 7.7 billion, which the Directorate General of Taxes lost in court. Until now, the Directorate General of Taxes is still filing the same lawsuit (Yuliawati, 2019).

Many factors may influence the company's practice of tax avoidance. The researcher has determined three factors in this research, as follow:

1. Profitability

The profitability ratio is a measurement to determine the ability of a company to generate profits within a certain period and the effectiveness of its operational activities, where the effectiveness is assessed from the profits generated in sales and investment in the company (Septiana, 2019).

2. Leverage

The leverage ratio measures how much of a company's assets are funded by debt or how the company uses debt as a source of capital. The measurement of leverage by comparing total assets with total debt (Irwan Moridu, 2022).

3. Firm Size

Firm size is measured by showing the size of the company's assets. Firm size is classified into three categories: large, medium, and small firms. (Wiranata & Nugrahanti, 2013).

Based on the previous researchers that discussed tax avoidance, there are inconsistent results. (Dewinta & Setiawan, 2016) found that the independent variables (firm size, firm age, profitability, leverage, and sales growth) had a significant influence on tax avoidance. (Mayndarto, 2022) found that the independent variables (firm size and profitability) had no significant influence on tax avoidance. (Dewinta & Setiawan, 2016) had mentioned that profitability has a significant influence on tax avoidance, while based on (Mayndarto, 2022), Profitability has no significant influence on tax avoidance.

Based on the phenomenon and previous research, the researcher decided to conduct this research to find out whether profitability, leverage, and firm size have a significant influence on tax avoidance in mining companies listed Indonesia Stock Exchange entitled **"The Influence of Profitability, Leverage, and Firm Size on Tax Avoidance in Mining Companies Listed on the Indonesia Stock Exchange."**

1.2 Problem Limitation

In order to do this research to be more focused and not expand from the discussion in question, the researcher limits it to the scope of the research, including Profitability (X_1), Leverage (X_2), Firm Size (X_3), and Tax Avoidance (Y). This research will be conducted in Mining Companies Listed on Indonesia Stock Exchange. The period of this research will be 5 years, starting from the year 2017 – 2021.

1.3 Problem Formulation

From the description of the background above, the formulation of the problems in this study are as follows:

1. Does Profitability significantly influence Tax Avoidance in Mining Companies Listed on Indonesia Stock Exchange?
2. Does Leverage significantly influence Tax Avoidance in Mining Companies Listed on Indonesia Stock Exchange?
3. Does Firm Size significantly influence Tax Avoidance in Mining Companies Listed on Indonesia Stock Exchange?
4. Do Profitability, Leverage, and Firm Size significantly influence Tax Avoidance in Mining Companies Listed on Indonesia Stock Exchange?

1.4 Objective of the Research

According to the problem formulation above, the objective of this research would be:

1. To understand whether profitability partially influences tax avoidance in mining companies listed on Indonesia Stock Exchange.
2. To understand whether the leverage partially influences tax avoidance in mining companies listed on Indonesia Stock Exchange.
3. To understand whether the firm size partially influences tax avoidance in mining companies listed on Indonesia Stock Exchange.

4. To understand whether the profitability, leverage and firm size simultaneously significantly influence tax avoidance in mining companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

This research is expected to provide not only theoretical benefits but also practical benefits, as follows:

1.5.1 Theoretical Benefit

Theoretically, this research is expected to help enhance knowledge, understanding, and experience in the accounting and taxation field about the influence of profitability, leverage, and firm size on tax avoidance in mining companies.

1.5.2 Practical Benefit

Practically, this research gives insight, recommendation, and evaluation of some factors that influence tax avoidance; companies must be cautious when making tax avoidance decisions, and this research is expected to provide information on how the condition of the companies, so it would help the investor decide whether invest or not in mining companies.