

CHAPTER I

INTRODUCTION

1.1 Background of the Study

To run a company, the most important is to generate the profit. To produce the profit, the company needs sales, so the company's profit is keep developing and the company's economy also stable. Sales helps a company a lot, but to maintain the sales and resulting a lot of profits, the company needs human resources to help with the sales, for example, employees. Employees play a huge role in generating profit because they are the one who help the company to be successful by increasing the profits.

Non-tax factors are factors that do to increase the employees' productivity, get bonuses, improve company performance, and maintain stakeholders in order to remain in the company. With the good profit and sales, this will benefit the company a lot, starting for it helps the development of the company, more investors interested in the company, and the stakeholders will satisfy with the company which they will keep investing. But, with the high profit and sales, it will be the same with the tax payable. That is, the tax payable will also be high and increase.

Each company might want to minimize the tax payable and maximizing the profit. But with this situation, the company just can follow the principles of the law, which is the tax rate that applied and approved by the Directorate General of Taxation (DJP). Tax rate has a big impact on the company, and if tax rate changes,

the company will also be affected.

With the help of tax incentives, corporate income tax rate which originally used progressive tax rate is based on the Law No. 17 of 2000 (consisting of 3 layers: 10%, 15%, and 30%) was changed to a single tax rate based on the Income Tax Law no. 36 of 2008 Article 17, namely 28% which is effective on year 2009 (Article 17 paragraph 1 letter b) and 25% applicable effective in 2010 (Article 17 paragraph 2a). In Article 17 Paragraph 2 letter b also states that corporate taxpayers domestically in the form of a public company which is at least 40% (forty percent) of the total paid-up shares are traded on the stock exchange in Indonesia and fulfill certain other requirements can earn rate is 5% (five percent) lower than the tariff as referred to in paragraph (1) letter b and paragraph (2a) regulated by or based on government regulations. This reduction in tax rates is automatically beneficial for companies, especially those that have gone public because of the burden the tax that must be paid by the company becomes smaller.

Change of tax rate from progressive tax rate to tax rate single tax has its own impact for the company. If managers seek to maximize firm value by minimizing the tax burden, the rate changes. This tax will give managers an incentive to apply high level of conservatism. Often the company will adopt a tax reduction strategy and report profits lower method choice accounting, financing, marketing, production, and business functions others tend to reduce taxable profit.

For the company who wants to lower their tax rate, they need to be a public company and at least 40% (forty percent) of the total paid-up shares are traded on the stock exchange in Indonesia and fulfill certain other requirements can earn rate

is 5% (five percent) lower than the tax rate as referred to in paragraph (1) letter b and paragraph (2a) regulated based on government regulations. Then, the company also needs to follow the procedure by the Statement of Financial Accounting Standards (PSAK) to receive the lower tax rate. PSAK (Statement of Financial Accounting Standards) which serves as a guide in preparing and presenting high-quality financial reports, management within the company can direct and control the company's management so as not to commit fraud, independent auditors who audit the company's financial statements can state the fairness of the financial statements.

Financial Accounting Standards provide freedom to choose the accounting method used in preparing financial statements. Freedom in this method can be used to produce financial reports which is different in each company according to the wants and needs of the company or with in other words the company has little freedom in choose one of several alternatives offered in financial accounting standards deemed appropriate company condition.

According to Law Number 16 of 2009 regarding the fourth amendment to Law Number 6 1983 concerning General Provisions and Procedures Taxation in article 1 paragraph 1 reads that tax taxes are: mandatory contributions to the country owed by people coercive person or entity based on the law, by not getting compensation directly and used for the purposes of the state for the greatest prosperity of the people.

Taxes are people's contributions to the state treasury based on laws which can be enforced with nothing receive direct service (contra-achievement) shown and used to pay general expenses. Tax changes that are always changing to adapt to

social, economic and the politics of a country.

As mentioned in Statement of Financial Accounting Standards (PSAK), one of the criteria is the company needs to have the certainty of the profit, which it has the real evidence of the profit usually it is called as accounting conservatism. Accounting conservatism is the recognition of profit, revenue, or assets with the certainty that it already happened. The company must record all profit, revenue, or assets that already have the real evidence and they should be honest, and no manipulation involved.

Earning management is a situation that has received a lot of attention from all parties, both practitioners and academics related to its activities that include management assessments to manipulate net income or company profits, both recorded on a quarterly (3 months) or annual (annual) basis. Earnings management is an intervention action taken by management in the process of determining company profits based on the desire to fulfill personal gains, where this activity is indicated by earnings manipulation to show positive information related to the performance of a company. Earnings management is not acceptable because it contrasts with accounting conservatism, which earnings management is by manipulation, but accounting conservatism needs the real proof of the profits.

The phenomenon that occurs in Indonesia is still many companies that have not implemented accounting conservatism in the financial statements, causing the trust of users of financial statements in particular the audited financial statements of the auditors have decreased, like in Indonesia there are cases of report manipulation finance, one example occurs in the company manufacturing goes

public, namely based on the results of the inspection Bapepam, obtained evidence that there was an error presentation in the financial statements. The resulted in overstated earnings on net income for the year ended December 31, 2001, amounting to Rp.32.7 billion which is 2.3% of sales and 24.7% of profit net PT. Kimia Farma. This engineering was carried out by how inventory is recorded in accumulated amounts between beginning inventory in 2002 and ending inventory 2001, which resulted in inventories being overstated so that there is an asset overstated which will eventually increase profit. Apart from PT. Kimia Farma, PT. Indosat earnings management the company declined in the last two years to use avoid taxes properly, the manager explains PT. Indosat and its subsidiaries experienced a decline net profit 13.12% from Rp.1.623 trillion in 2005 to Rp.1.41 trillion in 2006, net profit due to an increase in operating expenses of around 11.38% from Rp.7.937 trillion to Rp. 3.398 trillion from Rp. 3,652 trillion.

The reason why I choose accounting conservatism is a lot of company still has not used the accounting conservatism method to manage their financial reports. Without using accounting conservatism, the company can be mistakenly recording the profit without proof that can cause the wrong calculation of the financial statements. This is not accepted because the company will be giving false information and can be suspended because of the wrong action by the company. The example that has shown before already give the lesson about how importance accounting conservatism is.

The writer will conduct the research with title **“Influence of Tax Incentives and Non-Tax Factors on Accounting Conservatism in Manufacturing**

Companies Listed on the Indonesia Stock Exchange”.

1.2 Problem Limitation

In avoiding deviation from the topic, the writer set some problem limitation as below:

1. The research of this object is manufacturing companies listed on Indonesia Stock Exchange.
2. The dependent variable is accounting conservatism, while the independent variable of this research are tax incentives and non-tax factors.
3. The research data of the period is from year 2017-2021.

1.3 Problem Formulation

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

1. Do tax incentives have significant impact towards accounting conservatism of manufacturing companies listed at Indonesia Stock Exchange?
2. Do non-tax factors have significant impact towards accounting conservatism of manufacturing companies listed at Indonesia Stock Exchange?
3. Do tax incentives and non-tax factors simultaneously have significant impact toward accounting conservatism of manufacturing companies listed at Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the problem statement that has been described, the objective of this research are as follows:

1. To find out whether tax incentives have significant impact towards accounting conservatism.
2. To find out whether non-tax factors has significant impact towards accounting conservatism.
3. To find out whether tax incentives and non-tax factors has significant impact towards accounting conservatism.

1.5 Benefit of Research

This researcher is expected in this research can provide not only theoretical but useful for various parties in accordance with the purpose of the research, the uses of this research are:

1.6 Theoretical Benefit

The theoretical, the writer expect that this research can be used as the literature material for theoretical and references for other academic who wants to do further research on accounting conservatism. The writer also hopes that this research's results can increase knowledge and insight about influence of tax incentives and non-tax factor on accounting conservatism.

1.7 Practical Benefit

Practically, the writer expects that this research can be used as follows:

1. For Scholar

It is expected that this research can supply information and serve as a reference in conducting research related to accounting conservatism for other students.

2. For Investor

The result of this research is expected to provide information as well as illustrations regarding the condition of the companies and also can be taken as inputs for consideration in investment-related decision making.

3. For the Government

In this research are expected to be an input for the directorate general of taxes to know what factors influence a company to take accounting conservatism actions.

4. For the Author

In this research is to add insight, information and suggestions for the development and application of knowledge that has been gained during the lecture period.

5. For Further Research

The result of this research should be a reference source for further research into influence of tax incentives and non-tax factor on accounting conservatism.