

CHAPTER I

INTRODUCTION

1.1 Background of the study

A country is established if it has a permanent population, clear territory, government, and capacity to establish relations with other countries (Montevideo Convention on the Rights and Duties of States, 1933). In running the governance of the country, the government needs a lot of funds and according to data from the Ministry of Finance of the Republic of Indonesia in 2018 our tax ratio is 8,8 percent from GDP (Gross Domestic Product), increase from 8,5 percent in 2017 with 1.147 billion rupiahs. Indonesia Tax ratio in 2020 decreased rapidly because of Covid-19 pandemic to 6,9 percent (Sembiring, 2021). The revenue is used to support and carry out national development activities so that they can run well for the welfare of the lives of all Indonesian people. The impact of taxes is very huge for the state, the government seeks to increase revenue from the tax sector.

The purpose of tax to nation is to ensure the development of the nation to be better place for its people to live, existence of tax levies make the nation revenue budget increase and the budget that can be used to growing all useful aspects such as transportation, communication, and irrigation. Increasing country income from taxes by gathering as much taxpayer as possible, and taxpayer paying taxes is a responsibility for each people who lives in taxable country (Yansen, 2021).

Table 1.1 State Revenue

Source of Income	Realization of State Revenue (Billion Rupiah)				
	2018	2019	2020	2021	2022
Tax Income	1518.789	1546.141	1404.5075	1444.5416	1510
Non-Taxable Income	409.32	409	294.14	298.2042	121.95
Total	1928.109	1955.141	1698.6475	1742.7458	1631.95

Source : *Badan Pusat Statistik*

In Table 1.1 from Kementerian Keuangan Republik Indonesia shows that income from taxes keeps increasing over years. Referring to the data above, it can be concluded that in the future the Indonesian government will continue to increase revenue from taxes. Therefore, the role of taxpayers in Indonesia is very important.

According to (Undang-Undang Nomor 36 Tahun 2008, 2008) concerning income tax, the subject of income tax is divided into: Personal Income Tax, Corporate Income Tax, Undistributed Inheritance Income Tax, Permanent Establishment Tax. Also, it is mandatory for an Individual or Corporate to pay tax based on statutory tax rate. Paying tax is not an obligation but it is a right for a good citizen to contribute to state financing and national development (Alvin, 2022).

Companies and individuals pay taxes on the total income generated under applicable laws. In terms of size, companies pay more taxes than the individual in Indonesia. Therefore, companies that have large equity and also a high percentage of return on equity usually pay more taxes and it will reduce the portion of the company's net income that will be distributed to investors. The practice in real life is that the government will encourage its people to pay taxes while the people will do everything, they can avoid the tax. There are two methods of avoiding tax which is Tax Avoidance and Tax Evasion. Tax Avoidance is action by taxpayers to

minimize the payment of individual or corporate tax burdens owed to government. Tax Evasion is as an attempt to make tax payment lower by doing illegal action such as increasing deductible Expenses in Financial Statement. Tax Avoidance uses legal approach such as deficiencies in tax regulations that can lead to manipulation by taxpayers to minimize the amount of tax paid to the state (Barli, 2018).

For companies, the tax burden will reduce its share of the profits that should be distributed to investors and also managers in a company. Therefore, tax accountant will try every effort to minimize the tax burden by exploiting the weakness of tax provisions (Puspita, 2017).

There are still many problems that must be faced by the state in maximizing the amount of revenue from their taxes. Because taxpayers also feel burdened by taxes that are felt to be unfair with the benefits they get as citizens. Taxpayers tend to feel that taxes are a burden that must be reduced so that income is higher while the government wants high tax payments to increase the country's economic development.

Taxes can be equated as a burden for companies that must be reduced and paid to a minimum without violating applicable tax regulations. Tax accountant is hired by company to minimize the amount of tax that must be paid by the company without any illegal acts such as manipulation of financial statements. Assets from companies are often used to reduce taxes that must be paid by transforming assets into other forms that can reduce income and do not violate regulations.

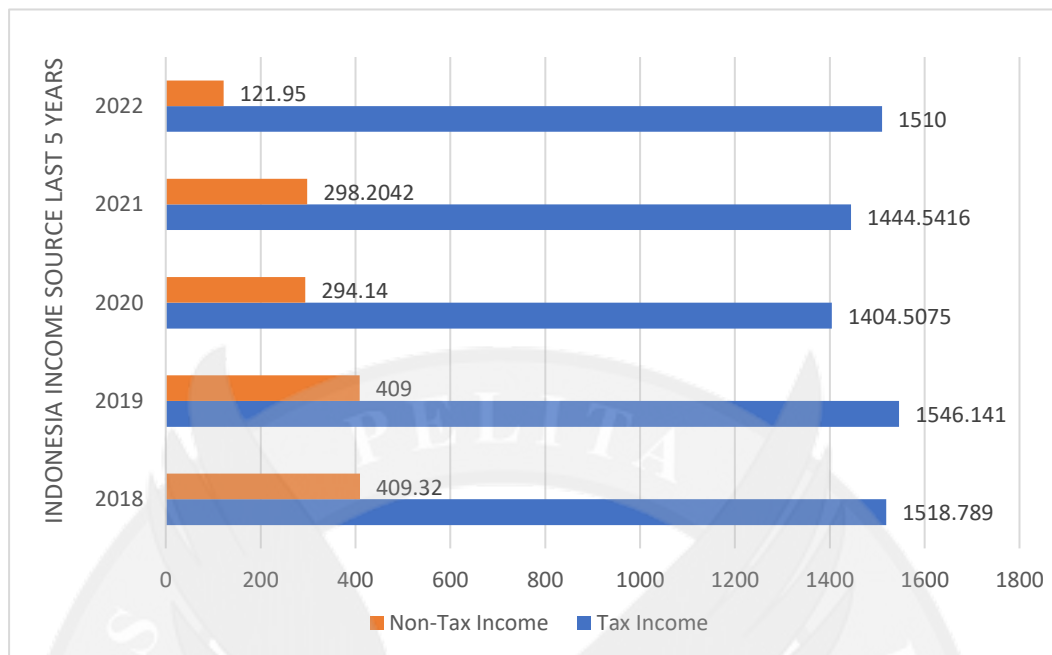


Figure 1.1 Tax revenue for last 5 years

Source : Data compiled by the writer (2022)

Based on figure 1.1 above which data is derived from Badan Pusat Statistik and Kementerian Keuangan Republik Indonesia income from Indonesian state taxes had decreased in 2020 caused by a pandemic that hit the whole world including Indonesia at that time all sectors of the economy collapsed and caused a lack of people's purchasing power which caused losses for many companies in Indonesia. Losses from companies and mass layoffs by companies cause tax revenues received by the state to decrease. At that time, the state also focused on helping the collapsing economic sector to get back up, such as providing masks and basic materials.

The object of this research is a company engaged in the mining sector which is listed on the Indonesian Stock Exchange. Revenue from the mining sector has a significant impact on Indonesia's state income (GDP). However, more than half of mineral and coal mining companies do not report their taxes properly (Perusahaan Tambang Dan Perkebunan Masih Banyak Yang Menunggak Pajak, 2022).

Only 30 percent of the total 40 large companies engaged in the taxation sector report their taxes and income transparently in 2020 and the rest are still less transparent in tax reporting, this research is conducted by PricewaterhouseCoopers (PwC) Indonesia. There is also covid-19 that gives world-wide impact. With this phenomenon, it is possible to find reasons for further research on tax avoidance that may be carried out by mining companies engaged in the coal mining sector.

Based on information above, the author conduct research with title **“The Impact of Return on Equity, Return on Asset and Firm Size Toward Tax Avoidance of Coal Mining Companies Listed on The Indonesia Stock Exchange”**.

1.2 Problem Limitation

Due to pandemic conditions and the limitations of researchers to conduct research, the data generated is based on financial statements listed on the Indonesian stock exchange by each company. Direct research can be carried out in more detail but for the reasons described, the research is based only on existing data.

The following are limitations in this study: The research focused on four variables chosen, which are tax avoidance as the dependent; Return on Asset; Return on Equity; Firm Size as the independent variables

- 1) The research focuses on companies on coal mining segment that are listed on the Indonesia Stock Exchange
- 2) The data that will be used by the researcher to conduct the research limited to year 2019 to 2021

1.3 Problem Formulation

Based on the background of the problem described, this research will have focused on Return on Equity, return on Assets, and Firm Size towards tax avoidance on coal mining sector company listed at the Indonesia stock Exchange during the period 2019 to 2021.

The problem in this research study are formulated as below:

- 1) Does the company's Return on Equity have an influence on tax avoidance in mining sector companies listed on Indonesia Stock Exchange?
- 2) Does the company's Return on Asset have an influence on tax avoidance in mining sector companies listed on Indonesia Stock Exchange?
- 3) Does the company's Firm Size have an influence on tax avoidance in mining sector companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

The objective of the research is to have greater understanding on the proposed problem formulation.

The objective of the research are as follows:

- 1) To analyze whether the Return on Equity influences tax avoidance in coal mining segment companies listed at Indonesia Stock Exchange.
- 2) To analyze whether the Return on Asset influences tax avoidance in coal mining segment companies listed at Indonesia Stock Exchange.
- 3) To analyze whether the Firm Size influences tax avoidance in coal mining segment companies listed at Indonesia Stock Exchange.

- 4) To analyze whether the Return on Equity, Return on Asset, and Firm Size influences tax avoidance in coal mining segment companies listed at Indonesia Stock Exchange.

1.5 Benefit of The Research

This research is expected to bring theoretical benefit and practical benefit

1.5.1 Theoretical Benefit

This research is expected to bring benefits directly or indirectly to readers and can increase knowledge about taxation and also the methods used in tax avoidance. This research can also be used as a reference to conduct future research with more updated data and create a new view of ROE, ROA, Firm Size to the readers of this paper.

1.5.2 Practical Benefit

The practical benefit:

1. Providing an overview about the implementation of return on equity, return on asset, firm size and the impact of tax avoidance in mining companies listed in Indonesia Stock Exchange.
2. To provide insight to all mining companies to be more open and transparent in tax reporting to the government.
3. To provide insight to all companies from all sectors to be more open and transparent in tax reporting to the government.
4. Used in writing scientific journals or scientific articles in the future