CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is one of the important sectors that is a source of revenue in State Revenue and Expenditure Budget (APBN) in Indonesia (Sukiyaningsih, 2020). In Indonesia, there are two types of taxpayers, which are individual taxpayers and corporate taxpayers. In Indonesia, tax laws are governed by Article 23A of the 1945 Constitution, which states that taxes and other levies that are coercive for state is regulated by law. The government uses the revenue from this tax sector to finance all state administration, including development infrastructure to improve the economy and people's welfare.

Tax-aggressiveness is one type of tax-planning. Majority of the state's income comes from taxes. As a result, the government uses a variety of socializations to induce businesses and private citizens to pay taxes. In reality, there are still many of businesses and people who have not paid their taxes. A lot of businesses and people are also attempting to reduce their tax obligations through tax avoidance practices. Effective tax planning can have considerable advantages, particularly for corporate taxpayers (Prawati, 2021).

Since Indonesia's tax system relies on a self-assessment system, opportunities to engage in aggressive tax behavior abound. In this instance, taxpayers are given the freedom to handle all aspects of their tax duties on their own, from tax computation through tax reporting. By using this approach, taxpayers will be encouraged to reduce their tax payments, whether by breaking the law or not, raising the possibility that they may develop a tax-aggressive mindset. Given that individuals have a propensity to reduce their tax obligations, corporate tax avoidance may continue to be a problem (Putri1 & Hanif, 2020).

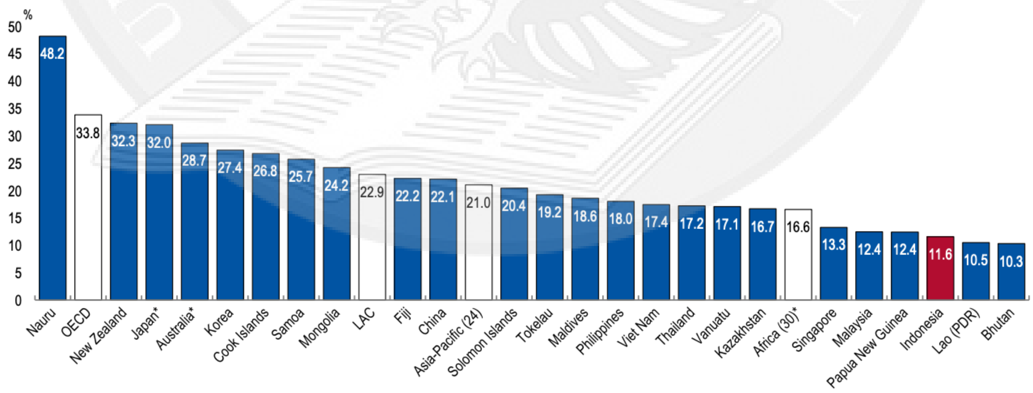
Most businesses and people engage in tax-aggressive behavior in an effort to reduce their tax obligations. Effective tax avoidance can have considerable advantages, particularly for corporate taxpayers. The basic objective of tax aggressiveness, which includes transactions, is to lower the company's tax liability. Tax avoidance, sometimes known as legal tax avoidance, is a legal service offered by accountants, and it is an example of tax aggression. Tax sheltering, on the other hand, is the endeavor to create transactions with the intention of reducing tax responsibilities. In essence, businesses engage in tax avoidance and active tax planning to drastically lower their tax obligations (Endaryati, Subroto, & Wahyuning, 2021).

In Indonesia, tax planning may be seen in the tax revenue. Indonesia is listed as the country with the third lowest tax ratio out of 24 countries in Asia and the Pacific surveyed and recorded by the Organization for Economic Co-operation and Development (OECD).

According to information from the OECD's Revenue Statistics in Asia and the Pacific 2021 study (OECD, 2021), Indonesia's tax rate was reported at 11.6%, making it the only country with a higher tax rate than Laos and Bhutan. On the OECD report, it is cited that Indonesia's tax ratio decreased by 0.4% from 12% in 2018 to 11.6% in 2019. Indonesia's tax ratio is also significantly lower than the average tax percentage in Asia and the Pacific. The average tax percentage of the 24 Asian and Pacific nations was 21%, according to the OECD. Furthermore, according to the OECD, the tax rate in Indonesia is lower than the average tax rate in 30 African countries. The average tax rate in African countries was 16.6%, according to statistics.

As previously stated, company tax, often known as corporate income tax, dominates Indonesia's tax revenue system. The percentage of corporate income tax to overall tax collections was 32.2%. The contribution of corporate income tax amounts to 3.7% of GDP. Meanwhile, the percentage of personal income tax or personal income tax to total tax revenue in Indonesia is still very low, contributing for just 10% of total tax revenue in 2019 or 1.1% of GDP.

(Pradhana & Nugrahanto, 2021) cites that aggressive tax planning as one of the reasons for the low compliance rate. As shown in Figure 1.1 by the Organization for Economic Co-operation and Development (OECD).



Source: (OECD, 2021)

Figure 1. 1 Tax Ratio Asia and The Pacific

There are several techniques to analyze tax aggressiveness. Effective tax rate, cash effective tax rate, book-tax difference, Manzon-Plesko, book-tax difference Desai-Dharmapala, and tax planning may all be used to evaluate how aggressively taxes are filed. (Jony, 2020) measured tax aggression using ETR. The corporation is more likely to be tax-aggressive if the ETR value is smaller. A smaller income tax burden than pre-tax income is indicated by a low ETR. Additionally, a number of elements that are anticipated to have an impact on tax aggressiveness need to be examined, such as profitability, liquidity, leverage, and the percentage of firm assets. This study analyzes about the ratio of return on assets (ROA), current ratio (CR), Debt to Assets Ratio, and Firm Size.

A company's capacity to manage its assets to produce profits in the current year is measured by its profitability. By dividing the profit after tax by the total assets of the firm, ROA (Return on Assets) may be used to construct indicators that can be used to assess the company's capacity to make profits. In contrast, a low ROA depicts a business's profit that is down or low, which is likely produced by a dropping market so that it impacts the firm's resources and profits. A high ROA describes the company's capacity to manage corporate resources properly so that it may generate large profits. Companies with significant earnings have a high tax burden, thus tax planning may be an option to lower the company's ETR (Herlinda & Rahmawati, 2021).

By dividing the total current assets and total current liabilities of the business, liquidity may be calculated. In other words, how much of the company's existing assets are capable of covering short-term liabilities that are about to mature.

Liquid firms are those that have a high level of liquidity. Because the company's available current assets are larger than its short-term liabilities, it can meet all of its short-term commitments, including paying taxes in compliance with applicable legislation, demonstrating that the company's finances are in good shape and the cash flow is smooth (Putri1 & Hanif, 2020).

Leverage is the amount of debt that a firm owns and uses to finance assets using loan funds that incur interest costs. Leverage ratios can be used to determine how much debt is being utilized to fund a company's assets. Leverage levels can paint a picture of the financial danger facing the organization. A corporation's tax burden will be lessened by a drop in profit if it has a large debt load since this will result in a higher interest expenditure that must be paid by the firm, which will also result in a lower profit (Herlinda & Rahmawati, 2021).

According to Subair (2013), cited by Nuid and Noviyani (2019), a company's size will directly correlate with the number of transactions it conducts. It implies that larger businesses will engage in transactions that are more complicated and offer opportunity for businesses to use these transactions' gaps to implement tax avoidance remedies. Large-scale businesses pay less in taxes because they have the resources to use tax planning and political lobbying to their advantage. This allows them to save money on taxes in the most effective way possible while still making the most profit possible.

There have been a number of prior studies on the variables that may influence tax aggressiveness as measured by the effective tax rate. According to the results of research conducted by (Susanto, Yanti, & Viriany, 2018) with the independent variables used are firm size, profitability, debt level, controlling ownership, audit committee size, and independent commissioners show that firm size have no significant effect on tax aggressiveness while profitability has a significant effect to the effective tax rate. Independent commissioners, debt level, controlling ownership, and audit committee size have no significant relationship.

The reason the author conducts research on mining companies is because the mineral and coal mining industry is thought to be engaging in active tax avoidance in Indonesia. According to Laode M. Syarif, the Deputy Chairman of the Corruption Eradication Commission (KPK), there is still very little taxpayer compliance in the extractive or natural resource industries (www.okezone.com). Violate of tax law was indicated in mining industry when in 2010, KPK detained Gayus Tambunan in connection with a bribery investigation. Three businesses belonging to the Bakrie business group, PT Kaltim Prima Coal, PT Bumi Resources, and PT Arutmin, are reportedly implicated in the suspected manipulation of tax arrears with Gayus' cooperation (Pradhana & Nugrahanto, 2021). On the other hand, there is no clear correlation between the economic value produced by the mining of coal and minerals and the amount of taxes paid. ICW said that the tendency of the mineral and coal industry's contribution to tax revenue continues to decrease. Similarly, the national tax ratio, which only reached 3.88% in 2016, is still significantly below tax ratio for the mineral and coal mining industry (www.antikorupsi.org). The low ratio points to tax evasion in mining business.

Therefore, more study on the variables influencing the tax aggressiveness is still required. As a difference from previous research, researcher plans to reexamine using four independent variables, which are ROA, current ratio, debt to assets ratio and firm size and expand the research years from 2018-2021. This research focuses on mining companies listed on the Indonesia Stock Exchange (IDX). Based on the description above, the research conducted research with the title "**The Analysis of Return on Assets, Current Ratio, Debt to Assets Ratio and Firm Size on Tax Aggressiveness of Mining Companies Listed on the Indonesia Stock Exchange**".

1.2 Problem Limitation

The scope of this research has a problem limitation as follows:

1. The object of research are Indonesian's mining companies registered on the Stock Exchange Indonesia
2. The population used in this research are Indonesian's mining companies registered on the Indonesia Stock Exchange in the period 2018 – 2021
3. The dependent variable in this research is Tax Aggressiveness
4. The independent variables in this study are ROA, Current Ratio (Liquidity) , Debt to Assets Ratio (Leverage) , and Firm Size.

1.3 Problem Formulation

1. Does ROA affect tax aggressiveness?
2. Does current ratio affect tax aggressiveness?
3. Does debt to assets ratio affect tax aggressiveness?
4. Does firm size affect tax aggressiveness?

5. Do ROA, current ratio, debt to assets, ratio and firm size together affect tax aggressiveness?

1.4 Objective of the Research

The objectives of this research are:

1. To determine the influence of ROA on tax aggressiveness
2. To determine the influence of current ratio on tax aggressiveness.
3. To determine the influence of debt to assets ratio on tax aggressiveness.
4. To determine the influence of firm size on tax aggressiveness.

1.5 Benefit of the Research

The benefits of the research carried out are divided into two:

1.5.1 Theoretical Benefit

This study is intended to add to the body of knowledge about the impact of ROA, current ratio, debt to assets ratio and firm size on tax aggressiveness.

1.5.2 Practical Benefit

Giving the government information on whether tax aggression in mining business income can be determined from ROA, current ratio, debt to assets ratio and firm size, making it easy for the government to monitor mining company tax compliance.