CHAPTER I

INTRODUCTION

1.1 Background of the Study

For the government to be able to pay for day-to-day operations, fund national initiatives, and stimulate local economic growth, taxes are an essential tool. The success of the tax revenue plan is tied directly to the roles played by the taxpayer. Although the number of taxpayers has been growing, efforts to increase the tax ratio have been hampered by many factors, among them being taxpayers' unwillingness to pay their fair share. Taxes burden the populace because they reduce disposable income and provide no tangible benefits in return. Because of this, a lot of people and companies engage in tax avoidance strategies (Fauzan et al., 2019).

To minimize the amount of tax that must be paid, tax avoidance may involve shifting income around, but only when doing so is permissible under the relevant tax laws and regulations. Tax avoidance typically takes advantage of discrepancies in tax regulations that are designed so as not to violate official tax regulations but to violate the economic substance of a business activity. Because tax avoidance does not technically break the law but is nonetheless discouraged by the government, it presents a particularly unique and complicated set of problems.

One of the sectors that make a considerable contribution to the national economy in Indonesia is the mining sector as shown in Table 1.1 below.

Table 1.1 Indonesia's National GDP by Business Field (2022)

No	Sector	Value / Trillion Rupiahs	Percentage
1	Manufacturing	3.591,8	18,34%
2	Trading	2.516,6	12,85%
3	Agriculture	2.428,9	12,40%
4	Mining	2.393,4	12,22%
5	Construction	1.913	9,77%

Source: Badan Pusat Statistik (2022)

Mining products in the mining sector are very diverse, ranging from oil and natural gas, coal, iron sands, tin, nickel, bauxite, copper, gold, silver, to manganese. Most of the mining products in Indonesia are oil, coal, tin, and gold. Coal, which is one of the resources produced by the mining sector, is the most efficient and reliable energy source. Today, coal is still the primary source of energy for nearly 40% of the world's power supply. Indonesia is one of the top five coal producers.

Table 1.2 Top Five Coal Producing Countries (2021)

No	Country	Market Volume (Million Tons)
1	China	3.942
2	India	767
3	Indonesia	550
4	USA	544
5	Australia	544

Source: GlobalData (2021)

From Table 1.2 we can see that in 2021, Indonesia produced nearly 550 million tons of coal. Indonesia is the world's second-largest exporter of coal, with roughly 21.6% of total coal production intended for export.

The mining sector is in fourth position in the tax contributing sector in 2022 and is preceded by manufacturing, trading, and financial services. However, the large economic value generated by the mining industry is not in line with its minimal tax contribution.

Table 1.3 The 8 Biggest Tax Contributing Sectors in Indonesia (2022)

No	Sector	Percentage
1	Manufacturing	29,4%
2	Trading	24,8%
3	Financial	10,6%
4	Mining	8,5%
5	Construction	4%
6	Transportation	3,7%
7	Information	3,6%
8	Service	2,9%

Source: Kementerian Keuangan (2022)

Tax avoidance behavior is indicated to occur in the mining sector, according to PricewaterhouseCoopers (PwC) Indonesia states that 70% of 40 large mining companies have not used tax transparency reports, PwC Indonesia Mining Advisor stated that tax transparency is an important measure of Environmental, Social and Good Governance, for mining companies to oversee the company's significant financial contribution to society.

This tax avoidance phenomenon has also been proven to be carried out by PT. Adaro Energy Tbk. PT. Adaro Energy Tbk, a large corporation engaged in the coal mining sector, is said to have diverted much of its profits to the offshore network. This practice then gave rise to allegations that the company was trying to avoid and minimize tax payments to the Indonesian authorities. In a report released entitled Taxing Times for Adaro, according to Global Witness, between 2009 and 2017, Adaro paid US$ 125 million less to the Indonesian government through its Singaporean subsidiary, Coaltrade Services International. Coaltrade's total sales commissions received in Singapore, where taxes are lower, increased from an annual average of $4 million before 2009 to $55 million between 2009 and 2017, as shown in the company's financial statements. By moving more money through tax havens, Adaro may also have reduced Indonesia's tax bill, including the money that could have been used to fund essential public services in Indonesia, by almost $14 million annually (Suwiknyo, 2019).

Based on the phenomenon above, the author is interested in conducting research on mining sector companies.

In this research, the author will focus on three factors—profitability, leverage, and liquidity—that may have an impact on tax avoidance.

Profitability is the ratio of profit to sales and investment that provides insight into how well a business is managed as a whole (Ariska et al., 2020). In this research, the profitability will be calculated using Return on Assets (ROA). According to Pratiwi et al. (2020), a company's ability to make profits affects tax avoidance because, with the company's operating profits increasing, the tax value will also increase. Though lower tax avoidance occurs as profits rise, this is due to a lack of payment efficiency techniques taken by the business.

According to Ayu Setiawati and Ammar (2022); Sukmawati (2021), profitability has a significant impact on tax avoidance. However, according to Jannah (2019), profitability has no significant impact on tax avoidance.

A company's leverage policy is an indicator that it is using tax avoidance strategies. Over time, interest payments on the debt will lower tax costs. The Debt to Assets Ratio (DAR) will be used to calculate leverage for the purposes of this research. Leverage measures how much of the company's financing comes from debt. Interest expenses, previously unknown, will now appear because of the debt increase. The interest expense component of the company's income statement will decrease, so lowering the amount of tax that must be paid. To lower their tax expenses, companies typically invest in their main activities rather than paying down interest (Saputra et al., 2020).

According to Ariska et al. (2020); Jannah (2019); Pratiwi et al. (2020), leverage has a significant impact on tax avoidance. However, according to Ayu Setiawati and Ammar (2022), leverage has no significant impact on tax avoidance.

Management's debt policy is carried out with strict attention to the liquidity status of the company. The debt policy was made in accordance with tax planning (Nurhandono & Firmansyah, 2017). If a company's liquidity ratio is high, it can meet its short-term obligations. Having plenty of liquid funds enables the company to pay off its expenses. In addition, high liquidity indicates that, despite the existence of information asymmetry, management has been successful in managing resources to increase already existing assets (Utama et al., 2021). The more liquidity a company has, the less effort it will need to practice tax avoidance.

According to Solaikhah and Kusumawati (2022), liquidity has a significant impact on tax avoidance. However, according to Rozak et al. (2018), liquidity has no significant impact on tax avoidance.

Based on the description above, there are still research gaps in the results of the research from various authors, with some having a significant impact and others having no significant impact. So based on the phenomenon and research gap, the author is, thus, interested to research a topic bearing the title **"The Impact of Profitability, Leverage and Liquidity Toward Tax Avoidance on Mining Sector Listed on the Indonesia Stock Exchange."**

1.2 Problem Limitation

To keep the focus limited, the author limits the scope of this study to the following: the independent variables are Profitability (X_1), Leverage (X_2), and Liquidity (X_3), and the dependent variable is Tax Avoidance (Y). Financial statements from 2020–2022 of mining sector listed on the Indonesia Stock Exchange (IDX) will be used in this research.

1.3 Problem Formulation

The problems of formulation found during this research are as follows:

1. Does Profitability partially have a significant impact toward Tax Avoidance on Mining Sector that are Listed on the IDX?
2. Does Leverage partially have a significant impact toward Tax Avoidance on Mining Sector that are Listed on the IDX?
3. Does Liquidity partially have a significant impact toward Tax Avoidance on Mining Sector that are Listed on the IDX?
4. Do Profitability, Leverage and Liquidity simultaneously have a significant impact toward Tax Avoidance on Mining Sector that are Listed on the IDX?

1.4 Objective of the Research

The objectives of this research are as follows:

1. To examine whether Profitability partially has an impact toward Tax Avoidance on Mining Sector Listed on the Indonesia Stock Exchange.
2. To examine whether Leverage partially has an impact toward Tax Avoidance on Mining Sector Listed on the Indonesia Stock Exchange.

3. To examine whether Liquidity partially has an impact toward Tax Avoidance on Mining Sector Listed on the Indonesia Stock Exchange.
4. To examine whether Profitability, Leverage and Liquidity simultaneously have an impact toward Tax Avoidance on Mining Sector Listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research is expected to develop accounting theory, particularly about the impact of profitability, leverage, and liquidity toward tax avoidance.

1.5.2 Practical Benefit

Based on the objective of the research, the following practical benefits are likely to come from it:

1. **For financial companies**

   It is expected that the results will increase the company's value by serving as useful information for reducing tax avoidance.

2. **For investors**

   The results of the research should serve as a benchmark for investors to consider investing in mining sector companies.

3. **For researcher**

   The results are expected to add to the body of knowledge for future research on the impact of profitability, leverage, and liquidity on tax avoidance.