

CHAPTER I

INTRODUCTION

1.1 Background of Study

A nation taxes its citizens to fund national growth for the benefit of the populace as a whole. A country's administration and development are significantly reliant on tax revenue. *Budgetair* is the name of this function, the tax officer will work to maximize state revenue by performing this duty. (Faradiza, 2018). As time goes by, Indonesia's natural resources will be depleted, so the government will depend more on the tax industry for income in the APBN. In order to appreciate the substantial contribution that taxes provide to state revenues, efforts must be made. The Directorate General of Taxation plays a key role in efforts to boost tax collection, but taxpayers' involvement and excitement are just as important. (Rizki, 2020).

Taxes are obviously essential for the development of a country because they are the main source of cash for it. Taxes are one of the methods utilized to fund and build a nation. Gathering as many taxpayers as you can is crucial for increasing tax revenues. With tax officials acting as the overseers, everyone in the country is now responsible for paying taxes. (Tiraada, 2013).

Table 1. 1 State Revenue (APBN) Data

Source of Income	Realization of State Revenue (Billion Rupiah)				
	2018	2019	2020	2021	2022
Tax Income	1.518.789,80	1.546.141,90	1.404.507,50	1 547 841,10	2 435 867,10
Non-taxable Income	409.320,20	408.994,30	294.141,00	458 493,00	510 929,60
Grant	15.564,90	5.497,30	1.300,00	5 013,00	1 010,70
Total	1.943.674,90	1.960.633,60	1.699.948,50	2 011 347,10	2 436 877,80

Source: *Badan Pusat Statistik* (2023)

In Table 1.1, according to data from Badan Pusat Statistik, income tax is the largest contributor from 2018 to 2022. This demonstrates that taxes are Indonesia's main source of income, and it can be claimed that taxes are a significant factor in supporting Indonesia's growth. (Badan Pusat Statistik, 2023).

Tax collection is a way for citizens to fulfill their responsibility as taxpayers and to actively contribute to funding various governmental demands, particularly in the form of national development, whose implementation is governed by laws and regulations for the benefit of the country and state. As required by the 1945 amendment's requirements of article 23 paragraph (2), which specifies that all taxes for the use of the state treasury are based on the law, tax determination in Indonesia is always based on the law. (Warmandan Riewano, 2018).

Nonetheless, there are still challenges in maximizing tax income, one of which is the significant tax arrears. There are a number of causes for the significant tax arrears, one of which includes everything from tax avoidance to taxpayers' incapacity to pay their tax debts (Nalle, 2017).

The focus of this research is insurance industry listed on the Indonesia Stock Exchange. Through the profitability of services and the flow of money, the insurance industry in Indonesia has long been a crucial driver behind the growth of the national economy. Insurance can turn capital accumulation into productive investment. A wide variety of career opportunities have arisen as a result of the development (IFG life, 2023).

Moreover, insurance industry is one of the biggest tax contributors in Indonesia, which is quite problematic. Public Policy Researcher from Perkumpulan Prakarsa, Ah Maftuchan, estimates that banks and financial institutions are one of the business sectors that have evaded taxes quite a lot. According to him, within a year tax avoidance by banks and financial institutions cause state losses of Rp. 10-12 trillion. The tax avoidance method that is often used is tax avoidance with aggressive tax planning methods (aggressive tax planning). Managers of banks and financial institutions usually avoid corporate taxes by including unreasonable spending so that it seems as if the company is making a loss. This method is commonly used because it can outsmart existing tax regulations. The tax system in Indonesia is not perfect so there must be improvement from all parties (Firmansyah, 2014).

Table 1. 2 The Largest Tax Contributor Sector in Indonesia

Sector	Amount of tax collected in trillion rupiah				
	2018	2019	2020	2021	2022
Manufacturing industry	363,60	365,39	292,31	341,33	425,29
Trade	234,46	246,85	200,19	257,82	353,98
Finance and Insurance	162,15	175,98	150,81	150,84	161,54
Mining	83,51	66,12	37,42	60,06	128,28
Construction	80,55	89,65	73,78	80,81	69,9

Source: Data compiled by the writer (2023)

Based on table 1.2, which data is derived from Kementerian Keuangan, demonstrates that, out of all the business sectors mentioned in BEI, the insurance industry is one of the industries ranked among Indonesia's top five tax contributors from 2018 to 2022.

By taking advantage of legal loopholes, tax avoidance involves altering income to pay as little tax as possible. In general, tax avoidance is regarded as a widespread practice that is typically used by businesses and entrepreneurs to lower their tax obligations. (Masri, 2019). Also, it was mentioned by Ichسانی and Susanti (2019) that tax avoidance is an attempt made to minimize and lower taxes to be acquired, acts that are legal and can be accomplished through tax management. One case of tax avoidance that occurs in the insurance and investment environment which is the case of PT. RNI. As a business entity, PT RNI has been registered as a limited liability company. However, in terms of capital, the company is dependent on debt affiliate. The owner in Singapore provides loans to RNI in Indonesia. So, the owner

does not invest, but gives as if like debt, where when the debt is paid, the interest is considered as dividends by the owner in Singapore. In 2014 financial report, PT. RNI recorded a debt of Rp 20.4 billion. Meanwhile, the company's turnover is only Rp 2.178 billion. Not to mention there is a retained loss in the same year's report valued at Rp. 26.12 billion (Suryowati. 2016). So financial report is not logical. This phenomenon is related to the company's ability to manage assets which can be assessed from the measurement solvability, profitability and liquidity.

The profitability ratio (return on assets) depicts the company's net income or profit as a proportion of total resources or average assets. The higher the return on assets a company owns, the more taxes it will have to pay. As a result, businesses frequently engage in tax avoidance strategies to lessen their tax obligations. (Rusmanto et al., 2020). According to the previous research, conducted by Kania and Malau (2021), Sembiring and Hutabalian (2022), Yohanes and Sherly (2022), profitability ratio has significant impact towards tax avoidance.

Solvability is the amount of debt that a firm uses to finance itself. By comparing the entire liabilities of the company with the total assets of the company, solvability describes the risk level of the company. Hence, the risk that will be assumed increases with the amount of debt that the organization owns. Businesses with a high risk of solvability are subject to greater loan holders' oversight of their operations. In order to fund their assets, companies with a high level of solvability are dependent on external borrowing.

Companies with low levels of solvability are more likely to use their own funds to finance their assets (Rizki,2020). According to the previous research,

conducted by Kania and Malau (2021), Sembiring and Hutabalian (2022), solvability has significant impact towards tax avoidance.

Taxes are one part of the company's short-term liabilities. Company's ability to carry out its short-term obligations can be seen from the liquidity ratio. Short term liabilities will afford fulfilled if the company's liquidity ratio is in a high state (Suyanto & Supramono, 2012). According to the previous research, conducted by Sembiring and Hutabalian (2022), Adisamartha & Noviari (2015), shows that companies with liquidity conditions those who are low tend to behave aggressive towards corporate tax so they can maintain its cash flow to meet its short-term obligations.

Below is the table of phenomenon of solvability, liquidity, profitability, and tax avoidance on several insurance companies listed on Indonesia Stock Exchange in the period of 2018 to 2022:

Table 1. 3 Table of Phenomenon

Company	Year	Solvability (Debt to Equity)	Liquidity (Cash Turnover)	Profitability (Return on assets)	Tax Avoidance (ETR)
PT. Asuransi Jiwa Sinarmas MSIG Tbk (LIFE)	2018	1.081	0.407	0.022	0.137
	2019	1.083	0.401	0.017	0.182
	2020	0.961	0.439	0.020	0.181
	2021	1.123	0.062	0.004	0.469
	2022	0.985	0.254	0.023	0.142
PT. Asuransi Bina Dana Arta Tbk (ABDA)	2018	1.166	0.113	0.023	0.075
	2019	1.057	0.100	0.033	0.194
	2020	0.786	0.164	0.055	0.250
	2021	0.650	0.303	0.063	0.099
	2022	0.642	0.219	0.036	0.140

PT. Asuransi Dayin Mitra Tbk (ASDM)	2018	2.217	2.575	0.035	0.186
	2019	2.466	0.961	0.024	0.108
	2020	1.444	0.949	0.031	0.076
	2021	1.274	1.588	0.024	0.045
	2022	1.434	1.536	0.020	0.218

Source: Data compiled by the writer (2023)

Based on Table 1.3 above, there are inconsistent phenomena within the solvability, liquidity, and profitability in relation to tax avoidance in the insurance industry listed on the Indonesia Stock Exchange from year 2018 to 2022.

The first phenomenon shows an inconsistent relationship between solvability and tax avoidance. As shown in Table 1.3 above that within the year 2018 to 2020, the solvability in ABDA which measure by debt to equity is decreasing consecutively from 2018 to 2020 while the ETR keep increasing in the same year. But for ASDM, the solvability decreases consecutively from 2019 to 2021 as well as ETR. Kania and Malau (2021) stated that solvability affects tax avoidance. Higher solvability ratios indicate that a company will use more debt to finance its business activities and pay higher interest rates on that debt. As a result, business management usually attempts to use debt as effectively as possible to reduce the amount of taxes that must be paid. However, Azzahra, Hasanah, Suartini, & Sulistiyo (2022) stated that solvability does not affect tax avoidance.

The second phenomenon shows an inconsistent relationship between liquidity and tax avoidance. From 2018 to 2019, the liquidity ratio for both LIFE and ABDA decreased, while the ETR increased. But for ASDM, from 2018 to 2019 when the liquidity ratio decreased, the ETR decreased as well. This support previous research

by Suyanto and Supramono (2012) state that where if a company has a high level of liquidity, the company's cash flow is going well. With good cash turnover, the company is not reluctant to pay all of its obligations, including paying taxes and vice versa. However, according to Sembiring and Hutabalian, liquidity barely affecting tax avoidance.

The last phenomenon is reflected by inconsistent relationship between profitability and tax avoidance. From 2021 to 2022, the return on assets of LIFE is increased, while the ETR decreased. This support previous research by Rusmanto et al (2020). Ideally, increased ROA should result in better tax collections. But for ABDA, from 2018 to 2019 when the return on assets increased, the ETR increased as well. And this also support previous research by Azzahra, Hasanah, Suartini, & Sulistiyo (2022), stated that profitability has no impact towards tax avoidance.

Based on the background above, similar research did not produce the very same result as the researchers had anticipated. And the topics are primarily related to the manufacturing, consumer goods, real estate, or mining industries. Due to these reasons, the author is driven to determine whether solvability, liquidity, and profitability all contribute to tax avoidance in the insurance industry. The author is therefore advised to conduct their own study within the title of "**The Impact of Solvability, Liquidity and Profitability Toward Tax Avoidance on Insurance Industry Listed on the Indonesia Stock Exchange.**"

1.2 Problem Limitation

The study only focuses on:

1. The research's subject is the insurance industry companies listed on the Indonesia Stock Exchange between 2018 and 2022.
2. There is one dependent variable and three independent factors in the research. Tax avoidance is the dependent variable, and solvability, liquidity, and profitability are the independent factors.

1.3 Problem Formulation

The issues being examined in this research include:

1. Does solvability at insurance industry listed in Indonesia StockExchange have significant impact on tax avoidance?
2. Does liquidity at insurance industry listed in Indonesia StockExchange have significant impact on tax avoidance?
3. Does profitability at insurance industry listed in Indonesia Stock Exchange have significant impact on tax avoidance?
4. Do solvability, liquidity, and profitability simultaneously at insurance industry listed on Indonesia Stock Exchange have significant impact on tax avoidance?

1.4 Objective of the Research

The objective of the research is to have greater understanding on the propose problem formulation. The objectives are:

1. To examine whether solvability has significant impact on tax avoidance at insurance industry listed in Indonesia Stock Exchange.
2. To examine whether liquidity has significant impact on tax avoidance at insurance industry listed in Indonesia Stock Exchange.
3. To examine whether profitability has significant impact on tax avoidance at insurance industry listed in Indonesia Stock Exchange.
4. To examine whether solvability, liquidity, and profitability simultaneously have significant impact on tax avoidance at insurance industry listed in Indonesia Stock Exchange

1.5 Benefits of the Research

This research is expected to bring benefits in term of theoretical and also practical benefits.

1.5.1 Theoretical Benefit

In terms of theoretical, the benefits are:

1. For the author, the goal of the study is to increase knowledge of the importance of solvability, liquidity, and profitability in relation to tax avoidance.

2. For the company, this research will serve as a resource and source of information regarding the importance of solvability, liquidity, and profitability with regard to tax avoidance.

3. For investors, this research is expected to be used as consideration material before investing in a company in order to avoid investors being dissatisfied with company management.

4. For the government, this research is anticipated to provide regulators with new information regarding taxation, thereby maximizing the potential for tax income.

1.5.2 Practical Benefit

As from the practical perspectives, the benefits are:

1. Giving a general overview of how solvability, liquidity, and profitability are implemented, as well as the effects of tax avoidance, in insurance businesses listed on the Indonesia Stock Exchange.

2. Supplying information about the significance of meeting tax requirements and the advantages it would bring to the government to all insurance businesses listed on the Indonesia Stock Exchange.

3. Used as a source for future research, and it is hoped that the findings will provide direction and further details about the topic and variables examined