

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The Indonesian economy is fuelled in part by taxes. Government spending is financed by tax revenues. This expense will go toward funding administrative costs and infrastructure development. The government will utilize tax revenue to build infrastructure and offer public services that the private sector is unable to supply. Tax revenue is used by the government to carry out national development initiatives in a number of fields to enhance welfare for the populace. According to the State Expenditure Budget as realized, taxes are the main source of state revenue, hence the government constantly aims to maximize tax collection. The community, particularly the enterprise, does not always react well to the implementation of tax collection coordinated by the government. The tax to GDP ratio in Indonesia continues to lag behind other emerging nations. (Prasetyo, 2020). A low tax ratio indicates that the amount of money the government receives through taxes is still little. A number of causes might have contributed to the poor tax income. One of these issues is the tax evasion activities carried out by Indonesian taxpayers, particularly entity taxpayers.

Many businesses try to reduce their tax obligations. Taxes are a cost to businesses that can have an impact on their profits and rate of return on investment. Because it will boost after-tax revenue, rate of return, and cash flow, the firm will try to minimize the amount of its tax payment at

the lowest possible level. Companies and governments often have divergent objectives, which leads them to look for different legal and criminal ways to reduce their tax obligations. On the one hand, the government aims to maximize tax collections, but since businesses are also taxpayers and taxes can lower earnings, businesses prefer to pay the least amount of taxes possible. Tax evasion is the criminal phrase for reducing the amount of tax payments, whereas tax avoidance is the legal term for reducing the amount of tax payments.

Tax planning is the process of organizing tax-related transactions in an effort to reduce tax expenses by employing tax laws. (Pohan, 2020). Tax avoidance is a term that can be used to describe tax strategy. By taking advantage of a loophole in the tax code, tax avoidance is a method of lowering or avoiding the amount of tax cost as allowed by the law. One type of tax planning approach is the company's tax avoidance. Tax avoidance is a taxpayer's attempt to reduce their company tax liability. This effort is legal since it is carried out in a way that is permitted by the tax regulations. Taxpayers can take advantage of defects or loopholes to create effective tax planning opportunities. Tax evasion is a legitimate strategy adopted by businesses to lower their income tax obligations. Companies employ a variety of strategies to evade taxes, but accounting techniques are the most popular. Additionally, businesses use estimating to raise their costs and allowances to lower their income. Every company has a different amount of tax evasion. Differing perspectives on business value will result from the relationship between corporate governance and tax planning. Investors will perceive active tax evasion as lowering a business's worth, particularly if it occurs at a company with poor corporate

governance. Leverage, sound company governance, and ownership structure are only a few of the variables that affect tax evasion.

Corporate governance is the use of a framework and cycle in business that includes the assurance of meetings for the purpose of managing the administrative activities of a company. Corporate governance is used in some businesses, and this is apparent in many different ways. These elements include a magistrate with unrestricted employment options, management, etc. Corporate governance is specifically defined as training that the groups try to ascertain that the company and employees are engaged in legal activities in putting policy into effect to ensure that the administration may follow the competent and viable route in increasing the owner return. Given the size of the business sector and the separation of duties between executives and owners, this technique is essential. Corporate governance is a set of actions and decisions made to direct and carry out an effort for greater advantage and to employ a financial framework in order to achieve the organization's goals while considering all stakeholders. Corporate governance controls and displays the plan throughout the organization. The administration can choose the organizational structure that shows how approval and liabilities are distributed among corporate parties, such as management, investors, etc. It is concluded with a promise of a strategy for dealing with the organization's problem. (Mulyani, et.al, 2018).

For a variety of reasons, including the smooth operation of the business and the degree of security, it is essential that the internal control system be owned by the firm. Internal control is a mechanism developed by the business or organization

to oversee all of its operations and help it reach its objectives. The ownership structure, which is a part of internal control, describes how representative rights distribute business money among one or more people or legal organizations.

Managers of companies frequently use debt as an external source of funding to fund their activities. Due to loan interest costs, high levels of leverage will have an effect on the rising cost of debt. One of the cost elements that might lower entity tax expense is the interest expenditure. Debt is used by businesses to claim tax deductions. High amounts of debt would increase the likelihood that the firm would experience financial difficulties, thus the management would exercise caution and lower the likelihood that tax evasion would be used. High debt levels may also affect a company's tendency to evade taxes. Higher leveraged companies use the interest charges of their liabilities to lower their income tax obligations.

The corporation is attempting to lower the tax payment by practicing tax management, as seen by the declining tax avoidance ratio. Tax payments are rising, as evidenced by the rising tax avoidance ratio. As part of tax compliance, it is anticipated that the corporation will be able to pay more in taxes. Tax payments that are inconsistent and fluctuate show that the corporation engages in tax evasion. The business may finance the asset using internal funds from profits. Conducting tax avoidance is one strategy to raise the profit. This study aims to identify the variables that may have an effect on tax evasion.

The reason to determine the manufacturing companies because the manufacturing companies have good financial performance that should pay the high tax based on tax regulation. The manufacturing companies have chance to grow

based on economic condition. The development of manufacturing companies can enhance the tax payment. The manufacturing companies have high profit that should pay the tax. The manufacturing companies can develop the business to large companies. The government can get tax revenue with collection from the manufacturing companies.

The reasons to analyse corporate governance, ownership structure, leverage and tax avoidance are as follows:

1. Companies in Indonesia are required to use effective corporate governance as one of their techniques for persuading the public and investors of the company's financial success based on OJK regulation No. 21/POJK.04/2015. A company's performance is anticipated to be better the stronger its corporate governance is. One of the most important factors in raising economic efficiency is good corporate governance, which involves a number of interactions between the board of directors, shareholders, and other stakeholders as well as management of the firm.
2. The ownership structure affects management incentives and the value of the company in a significant way. Managerial ownership might lessen their incentives to use tax evasion to increase the worth of the company. Given that share ownership enhances management performance, the presence of managerial ownership will stimulate enhanced monitoring, making it more conducive to management performance.
3. Leverage explains how total assets and common stock relate to one another or demonstrates how debt is used to boost earnings. In these circumstances,

the debt will result in a fixed interest expenditure where the debt's size will determine how much of the taxable income is reduced because of a tax advantage. If interest costs associated with greater debt utilization are included as expenses that potentially lower taxable income, leverage will promote tax evasion.

4. Some businesses engage in tax evasion as a strategy to reduce their taxable income. According to tax legislation, tax avoidance denotes a reduced taxable profit. Of course, the government is impacted by this. Because tax evasion is an intentional attempt to avoid paying taxes, it is regarded as improper behavior. Tax laws now include gaps that businesses may exploit.

The data of good corporate governance, ownership structure, leverage and tax avoidance for some manufacturing companies can be seen as follows:

Table 1.1. Corporate Governance, Ownership Structure, Leverage and Tax Avoidance at Year 2019-2021.

Company	Year	Corporate Governance	Ownership Structure	Leverage	Tax Avoidance
PT Mayora Indah, Tbk.	2019	0.20	0.25	0.48	0.12
	2020	0.20	0.25	0.44	0.14
	2021	0.20	0.25	0.42	0.21
PT Pyridam Farma, Tbk.	2019	0.50	0	0.34	0.25
	2020	0.50	0	0.31	0.15
	2021	0.50	0	0.79	0.64
PT Semen Indonesia (Persero), Tbk.	2019	0.28	0	0.57	0.19
	2020	0.28	0	0.54	0.34
	2021	0.28	0	0.47	0.35

Source: Indonesia Stock Exchange. (2023).

From the table, the tax avoidance of PT Mayora Indah, Tbk., PT Pyridam Farma, Tbk. and PT Semen Indonesia (Persero), Tbk. increase at year 2019-2021. The company conducts the tax avoidance to reduce the tax payment. The corporate governance of PT Mayora Indah, Tbk., PT Pyridam Farma, Tbk and PT Semen Indonesia (Persero), Tbk. shows the stable amount at year 2019-2021. The stable

amount of corporate governance shows that the company does not develop the good corporate governance to control management with result that the company can conduct tax avoidance. The ownership structure of PT Mayora Indah, Tbk., PT Pyridam Farma, Tbk and PT Semen Indonesia (Persero), Tbk shows the stable amount at year 2019-2021. The stable amount of ownership structure shows that the company does not allocate the share to the management of ownership with result that the management want to conduct tax avoidance for management purpose to get bonus. The leverage of PT Mayora Indah, Tbk. and PT Semen Indonesia (Persero), Tbk. decrease at year 2019-2021. The decreasing of leverage shows that the company does not get debt for business. There is indication that company conducts tax avoidance to reduce the tax payment and get fund from tax avoidance. The leverage of PT Pyridam Farma, Tbk can enhance at year 2019-2021. The increasing of leverage shows that the company can increase the interest expense from debt with result that the company can decrease the tax payment for conducting tax avoidance.

The previous research by Mais (2017) shows that good corporate governance has effect on tax avoidance. Previous research by Damayanti (2021) shows that leverage and goods production and distribution have a significant effect on tax avoidance while institutional ownership and firm growth have a negative significant effect on tax avoidance. Previous research by Rahmawati (2021) shows that corporate governance has significant effect on tax avoidance while leverage has no significant effect on tax avoidance. Previous research by Maria. (2018) shows that the ownership structure has no effect on tax avoidance.

Based on description on the background of study, the writer has interesting in conducting the research with title **“The Impact of Good Corporate Governance, Ownership Structure and Leverage toward Tax Avoidance in Manufacturing Companies Listed at Indonesia Stock Exchange”**.

1.2 Problem Limitation

In order to avoid deviations from the topic, the writer set some problem limitations as below:

1. The object of this research is manufacturing companies listed at Indonesia Stock Exchange (IDX) from 2019 to 2021.
2. The tax avoidance as dependent variable.
3. The corporate governance, ownership structure and leverage as independent variable.

1.3 Problem Formulation

According to the previously outlined background, the formulation of the research problems are as follows:

1. Does Corporate Governance have impact toward Tax Avoidance on manufacturing companies listed in Indonesia Stock Exchange (IDX) significantly?
2. Does Ownership Structure have impact toward Tax Avoidance on manufacturing companies listed in Indonesia Stock Exchange (IDX) significantly?

3. Does Leverage have impact toward Tax Avoidance on manufacturing companies listed in Indonesia Stock Exchange (IDX) significantly?
4. Do Corporate Governance, Ownership Structure, and Leverage have significant impact toward Tax Avoidance on manufacturing companies listed in Indonesia Stock Exchange (IDX)?

1.4 Research Objective

The objective of the research is as follows:

1. To determine the impact of corporate governance on tax avoidance on manufacturing companies listed Indonesia Stock Exchange.
2. To determine the impact of ownership structure on tax avoidance on manufacturing companies listed Indonesia Stock Exchange.
3. To determine the impact of leverage on tax avoidance on manufacturing companies listed Indonesia Stock Exchange.
4. To determine the impact of corporate governance, ownership structure and leverage on tax avoidance on manufacturing companies listed Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefits of research is as follows:

1.5.1 Theoretical Benefit

Theoretically, the author anticipates that this work will serve as a resource for other academics who wish to do more research on tax evasion. Additionally, the author hopes that this research will advance understanding of how corporate

governance, ownership structure, and leverage for tax evasion affect manufacturing businesses listed in IDX.

1.5.2 Practical Benefit

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

1) For Scholars

Other researchers who need to do research in the same field of study are anticipated to be able to use the data, references, and observational evidence provided by this study.

2) For Directorate General of Taxation

Given the large number of tax evasion actors in Indonesia, this research is anticipated to offer insight and feedback to the directorate general of taxes so that it may develop rules, policies, and procedures addressing tax avoidance acts that still occur often in Indonesia.

3) For Companies

This study can demonstrate that businesses should exercise caution when deciding on policies, particularly taxes, in order to avoid engaging in tax evasion themselves as well as other businesses.

4) Investors

Through the disclosure of corporate governance, ownership structure, leverage, and corporate action to the public authority, this research is anticipated to provide information about the state of the company and assist direction to contribute.