CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia, as a developing country, is the world's fourth biggest population after China, India, and United States. According to *Badan Pusat Statistik*, Indonesia's population was reported at 270.20 million people in mid-2020, from the 2020 Population Census (SP2020). It continues to increase year after year. By mid-2021, the population increased to 272.68 million. Furthermore, Indonesian population was projected to have expanded to 275.77 million people by mid-2022. When compared to the same period previous year, the population's number went up by 1.13%. The data utilized in 2021-2022 is a projection of the interim population from 2020 to 2023, based on basic demographic statistics derived from age adjustments from population administration data and SP2020.

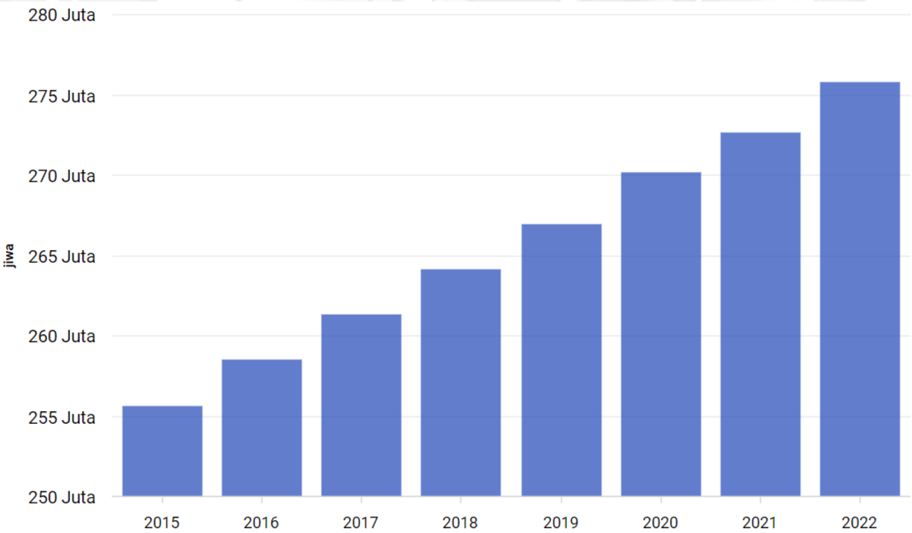

Figure 1.1 Indonesia's Population in 2015-2022
Source: Databoks (2022)

As one of the world's largest population countries, the need for housing will continue to rise every year since Indonesia has a high birth rate with the total of 4.69 million births in 2020 (Rizaty, 2023). As the population grows, so does the demand for affordable housing, particularly in cities. The growing population in Indonesia, which increases the need for homes, offices, and other property items, becomes a factor for demand of property goods continue to rise. Moreover, long-term property investment is essential, prestige, and potential in fulfilling life's necessities. Property may be used for more than just ownership. It can also be used for business.

The expansions of the Indonesian property business have a major impact on national economic growth. As stated on *Kementerian PUPR* (2023), President Joko Widodo mentioned the housing and property sector has a multiplier effect as well as a backward connection that has a substantial impact on other 185 industrial subsectors, including demand for raw building materials, furnishings, retail trade to financing. Furthermore, Budiarsa Sastrawinata, the head of the Integrated Property Area Development Agency, stated that the property, real estate, and building construction sectors contribute significantly to central and regional government earnings, as well as creating jobs and absorbing a big workforce (Ayu, 2023).

Transactions in the property sector, which are generally immovable, imply that the sector is a source of government revenue with the potential to boost local taxing authority through both regional tax instrument and tax sharing mechanism (Pusat Kebijakan APBN, 2016). Both the seller and the buyer of the property have obligation to pay taxes to the state or government to boost tax collections. Tax is an obligatory monetary burden or other kind of levy imposed by governmental organization on a taxpayer to collectively relieve public expenditures, government spending, or as a tool to manage and minimize negative externalities. Taxation, in economic terms (circular flow of income), transfers funds obtained from individuals or corporations to the government.

Indonesia primarily uses sources of funding derived from taxes in carrying out sustainable national development. The target amount of tax revenue requires a larger effort on behalf of the government, in this case the Directorate General of Taxation at the Ministry of Finance, to implement policy measures that increase tax revenue, such as intensifying the collection of taxes through the enlargement of the subject and object of taxation and improving the tax collection system.

Table 1.1 Tax Revenue and Effectiveness of Tax Collection in Indonesia from 2020-2022

Year	Tax Revenue Target (in Trillion Rupiah)	Tax Revenue Realization (in Trillion Rupiah)	Effectiveness of Tax Collection (%)
2020	1,198.8	1,072.1	89.4%
2021	1,229.6	1,278.6	103.9%
2022	1,485.0	1,716.8	115.6%

Source: Compiled by the Writer (2023)

From the table above, it points out that the tax revenue realization percentage in Indonesia increased every year. Even though tax revenue realization did not meet the target's objective in 2020 as a result to the Covid-19 pandemic, tax revenue realization could rise and exceed the target in two consecutive years, 2021 and 2022. Tax revenue realization increased by 19.3% in 2021, and it increased more by 34.3% in 2022 (Putri, 2023). According to the data presented above, the government is successful in increasing the realization of tax revenues year after year (Kemenkeu, 2023).

However, despite optimistic expectations for Indonesia's growth, financial and tax compliance in Indonesia remains a problem. Management often considers ways to lessen the tax burden that the company must bear to maximize profit. The method used by individual and corporate taxpayers to reduce the tax payment to the government is called tax avoidance. Tax avoidance, according to Pohan (2022), is an activity to avoid taxes that is performed by taxpayers legally and safely, without interfering with the existing tax rules, because the strategies and methods utilized take advantage of shortcomings (grey area) in the laws and regulations. Tax avoidance activity will lessen cash outflows for tax payment. Existing cash can be utilized to fund additional productive activities that will raise the value of the company. As a result, every effort is taken to maximize earnings while avoiding payment of taxes.

Of course, this will be unfavourable for the state because tax avoidance may lead to decrease the state revenue from the tax sector. Many different factors of the tax avoidance activity are considered in current literature of tax avoidance. The Effective Tax Rate (ETR) of a corporation is a frequent indication of a company's tax burden. Dyreng et al. (2008) defined Effective Tax Rate as the first variable to evaluate in measuring tax avoidance since companies are obliged to disclose their tax burden in financial reports. The larger ETR shows the smaller tax avoidance. Contrary, the smaller ETR represents better tax effectiveness by company.

There are numerous aspects or variables that can have impact on the tax avoidance. Companies with higher capital intensity tend to be more susceptible to get involved in tax avoidance because higher capital intensity results in larger depreciation expense incurred from the ownership of fixed assets, which resulting in a lower tax expense. Besides capital intensity, companies with higher leverage or increase in bank and financial institution loans are also likely to practice tax avoidance because it can result in a lower tax burden from the interest expense incurred. Other than capital intensity and leverage, sales growth also can have impact on the tax avoidance activity. Typically, the company will pay more taxes if there is increase in sales growth due to the nature of tax regulations, and it is possible that the company would engage in tax avoidance activity.

Every company strives to generate high sales growth to gain profit and convince investors that the company operates successfully. Sales growth is a crucial measurement for businesses, investors, and business partners. To sustain high sales growth, company must have sufficient supporting assets to boost company operations. In this case, capital intensity is important for management since it indicates the effectiveness of a company in utilizing its assets to earn income. Fixed assets are crucial in a company since they are invested for a considerable length of time and need a substantial amount of funding. Therefore, company can utilize leverage as debt to fund their fixed assets. Debt funds can be used to finance business operations as well as increase the company's asset base, such as developing equipment to enhance production capacity.

Table 1.2 Capital Intensity, Leverage, Sales Growth, and Effective Tax Rate in Property and Real Estate Companies Listed on the Indonesia Stock Exchange from 2020-2022

Firm	Year	Capital Intensity	Leverage (DER)	Sales Growth	Effective Tax Rate (ETR)
PT Metropolitan Land Tbk (MTLA)	2020	0.083	0.455	-0.209	0.145
	2021	0.094	0.455	0.080	0.116
	2022	0.105	0.417	0.155	0.123
PT Grand House Mulia Tbk (HOMI)	2020	0.002	1.052	-0.090	0.366
	2021	0.001	1.217	1.181	0.227
	2022	0.001	1.090	0.182	0.209
PT Metropolitan Kentjana Tbk (MKPI)	2020	0.650	0.359	-0.349	0.231
	2021	0.643	0.370	0.081	0.213
	2022	0.613	0.268	0.480	0.180

Source: Prepared by the Writer (2023)

Table 1.2 above represents the value of capital intensity, leverage (DER), sales growth and effective tax rate in some property and real estate companies listed on the Indonesia Stock Exchange from 2020-2022. From 2020 to 2021, PT Metropolitan Land Tbk (MTLA), capital intensity has increased from 0.083 in 2020 to 0.094 in 2021. However, the ETR decreased by from 0.145 in 2020 to 0.116 in 2021. Capital intensity shows how much capital needed by the company to earn income from changes in fixed assets. Capital intensity represents the proportions of assets that impact the ETR, particularly fixed assets that impact the deductions of tax from subsequent depreciation expenses (Delgado et al, 2014). Investing in fixed assets might help company to lower its tax burden.

According to Kraft (2014), companies with planned capital intensity will have more opportunities for tax avoidance strategies. Higher fixed assets indicate higher chance to reduce tax burden through depreciation. This is aligned with the findings of by Noviyani & Muid (2019), Prawati & Hutagalung (2020) and Darsani & Sukartha (2021) that showed capital intensity has significant impact toward tax avoidance. Other researchers, Maula et al. (2019), Chalissa et al. (2023) and

Wiratama & Kurniawan (2023) found that capital intensity has no significant impact toward tax avoidance.

On the other hand, leverage can also impact tax avoidance. An increase in leverage (DER) was experienced by PT Grand House Mulia Tbk (HOMI) from 1.052 to 1.217 in 2020 and 2021, respectively. The increase in DER was followed by decrease in ETR from 0.366 in 2020 to 0.227 in 2021. An increase in liabilities, such as bank loans and financial institution loans, was one variable contributing to the increase in debt-to-equity ratio. Leverage, according to Barli (2018), is used to analyse the ability of a company to fulfil all its short-term and long-term obligations. When a company finances its activities through debt, the company cannot be separated from the loan's interest expenses. The interest expenses incurred because of liabilities might lower the taxable income.

According to Hazir (2019), a higher level of debt leads to a lower effective tax rate. A lower ETR reflects stronger tax avoidance practice. Higher liabilities followed with lower ETR indicate the probable the company practices tax avoidance activity. Thus, management prefers the debt strategy to avoid a greater tax burden. Previous research by Ainniyya et al. (2021), Langi et al. (2023) and Wiratama & Kurniawan (2023) showed that leverage has significant impact toward tax avoidance. However, other researchers' findings are contradictory, showing that leverage has no significant impact toward tax avoidance by Darsani & Sukartha (2021) and Sulaeman (2021).

Aside from leverage, sales growth is one of the most potential variables for companies to carry out tax avoidance. PT Grand House Mulia Tbk (HOMI) also experienced a highly increase in sales growth from -0.090 in 2020 to 1.181 in 2021. However, the ETR declined by 0.139 in the same period. The similar phenomenon was observed in PT Metropolitan Kentjana Tbk (MKPI), with a continuous increase in sales growth from -0.349 to 0.081 to 0.480 in three consecutive years, from 2020 to 2022. The continuously increasing sales growth was also followed by a continuous decrease in ETR from 0.231 to 0.213 to 0.180.

Sales growth, according to Dewinta & Setiawan (2016), is a computation of changes in sales, both increases or decreases from one year to another. Normally, increasing sales growth means higher taxes that the company must pay. The data above contradicts the theory stating higher sales growth will raise the company's profit, which will result in higher tax expenses. Sales growth is the variable that might lead to tax avoidance. The greater profit leads to greater likelihood of tax avoidance to lessen its tax burden. This is aligned with the findings of previous researchers by Fauzan et al. (2019), Ainniyya et al. (2021 and Ariesta & Purwaningsih (2022) showed that sales growth has significant impact toward tax avoidance. However, previous research by Chalissa et al. (2023) and Langi et al. (2023) stated that sales growth has no significant impact toward tax avoidance.

In accordance with the study's background, the writer is interested in conducting additional research and has opted to perform research entitled "**The Impact of Capital Intensity, Leverage, and Sales Growth Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange**".

1.2 Problem Limitation

The writer has some limitations in conducting this research, as follows:

1. The research uses three independent variables and one dependent variable. The independent variables are capital intensity, leverage (DER) and sales growth and the dependent variable is tax avoidance.
2. The research concentrates on the property and real estate companies listed on the Indonesia Stock Exchange from 2020 to 2022.

1.3 Problem Formulation

Based on the study's background, the problem formulations are as follows:

1. Does capital intensity in property and real estate companies listed on the Indonesia Stock Exchange partially has significant impact toward tax avoidance?
2. Does leverage in property and real estate companies listed on the Indonesia Stock Exchange partially has significant impact toward tax avoidance?
3. Does sales growth in property and real estate companies listed on the Indonesia Stock Exchange partially has significant impact toward tax avoidance?
4. Do capital intensity, leverage and sales growth in property and real estate companies listed on the Indonesia Stock Exchange simultaneously have significant impact toward tax avoidance?

1.4 Objective of the Research

Based on the problem formulation above, the writer has the objectives to be achieved as follows:

1. To analyse the partial significant impact of capital intensity toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange.
2. To analyse the partial significant impact of leverage toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange.
3. To analyse the partial significant impact of sales growth toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange.
4. To analyse the simultaneous significant impact of capital intensity, leverage and sales growth toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This research is intended to give the following benefits, both theoretically and practically:

1.5.1 Theoretical Benefit

This research aims to give further reading information, analysis material, and insight into taxation, especially tax avoidance, for the reader and other researchers in the future. This research is supposed to give a better theoretical knowledge and understanding about the impact of capital intensity, leverage, and sales growth toward tax avoidance in property and real estate companies. In addition, this study's findings are supposed to encourage property and real estate sector companies in increasing their understanding of tax avoidance improper behaviour, so that the companies remain accountable for their obligations as entity taxpayers by taking into account the existing variable.

1.5.2 Practical Benefit

1. For companies, this research is supposed to be an additional consideration for management when carrying out tax computations for business entities by preventing the usage of tax avoidance.
2. For investors, this research's findings are supposed to help and provide insight to investors when they make investment decisions in the property and real estate sectors.
3. For government, this research's findings are supposed to encourage regulators in order to establish regulations or appropriate policies regarding tax avoidance, with the objective to minimize the practice of tax avoidance in a company and maximize potential revenues derived from the tax sector.
4. For other researchers, this research may be utilized as a comparison and reference for future analysis of the related variables or object studied in this research paper. Furthermore, similar or additional studies in different sectors and different variables may be undertaken to gain a better and more thorough understanding.