

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

In terms of population, Indonesia ranks fourth in the world. Based on Central Bureau of Statistics, in 2022, Indonesia has 275 million inhabitants. The population continues to grow from time to time. As the population grows, the need for residences, shopping places, offices will increase so influences the property and real estate sector. According to Sri Mulyani, property and real estate development can boost national economic growth by influencing many other industries such as logistics, materials, and finance which can affect tax revenue in Indonesia (Kencana, 2019).

Tax revenue is one of the APBN's revenue pillars, as mandated by Law Number 17 of 2003 concerning State Finances, Article 8 Letter E. This requirement suggests that tax revenues, as one of the parts charged with executing state revenue collection, must be capable of meeting the needs of state administration in accordance with the competence to collect state revenues. Based on state revenue and expenditure budget (APBN) year 2022, tax revenues account for 77.4% of overall state revenue. This is proven by tax revenues totalling Rp 2.034,5 trillion out of Rp 2.626,4 trillion in total state revenue ([www.kemenkeu.go.id](http://www.kemenkeu.go.id), 2023). In other words, taxes are the largest source of state revenue.

One measurement of the performance of tax revenues in a country is the tax ratio. It demonstrates the government's ability to collect tax revenue or absorb back the Gross Domestic Product (GDP) from the public in the form of taxes. The higher tax ratio means that the country's tax collection performance is good.

**Table 1.1 Indonesia's Tax Ratio**

<b>Year</b>	<b>Tax Revenue (In Trillion Rupiah)</b>	<b>GDP (In Trillion Rupiah)</b>	<b>Tax Ratio</b>
2020	1.285,2	15.434,2	8,33%
2021	1.547,8	16.970,8	9,11%
2022	2.034,5	19.588,4	10,4%

Source: Compiled by Writer (2023)

From the data above, tax ratio shows how big the portion of taxes in the national economy is by comparing tax revenue and gross domestic product (GDP) of a country. Based on Table 1.1, it shows that Indonesia's tax ratio is increasing from 2020 to 2022. According to Yon Arsal, a member of the Ministry of Finance's Expert Staff for Tax Compliance, to become a sustainable country with sufficient funds to implement its different development plans, the optimal tax ratio in a country must reach 15%. In comparison to the existing ratio from 2020 to 2022, the tax ratio increased but still far from 15%. It means that the country's tax collection performance is still not optimal (Kontan.co.id, 2022). These circumstances result in a conflict of interest between the government and businesses (Gumelar, 2022). The country views tax as a company obligation and the primary source of state income, but businesses see taxes as a burden that affects net profit.

As stipulated by General Provisions and Tax Procedures (KUP Law), tax is an obligatory contribution to the country owed by an individual or corporation that coercive based on the law, without receiving direct benefits and is utilized for country purposes for the greatest welfare of the citizen. On another hand, according

to citizens or taxpayers in Indonesia, tax is just a burden, they receive no immediate benefits from paying taxes, so it makes their income decrease (Hamdani, 2021). Because of this case, people, taxpayers either corporations or individuals perhaps may search for ways to lower their tax expenses.

The property and real estate companies have a significant impact on the expansion of the industrial sector, particularly its contribution to the high increase in GDP. President Jokowi commended the property sector's contribution to the Indonesian economy because it contributes Rp 2.300 trillion to Rp 2,800 trillion per year or reached 16% to GDP. Workforce was also involved in the economic cycle in the property sector reaching 13 million to 19 million people (CNN Indonesia, 2023). It indicates that property and real estate companies contribute to the increasing national economic growth and indirectly enhancing national productivity through lower unemployment and poverty rates. The greater income that is generated by property and real estate companies, the greater the tax burden that the company must bear. For companies, taxes are expenses or charges that reduce net profit. Therefore, companies will find the solution to decrease tax expenses by attending the activity of tax avoidance.

Tax avoidance is the effort that is used by companies to decrease the payment of tax in legal way and does not violate the tax regulation. In other words, companies take advantage of loopholes in tax law to reduce the amount of tax they must pay (Sarasasti & Asyik, 2018). Because tax avoidance activity is both legal and opposed by the government, it presents an unique and challenging problem.

There are several variables that can affect companies' implementation of tax avoidance. One of the determining variables in taking tax avoidance activity is corporate governance. Corporate governance is essential for all businesses. It can set the direction of company based on character of the company's leaders (Mulyani et al., 2018). One of corporate governance goals is to reduce opportunistic conduct by management, particularly when it comes to taxes (Kurniasih et al., 2017). A company can use good corporate governance to prevent or minimize tax avoidance (Pratomo & Rana, 2021). To emphasize the significance of the corporate governance structure, the Indonesian government requires all corporations to have independent commissioners. By the presence of independent commissioners, a company has clearer independence in practice. This is because more and more people are not directly connected with controlling shareholders, resulting in a smaller tax avoidance policy (Rasmita & Wahidahwati, 2021). With more independent commissioner on board, oversight and control over management action will be better, reducing the risk of tax avoidance (Hakim, 2020).

The second variable that can influence tax avoidance is sales growth. Sales growth indicates the success of previous investments and can be used to forecast future growth (Swingly & Sukartha, 2015). Sales growth is an indicator of a company's demand and competitiveness in its industry. The growth rate of a company will influence its capacity to maintain excellence in spotting future opportunities. If sales growth is high, then the profits that will be generated will also increase, so leading to higher tax expenses borne by the company. Therefore, the company attends tax avoidance activity to reduce the tax payable.

The last variable that can influence tax avoidance is liquidity. According to Devi & Suardana (2014), liquidity is the ability of a company to carry out its short-term obligations. If the company has a high liquidity ratio, then the company is in a state of smooth cash flow, and is willing to pay its debts, including taxes, in compliance with existing laws and regulations (Mariani, 2020). Vice versa, a company with lower liquidity indicates that the company has difficulty paying off short-term obligations, one of which is tax. This condition can be shown by the value of current liabilities which is more than the value of current assets. Not only that, a company with lower liquidity can also cause problems with short-term creditors, thereby disrupting company operational activities. Companies that have difficulties making payments on short-term obligations can be encouraged to carry out tax avoidance activities to maintain their cash flow (Krisnugraha et al., 2021).

The Effective Tax Rate (ETR) is used as the indicator in this research to assess a company's propensity for tax avoidance. Corporate governance, sales growth, and liquidity as variables in this research that can influence companies' implementation of tax avoidance. Good corporate governance carried out by management of companies can improve the reputation of the company and its trustworthiness in the eyes of partners, investors, and consumers. This can encourage investment, improve access to money, and boost long-term sales growth. Increase in sales growth can create companies to have more cash available to address short-term obligations (liquidity) and meet its operational needs without difficulty. However, the higher income that is generated by companies, tax that

must be paid also increases. Therefore, companies will consider and try to minimize tax payments by doing tax avoidance to maintain their net profit.

**Table 1.2 The Phenomenon of Corporate Governance, Sales Growth, Liquidity toward Tax Avoidance on Property and Real Estate Companies Listed on the Indonesia Stock Exchange from 2020-2022**

Company Name	Year	Independent Commissioner	Sales Growth	Current Ratio	Effective Tax Rate
MKPI	2020	0,25	-34,87%	0,94	23,12%
	2021	0,31	8,05%	0,97	21,31%
	2022	0,31	48,02%	1,17	17,96%
BSDE	2020	0,40	-12,76%	2,37	3,16%
	2021	0,40	23,85%	2,59	0,53%
	2022	0,40	33,71%	2,61	0,18%
KIJA	2020	0,50	6,31%	6,18	-20,71%
	2021	0,50	3,93%	6,54	12,65%
	2022	0,50	9,24%	4,57	16,18%

Source: Prepared by Writer (2023)

Based on previous research, an effective tax rate might reveal whether a company has engaged in tax avoidance or not. According to Hanlon & Heitzman (2010) stated that the higher percentage of ETR means the lower the level of tax avoidance practiced by company, and vice versa. Ideally, the percentage of ETR is always closer to the statutory tax rate (Turley, 2006). Based on Income Tax Law, the entity tax rate is 22%.

Based on Table 1.2 above, it shows inconsistent phenomenon among corporate governance, sales growth, and liquidity toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange for 2020-2022.

The corporate governance (IC) of PT Metropolitan Land Tbk (MKPI) for the period 2020 to 2021 increased from 0,25 to 0,31. However, the percentage of ETR decreased from 23,12% to 21,31%. Generally, the higher number of independent commissioners in a company results in a smaller tax avoidance policy. This phenomenon is inconsistent with the theory stated that the more independent

commissioners there are, the better the oversight and control over management's actions, reducing the risk of tax avoidance (Hakim, 2020).

The next phenomenon is sales growth of PT Bumi Serpong Damai Tbk (BSDE) increased each year for the period 2020 to 2022 from -12,76% to 23,85% and rose to 33,71%. However, the percentage of ETR for each year decreased from 3,16% to 0,53% and then to 0,18%. Generally, the higher percentage of sales growth means the company will have to pay bigger taxes. This phenomenon is inconsistent with the theory stated that if sales growth is high, then the profits that will be generated will also increase, so leading to higher tax expenses borne by the company.

Another phenomenon is reflected in the liquidity (CR) of PT Kawasan Industri Jababeka Tbk (KIJA) for period 2021 to 2022 decreased from 6,54 to 4,57. However, the percentage of ETR increased from 12,65% to 16,18%. Generally, the more liquidity a company has, the less effort it will need to practice tax avoidance. This phenomenon is inconsistent with the theory stated that the company which has high liquidity indicates that the company is willing to pay their debts, including taxes, in accordance with the law that applies (Mariani, 2020).

After analyzing the phenomenon of corporate governance, sales growth, and liquidity toward tax avoidance of three selected property and real estate companies for the period 2020 to 2022, the analysis is conducted on research gap between previous research. The research gap is characterized by the existence of inconsistency between previous research and phenomenon. The research gap exists because different study results produce different conclusions. Research conducted

by Windarni et al. (2018) shows that independent commissioner has significant influence on tax avoidance while research conducted by Nagara and Setiawan (2022) shows that independent commissioner has insignificant influence on tax avoidance. Research conducted by Faradisty et al. (2019) shows that sales growth has significant influence on tax avoidance while research conducted by Suhaidar et al. (2022) shows that sales growth has insignificant influence on tax avoidance. Research conducted by Norisa et al. (2022) shows that liquidity has significant influence on tax avoidance. Meanwhile, according to Nyoriman (2022) shows that liquidity has insignificant influence on tax avoidance.

Based on above background, there are different results on impact of variables that influence tax avoidance. Therefore, the writer is motivated in doing further research and decided to conduct research entitled **“The Influence of Corporate Governance, Sales Growth, and Liquidity Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange”**.

## **1.2 Problem Limitation**

The research is subject to significant limitations as follows:

1. The research object is limited to property and real estate companies that listed on Indonesia Stock Exchange.
2. The research period is from 2020 to 2022.
3. Tax Avoidance indicated with Effective Tax Rate (ETR) serves as dependent variable.

4. Corporate Governance indicated with Independent Commissioner Ratio, Sales Growth, and Liquidity indicated with Current Ratio serve as independent variables.

### **1.3 Problem Formulation**

Below are the problems formulation that the writer conducted as follows:

1. Does corporate governance have a significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange?
2. Does sales growth have a significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange?
3. Does liquidity have a significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange?
4. Do corporate governance, sales growth, and liquidity have significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange simultaneously?

### **1.4 Objective of the Research**

Based on the problem formulation, the writer has goals as follows:

1. To find out whether corporate governance has significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange partially.

2. To find out whether sales growth has significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange partially.
3. To find out whether liquidity has significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange partially.
4. To find out whether corporate governance, sales growth, and liquidity have significant influence on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange simultaneously.

## **1.5 Benefit of the Research**

There are benefits of conducting this research as follows:

### **1.5.1 Theoretical Benefit**

In theoretically, the writer hopes that this research will be beneficial as follows:

1. For the writer, can understanding of the influence of corporate governance, sales growth, and liquidity toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange. Therefore, the writer hopes to gain better understanding and knowledge.
2. For the readers, the result of this research findings will help readers to gain more knowledge of understanding the influence of corporate governance, sales growth, and liquidity on tax avoidance.

### 1.5.2 Practical Benefit

In practically, the writer hopes that this research will be beneficial as follows:

1. For the company, this research is intended to serve as an extra consideration for management of the company when calculating and decreasing taxes through tax avoidance while not breaching tax regulations.
2. For the investor, this research is intended to provide investors with a better understanding of the variables that have significant influence on tax avoidance.
3. For future researchers, this research is expected to be beneficial as an additional reference and source of material that conducts research on a similar topic about the variables that can influence tax avoidance.

