

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax avoidance is something positive for the company because it is one of the strategies that can be implemented by the company to reduce the amount of tax paid even in a very large amounts. However, in terms of state revenue, tax avoidance is a negative aspect. Tax avoidance leads to a reduction in state income derived from taxes. Even though this income can be used by the government to finance various state expenditures that can later benefit the community (Devi et al., 2022).

Taxes play an important role for the country's national development, where almost 80% of state revenue comes from tax collection. According to Law of the Republic of Indonesia Number 28 Year 2007, "Taxes are mandatory contributions to the state owed by individuals or entities that are coercive based on the law, by not getting compensation directly and used for the needs of the state for the greatest prosperity of the people." Taxes have an important role in the economy, because in the State Revenue and Expenditure Budget (APBN) receipts, tax contributions have a larger portion than non-tax revenue (Siregar & Widyawati, 2016). The greater the income earned by the company, the greater the tax burden that must be paid by the company. According to Kemenkeu.go.id (2020), in the State Revenue and Expenditure Budget (APBN), the amount of tax

revenue in 2020 reached 1,019.56 trillion from the target in Perpres 72 of 2020 which is 1,198.8 trillion.

Property and Real Estate Companies are one of the industrial sub-sectors listed on the Indonesia Stock Exchange (IDX). Property and Real Estate industry is an industry engaged in the development of services by facilitating the development of integrated and dynamic areas. The reason for the writer to choose Property and Real Estate Companies is because in Indonesia, the prospects in terms of Property and Real Estate are growing well which can be seen from the rapid development, for example in the construction of roads, buildings, offices and others so that it all becomes an opportunity for investors to invest their funds into Property and Real Estate sector companies (Ningrum et al., 2019).

Property and real estate are one of the main choices of investors in investing funds because the shares of companies in the Property and Real Estate sector offers upside potential. This is seen from some companies that have showed prospects of the company to the maximum. These conditions make investors compete to invest funds in Property and Real Estate companies. Property and Real Estate sector is a large sector which is able to absorb large amounts of labor and have an impact to other sectors of the economy. Moreover, recently in Medan the government is building the flyover and underpass. That's why the writer decides to choose the Property and Real Estate Companies since this sector is highly advanced.

One of the tax avoidance cases of Property and Real Estate companies in Indonesia is on property transactions carried out by the developer of Bukit

Semarang Baru housing developed by PT Karyadeka Alam Lestari, namely the sale of luxury homes worth 7.1 billion in Semarang, but in the notarial deed, it is only written 940 million. It means there is a price difference of approximately 6.1 billion. In this transaction, there is a potential VAT (Value Added Tax) which must be paid such as 10 percent multiplied by 6.1 billion that results in 610 million. Another shortfall is the Final Income Tax of 5 percent multiplied by 6.1 billion which results in 305 million. So, there are total tax shortfall of 915 million. If the developer sells hundreds of luxury housing units, the state's losses can reach billions of rupiah from one housing project. If the developer sell a lot of luxury home by manipulating the sales price, it will led to a tax investigation on charges of tax avoidance considering that there was an attempt to hide the actual transaction, causing a reduction in state revenue.

Another case of tax avoidance, namely where the Director General of Taxes of the Ministry of Finance (Kemenkeu) stated that the findings of tax avoidance are estimated to harm the State up to 68.7 trillion per year. The findings were announced by the Tax Justice Network who reported that due to tax avoidance, Indonesia is estimated to lose up to US\$ 4.86 billion per year which equivalent to Rp68.7 billion. In a Tax Justice Network report entitled. The state of Tax Justice 2020: Tax Justice in the time of Covid-19, it is stated that from these figures, US\$ 4.78 billion equivalent to Rp67.6 trillion is a corporate tax avoidance action in Indonesia. While the remaining US\$ 78.83 million which is around Rp1.1 trillion comes from individual taxpayers. Tax avoidance is a form of tax

evasion that occurs between parties that have a special relationship both in the country and abroad (Kontan.co.id, 2020).

There are several factors that have been found which have an impact on businesses when they participate in tax avoidance action. However, in this research, there are 3 factors that will be discussed such as leverage, liquidity, and profitability. Here are some of the Property and Real Estate companies with the value of leverage, liquidity, profitability, and tax avoidance that can be seen in Table 1.1.

Table 1.1 Phenomenon Data of Leverage, Liquidity, Profitability and Tax Avoidance of Property and Real Estate Companies listed on the Indonesia Stock Exchange from 2020 to 2022

Company	Year	Leverage	Liquidity	Profitability	Tax Avoidance
PT Ciputra Development Tbk (CTRA)	2020	0.555	1.778	0.035	0.040
	2021	0.523	1.999	0.051	0.023
	2022	0.501	2.186	0.048	0.028
PT Jaya Real Property Tbk (JRPT)	2020	0.314	1.291	0.088	0.050
	2021	0.306	1.027	0.067	0.014
	2022	0.295	1.009	0.072	0.015
PT Kawasan Industri Jababeka Tbk. (KIJA)	2020	0.487	6.179	0.004	0.207
	2021	0.482	6.544	0.007	0.127
	2022	0.504	4.515	0.003	0.162

Sources: Prepared by the writer (2023)

From Table 1.1, it can be indicated that the company of PT Ciputra Development Tbk (CTRA) has the leverage rate decreased from 52.3% in 2021 to 50.1% in 2022. This is because if the company finances its operating activities using debt, as a result the company will have a high debt ratio and the interest burden to be paid is greater as well, so that the company will consider not financing with debt on a large scale. A high debt ratio will cause the company to be viewed as unhealthy by investors and creditors if it is not able to show proper profit conditions. So, it will affect the funding that the company will receive in the

future. However, the value of ETR of PT Ciputra Development Tbk (CTRA) increased from 2.3% in 2021 to 2.8% in 2022. This indicates that leverage has a negative influence toward tax avoidance as supported through the research conducted by Aulia and Mahpudin (2020). Meanwhile, several previous studies have tried to link the factors of the company's financial condition to tax avoidance, including focusing on leverage. Leverage is the level of debt used by the company in financing. Kuswoyo (2023) mentioned that the leverage level of manufacturing companies that go public in Indonesia tend to increase. In relation to taxes, if the company has a high tax liability, the company will have a high debt as well. Therefore, the company will try to do tax avoidance. So, this shows that there are inconsistencies in the results of previous research.

Another phenomenon is seen from the liquidity of PT Ciputra Development Tbk (CTRA), which increase continuously from 199.9% in 2021 to 218.6% in 2022. Then, the value of ETR also increase from 2.3% in 2021 to 2.8% in 2022. This certainly indicate that liquidity has positive influence toward tax avoidance. This result is contrary to the research conducted by Hanifah (2022) who found that liquidity negatively affects tax avoidance. Moreover, another previous study by Pasaribu and Mulyani (2019) also found similar results. Instead, Alam and Fidiana (2019) found that liquidity had no effect on tax avoidance.

The table above also shows that Jaya Real Property Tbk. (JRPT) obtained an increase in profitability from 6.7% in 2021 to 7.2% in 2022. As a result, there are an impact towards the corporate tax avoidance that rise from 1.4% in 2021 to 1.5% in 2022. The greater the profitability of the company, the greater the

company's net profit generated as well. Agency Theory will spur agents to increase company profits. When the profit obtained by the company grow higher, the amount of income tax will increase in accordance with the increase in company profits so that the company will have a tendency to do tax avoidance. This is in line with the research conducted by Kurniati and Apriani (2021) who claimed that profitability has a significant effect on tax avoidance. However, according to the research conducted by Aulia and Mahpudin (2020), profitability has no significant effect on tax avoidance. Therefore, there are inconsistencies in the results of previous research.

As stated from the explanation above, in order to analyze the influence of the factors toward tax avoidance, the writer decides to conduct a research entitled **“The Influence of Leverage, Liquidity, and Profitability Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange.”**

1.2 Problem Limitation

Based on the background study above, the problem limitation found in this research are:

1. The object research in this paper is the Property and Real Estate companies listed on the Indonesia Stock Exchange.
2. The data for observation is from year 2020 to 2022.
3. The independent variables in this research are leverage will be measured with Debt to Asset Ratio (DAR), liquidity will be measured with Current Ratio

(CR), profitability will be measured with Return on Assets (ROA), and the dependent variable is tax avoidance will be measured with Effective Tax Rate (ETR).

1.3 Problem Formulation

Based on the background of the study, the writer formulates several questions as follows:

1. Does Leverage have a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange partially?
2. Does Liquidity have a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange partially?
3. Does Profitability have a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange partially?
4. Do Leverage, Liquidity, and Profitability have a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange simultaneously?

1.4 Objectives of the Research

Based on the problem formulation, the objectives of this research are:

1. To analyze whether Leverage partially has a significant influence Toward Tax

Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange.

2. To analyze whether Liquidity partially has a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange.
3. To analyze whether Profitability partially has a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange.
4. To analyze whether Leverage, Liquidity, and Profitability simultaneously have a significant influence Toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

The writer expects that this research can give benefits both theoretically and practically as follows:

1.5.1 Theoretical Benefit

The research result can be used to expand, improve and develop the relevant theories especially in the Leverage, Liquidity, and Profitability and its influence towards Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange and hopefully the information provided may be useful for the readers and future researchers.

1.5.2 Practical Benefit

1. For the Writer

The writer as a basis for increasing knowledge and give insight for researchers in the field of accounting, especially those related to the influence of Leverage, Liquidity, and Profitability on Tax Avoidance in Property and Real Estate companies.

2. For the Investors

The results of this study are expected to provide information for the potential investors to assess a company so that it can be used as a reference and help investors in considering decision - making to invest in a company through factors that affect Tax Avoidance.

3. For the Other Researchers

This research can be an additional reference material for further researchers as well as information to interested parties in assessing the similar topic in the future.

