

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

One of the biggest sources of income for the government is tax income. So, many businesses and entities do not pay tax to the government. In that case, the country's income sources will decrease, and the country also cannot expand from the side of education, medicine and other matters related to the country's development. Social welfare will be difficult to achieve if a country cannot develop. Social welfare can be achieved if the economy in the country always has the increasing of their income from year to year. According to Rachel (2023), 75% - 85% of the development in the country is using the income tax that the government collects from taxpayers. By looking at these percentages, the conclusion is income tax significantly impacts a country's development.

**Table 1.1 State Revenue (Billion Rupiah)**

Source of Income	2018	2019	2020	2021	2022
Tax Revenue	1.518.789,80	1.546.141,90	1.285.136,32	1.547.841,10	1.924.937,50
Non-Tax Revenue	409.320,20	409.994,30	343.814,21	458.493,00	510.929,60
Grant	15.564,90	5.497,30	18.832,82	5.013,00	1.010,70
Total Country Income	<b>1.943.674,90</b>	<b>1.960.633,60</b>	<b>1.647.783,35</b>	<b>2.011.347,10</b>	<b>2.436.877,80</b>

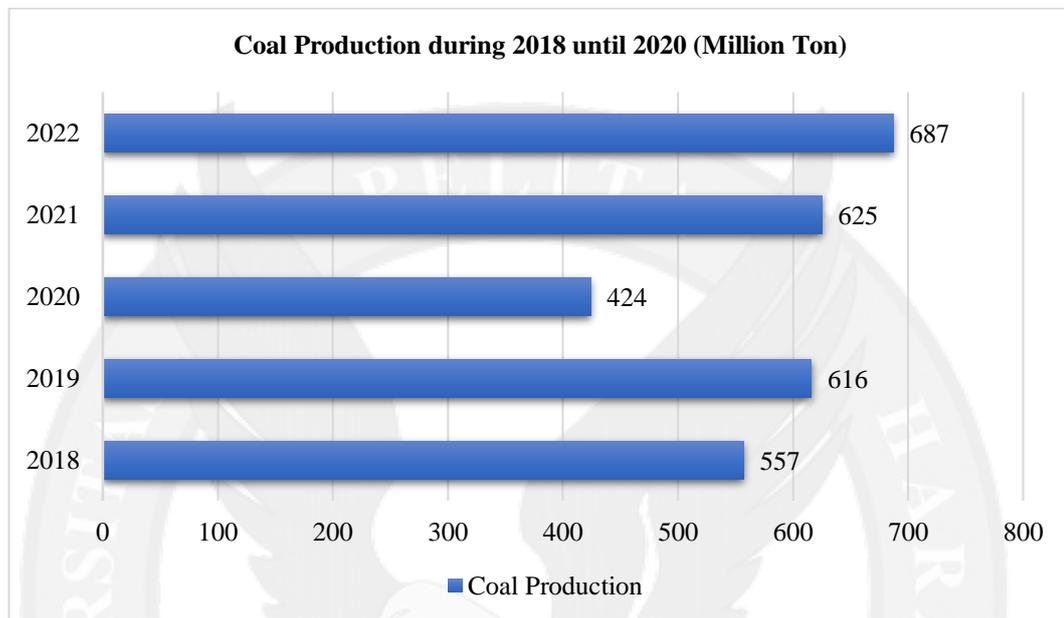
Source: [www.bps.go.id](http://www.bps.go.id) (2023)

The table 1.1 shows the Tax Revenue is increasing during the year 2018 until 2019. But in the year 2020 the tax revenue will decrease by 312.850,25 compared to the year 2019. In 2021, the tax revenue will increase again. According to Sayadi (2021), Tax revenues within the country are created by looking at and analyzing revenue growth during the year to year.

A Firm, *PT (Perseroan Terbatas)*, *Cv (Commanditer Vennostchaft)*, and the last is Foundation, that known as *BUMS (Badan Usaha Milik Swasta)*. According to Vanya (2021), There are Five important role of *BUMS* in advancing economic growth, however in the five roles, there is one role that must be understood by *BUMS*. Where one of these roles is that *BUMS* has an important role to increase state revenue through taxes.

Tax is the state's main income source, where the income they get will be allocated to build the facilities to achieve social welfare. But, from the companies' side, tax is a burden because by paying tax, the income to the company will decrease. According to Hilda (2022), Tax Avoidance is legal because the reduction of the tax burden does not violate any regulations that are already existing. However, tax evasion is an illegal action because the taxpayers will not pay any taxes, or the taxpayers will be reducing the tax burden by violating existing regulations. In Indonesia, there are three systems to calculate the tax: The first is a self-assessment system, in which taxpayers can calculate their tax on their own to manage it and still follow the existing rules and regulations. The second is the official Assessment, in which, in this system, taxpayers will be given the nominal tax they must pay to the government or the tax officers will calculate the nominal.

The last is the withholding system, in this system, the tax that taxpayers must pay will be calculated by the third parties, which is not a KPP (Kantor Pemungutan Pajak) or taxpayers.



**Figure 1.1 Coal Production during 2018 until 2022 (Million Ton)**

Source: Kementerian keuangan and Kementerian Energi dan Sumber Daya Mineral (2023)

Figure 1.1 shows that from 2018 to 2019, coal companies increased their production by 59 million/ton. But in 2020, coal companies' production decreased by 192 million/ton means that the profit that their gain will less than previous year. However, this decline in production lasted only a short time because from 2021 to 2022, coal production increased again rapidly. But seeing the phenomenon above, the researchers came up with the idea to use the three independent variables: profitability, capital intensity, and sales growth.

According to Damayanty & Putri (2021), To make the nominal tax payment into a lower amount than usual, the company uses tax avoidance. Accordingly, a

higher tax burden should accompany a higher level of company profitability. The tax burden will be reduced if the company's profitability declines. Thus, without breaking any laws, the business can pay the government the minimum taxes using the tax avoidance scheme. In this research paper, profitability will be measured using return on assets (ROA).

Besides the profitability, there is also capital intensity. The function of capital intensity is to see whether the company is using fixed assets to support their operating activity. According to Dharma & Noviari (2017), for a company with many fixed assets, the depreciation expense will also increase. If the depreciation expense increases, the taxable income and the tax rates will be smaller. So, if these cases happen, the government's income tax will also decrease. Therefore, the ratio of net fixed assets to total assets will be used to calculate capital intensity. By dividing the net fixed assets by the total assets, one can calculate the capital intensity.

In this research paper, sales growth is the last independent variable to be discussed. Sales growth is essential to the company because by seeing this sales growth, the company will know whether the year's productivity went well. According to Saputra & Purwatiningsih (2022), Sales growth is one platform that can be used to see a company's sales growth from year to year through its financial statements. The higher yield will lead to increased tax payments to be also increased. Therefore, the tax burden will rise along with sales growth. In the meantime, there will be less tax burden if sales growth is slower. The measurement

of sales growth is taken by seeing or comparing the sales in the current year with the previous year.

**Table 1.2 The Phenomenon of Profitability, Capital Intensity, Sales Growth and Tax Avoidance in Coal Companies Listed on the Indonesia Stock Exchange 2018 to 2022**

Company Name	Year	Profitability (ROA)	Capital Intensity	Sales Growth	Tax Avoidance (ETR)
PT. Bayan Resources Tbk (BYAN)	2018	0,46	0,26	0,57	0,25
	2019	0,18	0,26	(0,17)	0,25
	2020	0,21	0,20	0,003	0,19
	2021	0,52	0,17	1,04	0,22
	2022	0,58	0,14	0,65	0,22
PT. Adaro Energy Indonesia Tbk (ADRO)	2018	0,07	0,23	0,11	0,42
	2019	0,06	0,24	(0,04)	0,34
	2020	0,02	0,24	(0,27)	0,29
	2021	0,14	0,18	0,58	0,31
	2022	0,26	0,13	1,03	0,37
PT Golden Energy Mines Tbk (GEMS)	2018	0,14	0,10	0,38	0,26
	2019	0,09	0,11	0,06	0,33
	2020	0,12	0,10	(0,04)	0,25
	2021	0,43	0,10	0,49	0,23
	2022	0,62	0,07	0,84	0,23

Source: Prepared by Author (2023)

According to Fitriyati (2021), Effective Tax Rate (ETR) is the function where the company can manage its tax burden by calculating tax expense divided by profit before income tax. The smaller the ETR then the company has a good management of implementing this method. Meanwhile, if the company has a higher ETR then the company does not really apply this method as well as it should.

Table 1.2 is the table that show the activity of the BYAN, ADRO and GEMS using the ETR from period 2018 – 2022. In 2020 – 2021, BYAN and GEMS have the increasing on the profitability which is 31%. But the ETR from BYAN is increasing 3% meanwhile, from GEMS the ETR is decreasing 2%. Means that, GEMS might be implemented the tax avoidance activity because if the profitability increase the ETR also increase. But the GEMS have the decreasing on the ETR

that's why it can be said that GEMS have implemented the tax avoidance. According to Mahdiana & Amin (2020) said that ROA has a significant effect on tax avoidance. Research by Aulia & Mahpudin (2020) and Anggriantari & Purwantini (2020) said that ROA does not have any significant effect on tax avoidance.

The next phenomenon is about the capital intensity. In ADRO and GEMS, the fixed assets from the period 2018 - 2019 are increasing 1%. but the ETR from ADRO decreased from 0,42 to 0,34. Meanwhile, GEMS has an increasing ETR which is from 0,26 to 0,33. Means that, ADRO have implemented the tax avoidance on the fixed assets because ADRO have the increasing on their Capital Intensity, but the ETR was decreasing. According to Anindyka et al. (2018) said that the capital intensity has a significant effect on tax avoidance. Research by Cahyadi & Merkusiwati (2016) and Anggriantari & Purwantini (2020) said that capital intensity does not have any significant effect on tax avoidance.

The last phenomenon is about the sales growth. In ADRO the sales growth during the period of 2020 – 2021 was increasing 84%, with the following of the increase of the ETR with the amount of 2%. From the GEMS company the sales growth also increased 54% during the period of 2020 – 2021, but the ETR was decreasing from 0,25 to 0,23. Which means that GEMS company have implemented tax avoidance during the period of 2020 – 2021 of their sales growth. According to Saputra & Purwatiningsih (2022), Sales Growth has a significant effect on tax avoidance. Research by Mahdiana & Amin (2020), Carolina &

Purwantini (2020) and Yohan & Pradipta (2019) said that Sales Growth does not have any significant effect on tax avoidance.

Other factors affecting tax avoidance in coal companies might be leverage, firm size, good corporate governance, independent commissioner, inventory intensity, etc. Therefore, there are still many obstacles that coal companies might face from 2018 until 2022. So, the author is interested in researching **“The Effect of Profitability, Capital Intensity, and Sales Growth Toward Tax Avoidance in Coal Companies Listed on the Indonesia Stock Exchange.”**

## **1.2 Problem Limitation**

Based on the background of this research, the problem limitation of this research is as follow:

1. The main discussion is the coal companies.
2. The period is limited to 2018 until 2022.
3. There are also three independent variables: the Profitability proxy with ROA, the Capital Intensity proxy with net fixed assets divided by total assets and the Sales Growth proxy with the (current sales – previous sales) divided by previous sales and followed by the one dependent variable, which is Tax Avoidance.

### **1.3 Research Problem**

Based on the previous description, the problem formulations in this research are as follows:

1. Does profitability have a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange partially?
2. Does Capital Intensity have a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange partially?
3. Does Sales Growth have a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange partially?
4. Do Profitability, Capital Intensity, and Sales Growth have a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange simultaneously?

### **1.4 Objectives of the Research**

Based on the previous described problem limitations, there is also the objectives of the research are as follows:

1. To identify if the profitability has a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange partially.
2. To identify if the Capital Intensity has a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange partially.
3. To identify if the Sales Growth has a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange partially.

4. To identify if the Profitability, Capital Intensity, and Sales Growth have a significant effect on Tax Avoidance in coal companies that listed on the Indonesia Stock Exchange simultaneously.

## **1.5 Benefit of the Research**

### **1.5.1 Theoretical Benefit**

1. Add more scientific information to the data that is used as a reference in the research study with the same topic.
2. Enriching the theory with the topic that is related to tax avoidance.

### **1.5.2 Practical Benefit**

1. To Entities

This research will give further and comprehensive information and understanding of tax avoidance to the coal companies.

2. For the other Parties

Research is conducted with the expectation in this research will be added to the next reference and to enrich the knowledge to the same topic.