CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes serve as the primary revenue stream for all nations, including Indonesia. The tax revenue is contingent upon the level of compliance and awareness exhibited by taxpayers. The Minister of Finance attributes Indonesia's comparatively low tax collection in relation to other ASEAN nations to the limited understanding and adherence of taxpayers. Taxation is a legal obligation imposed on both individuals and entities, serving as a means for states to generate and allocate revenue toward the benefit of the public and other state-related objectives (Gazali et al., 2020).

According to Najicha (2022), one of taxation's primary functions is to generate revenue for state budget, which in turn aids national development by funding essential public works projects including infrastructure development, healthcare expansion, and education improvement. Further, taxation functions as a means of expressing and aligning Indonesia's economic strategies, while also promoting the redistribution of revenue.

Table 1.1 Actual Indonesian Government Revenue 2020-2022 (in billion rupiah)

Source of Revenues	**2020**	**2021**	**2022**
Taxes Revenues	1,285,136.32	1,547,841.10	1,924,937.50
Non-Taxes Revenues	343,814.21	458,493.00	510,929.60
Grants	18,832.82	5,013.00	1,010.70
Total	1,647,783.34	2,011,347.10	2,436,877.80
% of Tax Revenue Contribution	**77.99%**	**76.95%**	**78.99%**

Source: Badan Pusat Statistik (2023)

According to the data presented, from 2020 to 2022, taxes bring in the most income for the government as tax revenues cover more than 76% of the income realized by the state. This finding underlines the significance of taxes in fostering national progress and confirms the significance of taxes in meeting government obligations. From the government's point of view, taxpayers should make every effort to meet their full tax responsibilities as the state's tax revenue will increase if taxpayers determine to increase their tax payments (Niandari & Novelia, 2022). The following table shows sectors that contribute to tax revenue, which are as follows:

Table 1.2 Contribution by Sectoral Companies to Government Tax Revenue as of October 2022

Sectors	Contribution (%)
Manufacturing	29.4
Trading	24.8
Finance and Insurance	10.6
Mining	8.5
Construction and Real Estate	4
Information and Communication	3.8
Transportation and Logistics	3.7
Company Services	2.9

Source: Prepared by Writer (2023)

According to Kurniati (2022), manufacturing sector placed in the first place with the contribution of 29.4% along with trading sector for 24.8% and finance and insurance for 10.6%. Meanwhile, the contribution of the mining sector companies comes in fourth place with a contribution of 8.5% to the government tax revenue. However, construction and real estate; information and communication; transportation and logistics; and companies and services contributed for 4%, 3.8%, 3.7% and 2.9%, respectively.

According to Sembiring (2021), increasing state revenue, creating foreign cash via exports, and fostering electrification and national energy security are only some ways in which mining industry contributes to regional or national economic growth. Non-state tax income, or *Penerimaan Pajak Bukan Negara*, is collected from individuals and businesses that profit from the state's resources and rights. It's based on Undang-Undang No. 9 for the Calendar Year 2018.

As of December 16, 2022, Indonesia's mining industry generated Rp 173.5 trillion in non-tax state income (*Penerimaan Negara Bukan Pajak*), approximately 170% of the initial goal of IDR 101.8 trillion. The industry ought to keep growing to boost the economy in 2022. Commodity prices, production, royalty percentages, and regulation affect non-tax state income growth. Coal prices are rising due to demand from India, China, and Europe. India imported twice as much coal due to a heat wave, while China increased coal supply and eliminated coal import duties. The European Union prohibited Russian coal imports until August 2022, forcing European nations to utilize coal for power. Government Regulation No. 26 of 2022 has increased Ministry of Energy and Mineral Resources non-tax revenues. As of December 14, 2022, the Director General of Budget (DJA) collected IDR 551.1 trillion in PNBP revenues, 114.4% of the Presidential Regulation Number 98 of 2022 goal and the revenue increased 56.6% year-over-year (Hariani, 2023).

Hence, by knowing the importance of tax to a country and in accordance with tax regulations, business entities are obliged to remit taxes based on their net earnings. However, tax is perceived as a burden on businesses with the potential to reduce profitability, and this will encourage the corporation to take steps to reduce its tax obligations, which could be interpreted as tax avoidance. In the context of government operations, tax is a fundamental source of revenue and play a significant role in the government's overall administration. Corporations often dedicate significant resources towards minimizing their tax liabilities because of the presence of several competing objectives.

Windaswari & Merkusiwati (2018) stated that companies strategically use legal exemptions and flaws in the tax system to minimize their tax obligations. This can be achieved through legal and illegal means, such as tax avoidance and tax evasion. Tax avoidance involves exploiting legal exemptions to reduce income tax liability but lacks moral justification. On the other hand, corporations that actively pursue tax avoidance are more susceptible to risk, including monetary penalties, stock price decline, and public standing decline as risk evaluation is crucial for investors in making investment decisions. Meanwhile, tax evasion is an illegal activity that causes state losses and undermines the welfare of the people. Tax evasion is still common in Indonesia. Examples of tax evasion include underreporting of income, inflating company expenses by creating fictitious costs, faking export transactions, and misrepresenting company financial reports.

However, mining sectors which is one of the greatest tax contributors in Indonesia also venting taxes. Sugianto (2019)reports that Indonesia's largest mining sector companies, PT Adaro Energy Tbk, avoids taxes. From 2009 until 2017, Adaro used its Singapore business, Coal Trade Services International, to transfer earnings from Indonesia to other countries. PT Adaro Energy Tbk transfers profits to foreign jurisdictions. By taking a certain method, PT Adaro Energy Tbk reduced their tax payments to Indonesia. PT Adaro Energy Tbk tax payments dropped by

$125 million, a 90% drop from coal sales revenues of $338 million. Thus, Adaro reduced its Indonesian tax liability by over $14 million annually.

Several variables can be considered when assessing the extent to which a company avoids taxation which are profitability, leverage, capital intensity, firm value, and independent commissioner.

Profitability is defined as the ability of a business to create profits by effectively using all available capital resources. The success of a company's management performance is typically measured by its ability to attain a significant level of profitability. The ability to create financial gains while effectively utilizing all available resources is crucial for achieving a company's objectives. By effectively utilizing all available resources, the corporation is poised to achieve a substantial profit margin (Yuliana & Wahyudi, 2018).

Leverage refers to the extent to which a company employs debt as a means of financing its operations. The measurement of leverage can be determined by assessing the ratio of a company's total debt to its total assets. Hence, a larger degree of leverage is associated with increased levels of return uncertainty, albeit accompanied by potentially greater returns (Gazali et al., 2020).

Capital intensity refers to the level of investment undertaken by a corporation in terms of its assets and inventories. Capital intensity refers to a strategic choice made by organizational management with the objective of enhancing profitability through the allocation of resources towards fixed assets. An increase in the asset value of a corporation is associated with a corresponding increase in depreciation (Prambudi & Asalam, 2021).

The valuation of the company will be manifested through its stock price. The market value of a firm refers to the price at which its shares are traded between both buyers and sellers during a transaction. This market price is believed to reflect the actual value of the company's assets. The valuation of a firm, as determined by stock market indicators, is significantly impacted by the presence of attractive investment prospects (Irnawati, 2021).

A GMS-appointed independent commissioner is a member of the board of commissioners who is not connected to the company's major shareholders, board of directors, or other commissioner boards. It is thought that having independent commissioners will help to strike a balance between the company's diverse interests (Febiola & Wahyuni, 2021).

Based on the background, example and the table phenomenon that has been provided and explained before, it encourages writer to do research entitled, **"The Impact of Profitability, Leverage, Capital Intensity, Firm Value, and Independent Commissioner toward Tax Avoidance in Mining Sector Companies Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

Problem limitations have been established by the writer to prevent any deviations from the research topic such as follows:

1. The research object is limited to the mining sector companies that listed on the Indonesia Stock Exchange.

2. The dependent variable in this research, which is tax aggressiveness, is measured by cash effective tax rate (CETR).
3. The independent variables in this research which contains of profitability is measured by return on assets (ROA), leverage is measured by debt to assets ratio (DAR), capital intensity is measured by capital intensity ratio or called as fixed asset intensity ratio, firm value is measured by Tobin's Q ratio and independent commissioner measured by number of independent commissioner divided by total commissioners.
4. The research period is from 2020 to 2022.

1.3 Problem Formulation

The problem formulation in this research are as follows:

1. Does profitability have a significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially?
2. Does leverage have a significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially?
3. Does capital intensity have a significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially?
4. Does firm value have a significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially?
5. Does independent commissioner have a significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially?

6. Does profitability, leverage, capital intensity, firm value, and independent commissioners have a significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

The objective of this research are as follows:

1. To find out whether profitability has significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially.
2. To find out whether leverage has significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially.
3. To find out whether capital intensity has significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially.
4. To find out whether firm value has significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially.
5. To find out whether independent commissioner has significant impact toward tax avoidance in mining sector companies listed on the Indonesia Stock Exchange partially.
6. To find out whether profitability, leverage, capital intensity, firm value, and independent commissioner have significant impact toward tax avoidance in

mining sector companies listed on the Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

This research is supposed to be beneficial to all parties involved and the benefits can be divided into two categories, such as:

1.5.1 Theoretical Benefit

This research is expected to be used as a guide in developing economics, especially in tax accounting. Further, this research is expected as literature and to generate new ideas and concepts for future research in the areas of tax avoidance, profitability, leverage, capital intensity, firm value, and independent commissioner.

1.5.2 Practical Benefit

The primary objective of this study is to furnish comprehensive information and act as a valuable point of reference for stakeholders engaged in decision-making processes or policy implementation. This study has the potential to provide valuable insights for organizations seeking to mitigate the consequences and penalties associated with tax aggressive behavior. This research has the potential to provide valuable insights for investors in effectively managing their firms' tax practices. This research can also serve as a valuable resource for informing future tax policy decisions made by the Directorate General of Tax.