

CHAPTER I

INTRODUCTION

1.1 Background of Study

Nowadays, most of the country have already implemented the taxation system, which is used for the welfare, also the development of a country. To improve the welfare of its people and its country, a country needs a fund to provide any facilities, infrastructure, and any services. Therefore, one of the ways for generating the fund or revenue of government is by tax that imposed to individual and entity. That is why tax has become the backbone of Indonesia source of income. Because of the crucial effect that can be given if a country has a low revenue, government set a systematic tax regulation that should be used as the legal basis for calculating taxes that need to be paid of each individual and entity.

Every government in any country set the difference regulation for their taxes. This was meant for aiming their goals of a country. Regulation was made for the taxpayer to obey. In Indonesia tax law, it didn't state about the tax avoidance. This goes along with the desire of paying a lower tax, but in a legal way. Taxpayers always try to generate a high profit and try to minimize their expenditures as high as they can do. In result, peoples seeking for the loopholes for minimizing the tax burden. An entity takes an advantage from the law loopholes to reduce the tax without making any illegal action.

Indonesia is a key player in the global oil, gas, and coal industry. It is also widely recognized that the oil, gas, and coal companies contribute significantly to Indonesia's national income. This position makes oil, gas, and coal companies kind

of losing the supervision, so cases of destruction damage and immorality in form of tax avoidance constantly occur. Means that it is crucial that oil, gas, and coal companies pay the correct amount of taxes to maintain a healthy economy because Indonesia is known for having productive lands that are advantageous for oil, gas, and coal companies.

One of the examples practicing tax avoidance is in coal company, which is PT Adaro Energy Tbk, the company paid to Indonesian government less than taxes that should be totaling US \$ 125 million. According to the Global Witness study, Adaro allegedly engaged in transfer pricing or moved its revenue and earnings outside of Indonesia in order to pay less in taxes to the Indonesian government. By offering coal to Coal trade Services International at a cheaper price, Adaro profited from this discrepancy. The coal is then sold at a greater price to other nations. Indonesian taxes on income are less expensive. This indicates that the sales and earnings recorded for Indonesia are below average (Tirto.id).

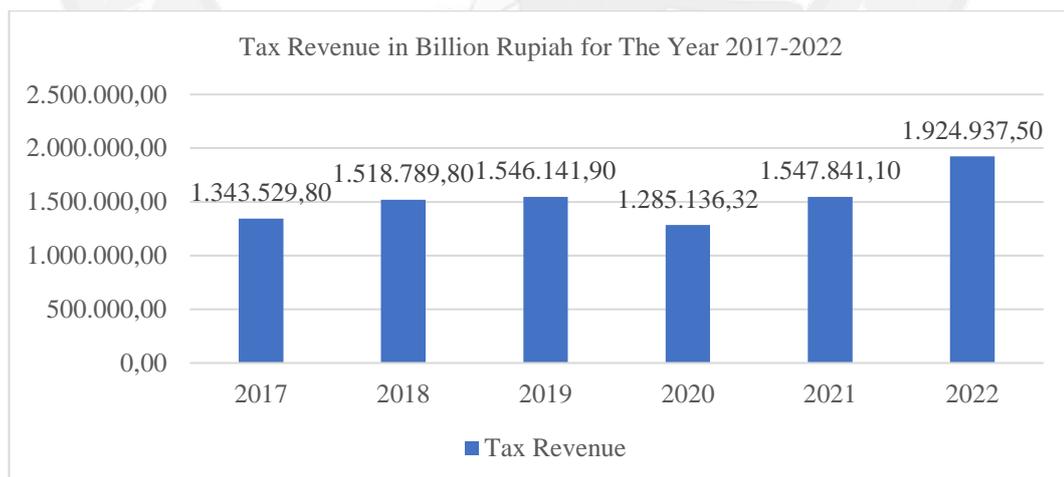


Figure 1.1 Tax Revenue in Indonesia for The Year 2017-2022

Source: Badan Pusat Statistik (2023)

As shown in the figure 11, Indonesia's economic growth has begun to creep up again compared to the time when Covid-19 pandemic hit and start to improve

the welfare, also the development of a country. This is followed by increasing the ability to survive in difficult economic conditions, being able to fulfil obligations in financial affairs and carry out operations in a stable manner and being able to maintain the continuity of its business development from time to time. The health of a company can be assessed from lots of measurement, some of them are from their profitability, leverage, and capital intensity.

The following are some statistics data from oil, gas, and coal companies listed on the Indonesia Stock Exchange within the year 2020-2022:

Table 1.1 The Phenomenon of Profitability, Leverage, and Capital Intensity Toward Tax Avoidance in Oil, Gas, and Coal Listed on the Indonesia Stock Exchange from 2020 to 2022

Company Name	Year	Profitability (ROA)	Leverage (DER)	Capital Intensity (CAPINT)	Tax Avoidance (ETR)
PT Adaro Energy Indonesia Tbk. (ADRO)	2020	0.0384	0.6149	0.2412	0.2865
	2021	0.1959	0.7017	0.1841	0.3079
	2022	0.4151	0.6519	0.1347	0.3675
PT Harum Energy Tbk. (HRUM)	2020	0.1287	0.0965	0.1352	0.0604
	2021	0.1459	0.3426	0.0672	0.2311
	2022	0.3734	0.2888	0.0406	0.2047
PT Indo Tambangraya Megah Tbk. (ITMG)	2020	0.0626	0.3691	0.1690	0.4786
	2021	0.3727	0.3867	0.0995	0.2346
	2022	0.5851	0.3537	0.0573	0.2236

Source: Prepared by Writer (2023)

As shown in table 1.1, writer has taken 3 (three) oil, gas, and coal companies as s representatives to be examined. In result, it shows inconsistent phenomena from the measurement used in this research. In this research, the measurement used to calculate tax avoidance is effective tax rate. Tax avoidance can be influenced by many factors, some of them that will be executed in this research is profitability, leverage, and capital intensity as shown in the table above. The measurement used for calculating profitability is return on assets, leverage is debt to equity ratio, and

capital intensity. While the object is oil, gas, and coal companies listed on the Indonesia Stock Exchange within the year 2020-2022.

The profitability in PT Adaro Energy Indonesia Tbk. (ADRO) is increasing in 2021 compared to 2020, as well as the increasing in effective tax rate. Same goes to the year 2022 compared to 2021. In 2022, the profitability is increasing compared to 2021, as well as the increasing in effective tax rate. The higher its return on assets value, the higher the company's profit will be, which means the higher company's profitability. It will lead to high taxes and increasing in effective tax rate as well. In result, the likelihood company implemented tax avoidance to minimize the tax burden they owe. Proved by the research done by Widyastuti et al. (2022), which is profitability has a positive influenced toward tax avoidance. But contradicts with the research result done by Suliana. (2020) that said profitability has a negative influenced toward tax avoidance.

The leverage in PT Harum Energy Tbk. (HRUM) is increasing in 2021 compared to 2020, as well as the increasing in effective tax rate. Same goes to the year 2022 compared to 2021. In 2022, the leverage is increasing compared to 2021, as well as the increasing in effective tax rate. A higher interest rate will be the outcome if the corporation has more debt. This indicates that by utilizing the debt, the business may increase its benefit in lowering the effective tax rate. A research that done by Suliana. (2020) has a result that leverage gives a positive influence toward tax avoidance. But contradicts with the research result done by Suciarti et al. (2020) that said leverage has a negative influenced toward tax avoidance.

The capital intensity in PT Indo Tambangraya Megah Tbk. (ITMG) is increasing in 2021 compared to 2020. While the effective tax rate is decreasing in 2021 compared to 2020. Same goes to the year 2022 compared to 2021. In 2022, the capital intensity is increasing compared to 2021. While the effective tax rate is decreasing in 2021 compared to 2020. Management will invest in fixed assets with the company's idle capital to gain benefits in the form of amortization expenses that can be used as tax deductions. Therefore, companies with a lot of fixed assets will have a low tax burden because fixed assets are depreciated every year. A research that done by Darsani & Sukartha (2021), has a result that capital intensity gives a positive influence toward tax avoidance. But contradicts with the research result done by Puspitasari et al. (2021) that said capital intensity has a negative influenced toward tax avoidance.

Based on the information, examples, table of phenomena, also the inconsistency result from previous research that have been explained above, the writer has an interest to find out more about the influence of every variable toward tax avoidance. Where the title is **“The Influence of Profitability, Leverage, and Capital Intensity toward Tax Avoidance in Oil, Gas, and Coal Companies Listed on the Indonesia Stock Exchange”**.

1.2 Problem Limitation

In consideration of aiming an objective research result that are not spread too widely than expected, the writer set a problem limitation for this research. They are shown as below as intent to avoid any deviations:

1. The object is the oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX) within the year of 2020-2022.
2. Tax avoidance is the dependent variable in this research and will be measured using Effective Tax Rate (ETR).
3. The independent variables utilized profitability that measured using Return On Assets (ROA), leverage that measured using Debt-to-Equity Ratio (DER) and capital intensity that measured by dividing total fixed assets with total assets.

1.3 Problem Formulation

Based on the limitation described above, the chosen formulation for solving this research is:

1. Does profitability partially give a significant influence toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX)?
2. Does leverage partially give a significant influence toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX)?
3. Does capital intensity partially give a significant influence toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX)?
4. Do profitability, leverage, and capital intensity simultaneously give a significant influence toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX)?

1.4 Objectives of Research

As the answered for the problem formulation, therefore the objectives of research is shown as below:

1. To know the significant influence that given by profitability toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX) partially.
2. To know the significant influence that given by leverage toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX) partially.
3. To know the significant influence that given by capital intensity toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX) partially.
4. To know the significant influence that given by profitability, leverage, and capital intensity toward tax avoidance in oil, gas, and coal companies listed on the Indonesia Stock Exchange (IDX) simultaneously.

1.5 Benefit of Research

From this research study, it is expected to give any advantages for the nest parties that viewing this study. These benefits can be separated into two kinds, which are:

1.5.1 Theoretical Benefit

This study was expected can be used for the next literature review and as a reference for the nest research on tax avoidance. Also, can expand the knowledge about the influence of profitability, leverage, and capital intensity toward tax avoidance.

1.5.2 Practical Benefit

Can be used as references or information for others that will conduct the research that has a same interest with the topic. This research was expected to company review as a guidance. Lastly, this study might give any insight into readers to pay taxes lower than it should be without break or using any illegal method

