CHAPTER I

INTRODUCTION

1.1. Background of the Study

The property and real estate sector in Indonesia had significantly contributed to the Gross Domestic Product (GDP) and the economic development of the country. Economic growth is crucial for a country since it indicates whether the economic conditions are improving for a period. From 2018 to 2022, the economic growth in Indonesia was 5.17% in 2018, 5.02% in 2019, -2.07% in 2020, 3.7% in 2021 and 5.31% in 2022 (Pratama, 2023). The decrease of 2.07% in 2020 was due to its difficulty in identifying a clear path out of its current recession because of the COVID-19 pandemic. But the economy of Indonesia continued to expand despite the global economic instability.

According to President Joko Widodo, the contribution of property and real estate in Indonesia toward GDP annually from 2018 to 2022 is 16% which is very large that reaches Rp 2.300 - Rp 2.800 billion (*Kominfo*, 2023). Additionally, the property and real estate industry employs about 13.8 million people (Zahra, 2023). In conclusion, property and real estate play a significant part in Indonesia's economic expansion. According to *Menteri Keuangan*, Sri Mulyani Indrawati, Indonesia's economic growth will be significantly impacted by the expansion of its property and real estate sectors. Based on her prior research, the property and real estate industries have a multiplier effect of more than one, meaning that developing them will have significant impacts on other sectors (backward linkage). This multiplier effect encompassed 185 sub-sectors. Building supplies including cement, iron, and bricks, as well as furniture, electronics, and home appliances, are all included in these sub-sectors. The rapid expansion of the real estate sector will have an effect on both job creation and economic growth (*Liputan6.com*, 2020a). Every year, property and real estate sectors development tends to increase significantly. The population in Indonesia keep on increasing while there is a limited supply of land. This indicates that there will be a high demand for homes, workplaces, retail establishments, etc.

The high contribution of property and real estate to the GDP means tax plays a crucial role in generating revenue from this sector. In Indonesia, tax is the largest funding sources that is used to carry out government task and national development to consistently pursues economic growth. According to Law Number 16 of 2009 General Provisions and Procedures for Taxation, Article 1 Paragraph 1 states that taxes are a mandatory payment to the state that people and organizations must pay in order to comply with the law, enforced by preventing a direct imbalance and is used to fund state requirements (Diantari and Ulupui, 2016, as cited in Muslim & Fuadi, 2023). The government and companies have different interests when it comes to taxes. For the government, taxes are a major source of income for the state that are used to pay for government expenses. On the other hand, for companies, taxes are a burden that will decrease the net profit generated by the company. The differences show that governments who act as principal demand for the highest possible tax revenue, whereas companies who act as taxpayer demand for the lowest possible tax obligations. Due to this situation, companies who act as taxpayers tend to reduce their tax burden. The government always try to increase tax revenue each year. It is utilized to cover the costs related to national development. Moreover, tax revenue is one of the biggest funding sources to the economy of Indonesia.

Table 1. 1 Target and Realization of Tax Revenue during 2018-2022

Year	Target	Realization	Percentage
2018	Rp. 1.424 billion	Rp. 1.315,9 billion	92.4%
2019	Rp 1.577,6 billion	Rp. 1.332,1 billion	84.4%
2020	Rp.1.198,8 billion	Rp. 1.070 billion	89.2%
2021	Rp. 1.229.6 billion	Rp. 1.277,5 billion	103.9%
2022	Rp. 1.485 billion	Rp. 1.716,8 billion	115.6%

Source: Prepared by author (2023)

However, tax revenue does not always meet the government's target. As we can see in table 1.1, the realization in 2018 to 2019 was increased by 1.4% but it didn't meet the government's target due to the global economic conditions (Julita, 2020). During 2019 to 2020, the realization dropped by 24.5% due to the economic decline and incentives provided by the government (*Liputan6.com*, 2020b). It was the biggest decline that occurred because of COVID-19 pandemic that restricted people's ability to engage in economic activity. However, in 2021 & 2022, the realization of tax revenue respectively increased by 19.2% and 19.3% and surpassed the government's target which means that there is an increase in tax performance.

Taxes are an obligation that a company must pay to the government. This influences how much net income a company may produce in each period. This condition causes taxpayers, especially entities, to have the tendency to minimize the amount of taxes owed. The amount of taxes that a company must pay to the government will be deducted from its net profit. To lower the total amount of tax that must be paid, company owners typically create a tax management plan within the company. Companies will apply tax planning to ensure that the company's tax payments are as effective as possible. Tax planning's primary goal is to find different ways to implement loopholes in the tax code so that companies only must pay the bare minimum of tax. Tax planning is divided into two, tax evasion and tax avoidance (Puspita & Febrianti, 2018). Although both of them aim to lower the amount of tax that must be paid, there are still have a significant differences between them (Ardyaksa & Kiswanto, 2014, as cited in Widayanti et al., 2022).

The goal of tax avoidance is to avoid paying taxes that are safely and lawfully imposed on taxpayers. On the other hand, tax evasion is the attempt to unlawfully avoid paying taxes. Companies generally utilize tax avoidance to reduce their tax liability while increasing profits. Tax avoidance doesn't break the law because the method used in tax avoidance is to find a gap in tax law and regulations (Kimsen et al., 2018). Tax avoidance may be legal; however, it is detrimental to a country by reducing the amount of money the government receives through tax. For this reason, tax avoidance is viewed as having a bad effect for a country. Therefore, government control of the process of tax collection is necessary for a country (Faizah & Adhivinna, 2017).

Due to the substantial amount of income from the property and real estate industry in Indonesia, this sector is crucial to the country's economic expansion (Turyatini, 2017). To sustainably provide substantial profits for the country, Property and real estate companies in Indonesia must become more proficient at managing company operations. However, companies that generate large incomes usually will pay greater amounts of taxes which will create opportunities for tax avoidance. Companies may engage in finding gaps in the tax law and regulations, transfer pricing, underreporting income, tax credits and so on. To reduce the practice of tax avoidance, the government needs to provide tax education to the taxpayer to gain tax awareness and tax knowledge to the taxpayers about the importance of their compliance in paying tax.

There is much research that uses different factors that may affect tax avoidance, however there are still no consistent results. The author would like to analyze a few factors that may influence tax avoidance through this research. These factors are profitability, leverage and firm size which is respectively measured by Return on Assets (ROA), Debt to Equity Ratio (DER) and natural logarithm of total assets. Meanwhile, tax avoidance is measured by Effective Tax Rate (ETR).

Table 1. 2 Table of Phenomenon

Company	Year	ROA	DER	Firm Size	ETR
DUTI	2018	0.08911	0.3429	30.1681	0.00576
	2019	0.09356	0.3019	30.2548	0.00655
	2020	0.00464	0.3314	30.2523	0.00374
	2021	0.04769	0.3966	30.3595	0.00165
	2022	0.05432	0.4265	30.3774	0.00195
DMAS	2018	0.06618	0.0433	29.6459	0.03502
	2019	0.17532	0.1726	29.6614	0.01105
	2020	0.19972	0.2214	29.5409	0.00935
	2021	0.11692	0.1425	29.4416	0.02195
	2022	0.18397	0.1570	29.5216	0.01642
PPRO	2018	0.03015	1.8316	30.4329	0.00886
	2019	0.01843	2.1975	30.6058	0.00223
	2020	0.00684	3.1547	30.5486	0.29831
	2021	0.00100	3.6878	30.6797	0.53025
	2022	0.00111	3.7882	30.7135	0.63569

Source: Prepared by author (2023)

Table 1.2 shows the analysis of Return on Assets (ROA), Debt to Equity Ratio (DER), Firm Size, and Effective Tax Rate (ETR) on property and real estate companies for the year 2018 through 2022. The companies consist of PT Duta Pertiwi Tbk (DUTI), PT Puradelta Lestari Tbk (DMAS) and PT PP Properti Tbk (PPRO).

Based on the table of phenomenon above, PT. DUTI experienced an increase in ROA value which indicates the increase in profitability from the year 2021 to 2022. This increase in ROA was due to the higher net income and sales generated by the company in 2022. PT. DUTI successfully increase their net income to Rp 846.697 million in 2022 from Rp 730.113 million in 2021. Besides that, PT. DUTI also managed to increase their net sales by 36.48% from the year 2021 to 2022. However, PT. DUTI experienced an increase in ETR from the year 2021 to 2022. In contrast with PT. DUTI, an increase in ROA on PT. DMAS leads to a decrease in ETR from the year 2021 to 2022. This shows an inconsistent performance of the influence of profitability toward tax avoidance. Generally, an increase in ROA will typically result in a decrease in ETR because profitable companies will increase a company's tax burden which has higher tendency to do tax avoidance. The previous research conducted by Prapitasari & Safrida (2019) declares that profitability has a positive effect toward tax avoidance. However, previous research by Sriyono & Andesto (2022) states that profitability has a negative effect toward tax avoidance.

PT. DMAS experienced an increase in DER from the year 2021 to 2022. These increases in DER were mainly due to the increase in long-term company contract liabilities from Rp 38.055 million in 2021 to Rp 80.763 million in 2022. However, the ETR of PT. DMAS experiences a decline from the year 2021 to 2022. In contrast with PT. DMAS, an increase in DER that was mainly due to short-term bank loans on PT. PPRO leads to an increase in ETR from the year 2021 to 2022. This shows an inconsistent performance of the influence of leverage toward tax avoidance. Generally, higher leverage will lead to a decrease in ETR, because companies with higher leverage tend to have higher interest expenses that will decrease the tax burdens of a company. Due to this condition, companies have a higher tendency to do tax avoidance. The previous research conducted by Paramita et al. (2023) declares that leverage has a positive effect toward tax avoidance. However, previous research by Prapitasari & Safrida (2019) states that leverage has a negative effect toward tax avoidance.

PT. DUTI experienced an increase in firm size from the year 2021 to 2022. The company's higher cash and cash equivalents as well as inventory were the main causes of this growth in firm size. However, PT. DUTI experienced an increase in ETR from the year 2021 to 2022. In contrast with PT. DUTI, from 2021 to 2022, the company's trade receivables and inventory increased, which in turn led to a rise in firm size on PT. DMAS and followed by a drop in ETR. This shows an inconsistent performance on the influence of firm size toward tax avoidance. Generally, larger firms typically have complex transactions that result in tax avoidance, which decreases ETR. As a result, larger firms tend to have lower ETR. The previous research conducted by Irton et al. (2022) declares that firm size has a positive effect toward tax avoidance. However, previous research conducted by Prapitasari & Safrida (2019) declares that firm size has a negative effect toward tax avoidance.

The data used in this research are property and real estate companies listed on Indonesia Stock Exchange (IDX). Based on the table of phenomenon and the previous research above, the author concluded that there is inconsistent performance related to the factors that may affect tax avoidance. Due to the inconsistent performance, the author decided to propose research entitled **"The Influence of Profitability, Leverage and Firm Size toward Tax Avoidance in Property and Real Estate Companies Listed on the Indonesia Stock Exchange".**

1.2. Problem Limitation

To avoid deviation from the topic, the author has set problem limitation as follow:

1. The objective of this research is the property and real estate companies listed on the Indonesia Stock Exchange (IDX) during 2018-2022.
2. This research will only use Profitability (ROA), Leverage (DER) and Firm Size (SIZE) as the independent variable.
3. This research will only use Tax Avoidance (ETR) as the dependent variable.

1.3. Problem Formulation

According to the previous background, the formulation of the research problem are as follows:

1. Is there a significant influence between profitability and tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX)?

2. Is there a significant influence between leverage and tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX)?
3. Is there a significant influence between firm size and tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX)?
4. Is there a significant influence regarding profitability, leverage and firm size toward tax avoidance in property and real estate companies listed in Indonesia Stock Exchange (IDX)?

1.4. Objective of the Research

The objectives of the research in this study are as follows:

1. To determine whether there is a significant influence between profitability and tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX).
2. To determine whether there is a significant influence between leverage and tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX).
3. To determine whether there is a significant influence between firm size and tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX).

4. To determine whether profitability, leverage and firm size have a significant influence toward tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX).

1.5. Benefit of the Research

In this research, the author expects it will be useful both in theoretically and practically, as below:

1.5.1. Theoretical Benefit

Theoretically, the author expects that readers who are interested to discover more about the relationship between profitability, leverage and firm size toward tax avoidance may find this research to be a useful source for further knowledge and understanding. Additionally, the author expects that individuals who are willing to use the same topic may use this research as a reference.

1.5.2. Practical Benefit

Practically, this research is expected to be used as follows:

1. For Research

   It is expected that the variables utilized in this study, the relevant data, and other aspects of the research will be useful as references for those who are willing to conduct research on similar topics.

2. For Government

   It is expected that this research would help the government develop more effective tax laws and regulations that will increase tax revenues and decrease avoidance of taxes.

3. For Companies

   It is expected that this research could raise awareness among companies regarding their compliance with tax payments since they represent the majority of the country's contributors.

4. For Investors

   It is expected that this research could assist investors to select more profitable investments in property and real estate companies.