CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxation is the process of transferring funds from taxpayers to support government funding and development expenditure. It will be feasible to optimize state income derived from domestic capabilities in funding development through taxes. In this light, taxation is a key source of governmental money for national development today. Every year, the government budget attempts to boost tax collections in order to support the ongoing development. The bigger the state's tax income, the greater the state's financial capability for development finance. On the other side, the lower the state's tax revenue, the lower the state's capacity to fund development (Mukhlis, 2011).

According to Tax Laws and Procedures, tax is the taxpayer's contribution to the state that is owed by individuals or entities whose nature can be coerced and levied by law, and does not receive direct compensation in kind, and is used for State needs for the greatest prosperity of the people (Mardiasmo, 2001).

NJ. Peldman's definition of tax in the book De Over Heidsmiddelen Van Indonesia: Tax is an achievement that is imposed unilaterally by and owing to the entrepreneur (according to general rules), unless there is a violation that can be shown in that matter individual and is designed to support government expenditures (Rahmat, 2015).

Taxation has an essential role in state life, particularly in the execution of development, because it is a source of state money that is used to fund all expenditures, including development expenditures. According to Taxation Law No. 28 of 2007, "tax is a mandatory contribution to the state owed by an individual or entity that is coercive based on law, without receiving direct compensation, and is used for state needs for the greatest prosperity of the people." Tax payments are an expression of state commitments, and taxpayers have a direct and collaborative role in carrying out tax obligations for state funding and national development (Miko, 2017).

In practice, corporations aim to reduce all corporate business costs, including tax obligations, in various ways. The tax burden on businesses reduces the percentage of income that should be paid to management and corporate capital owners. As a result, managers will make every attempt to reduce the tax burden, either by exploiting flaws in tax regulations or by other ways. Tax reduction may be accomplished in a variety of methods, one of which is tax avoidance (Puspita & Febrianti, 2018).

Tax avoidance is a transaction strategy that aims to reduce the tax burden by utilizing loopholes in a country's tax legislation in such a way that tax professionals deem it legitimate since it does not violate tax regulations (Puspita, 2017, as cited in Anggraeni, Rosvita & Febrianti, 2023).

Tax avoidance methods made by businesses can boost company value since the firm's profits will be higher. Traditionally, corporate tax avoidance is seen to be a transfer of money from the government to the firm that should add value to the organization. However, tax avoidance does not come cheap, immediate expenses such as implementation costs, reputational damage, the prospect of prosecution, and so on must be faced by the corporation. According to the agency, tax avoidance demonstrates that tax avoidance is not always desired by shareholders because costs must be incurred, including costs directly related to tax avoidance activities and indirect costs that may be greater than the benefits of engaging in tax avoidance practices. As a result, tax avoidance by corporations must examine both costs and advantages (Karimah & Taufiq, 2016).

Tax avoidance is stated to be unusual and confusing, since it is not illegal because no regulations have been violated, yet it is not wanted by the government. The absence of any regulations being broken indicates that the government does not ban this behavior, although it cannot be denied that it reduces state revenues (Ayu Widya Lestari & Putri, 2017).

The mining sector is becoming increasingly essential to the economy of countries throughout the world, including Indonesia. The mining sector is critical to

Indonesia's economic landscape, contributing considerably to GDP and providing as a key source of government income. Between 2000 and 2011, Indonesia's mining sector saw exceptional expansion, with rising exports and output. The mining sector is one of the industries that helps to sustain and propel the Indonesian economy (Sutrisno, 2016).

Figure 1. 1 State revenue from the mining sector (2013-2022)

Source: Kementerian ESDM

As stated on the graph above, The Ministry of Energy and Mineral Resources (ESDM) reported that the realization of state revenue from the mining sector reached IDR 155.75 trillion in 2022. This value has increased by 106.35% throughout 2021 which amounted to IDR 75.48 trillion. The realization of state income from mining has also recorded a record in the last 10 years. Previously, state income from this sector had never exceeded IDR 100 trillion.

The mining industries' contribution to Indonesia's economic growth has expanded in recent years. According to figures from the Central Statistics Agency

(BPS), the mining industry contributed 12.22% to national economic growth in 2022, an increase from the sector's contribution to growth in 2021 of 8.98% and 6.44% in 2020 (Pink, 2023).

According to Sri Mulyani, Minister of Finance, the good performance of tax receipts up to October 2022 has surpassed 97.5% of the revenue objective for this year. When compared to other industrial sectors, the mining industry generated the highest cumulative performance percentage of 188.9%. Throughout the year, the mining industry produced the most tax income in the second quarter, reaching 401.2%, a fourfold increase over revenue in October of 90.8% (Sopiah, 2022). As the mining sector becomes one of the biggest contributors in taxation, the profit of the sector of course increases. This will affect the tax income of this sector, because the higher the profit of the company, the higher the tax burden imposed on the company.

As mining firms attempt to grow their operations while maintaining profitability, tax planning and optimization tactics become increasingly important in order to efficiently manage their tax responsibilities. However, tax optimization can occasionally lead to tax avoidance, raising issues about the equality and integrity of the tax system.

PwC Indonesia Mining Advisor stated that tax transparency is one of the important measures regarding Environmental, Social, and Good Governance rankings, for mining companies to monitor the company's significant financial contribution to society. This is supported by data showing that Indonesia is one of the most productive countries in the coal mining business and the world's fifth largest coal producer. Indonesia produces over 485 million tons of coal, or approximately 7.2% of global coal output, and is the world's second largest coal exporter after Australia, exporting approximately 80% of total Indonesian coal production. The mining industry's huge economic value does not correspond to its small tax payment (Setiawati & Ammar, 2022).

As a result of this situation, the coal mining business receives very little oversight, which can lead to environmental harm and even tax avoidance. As was recently the case with PT Adaro Energy Tbk, a significant mining firm in Indonesia that adopted tax common sense. PT Adaro leverages the price difference by selling its coal to Coal trade Services International at a lower price, then selling the coal to other nations at a greater price. From there, the taxable income in Indonesia is lower since the sales and profits recorded in Indonesia are lower than they should be. PT Adora's strategy is tax avoidance, which does not break the regulations, but it is immoral since the firm earns profits from resources in Indonesia, but the tax income collected is insufficient (Prasetya & Muid as cited in Ramadhiani & Dewi, 2021).

According to a 2019 article on www.katadata.co.id, despite its significant economic worth, the mining industry's tax contribution is quite low. In 2016, the mineral and coal mining industry's tax ratio were 3.9%, compared to 10.4% overall. The coal industry's avoidance of taxes cannot be isolated from a low tax ratio.

Avoiding taxes takes use of legal gaps and system flaws (Miranda, Putri Anisa & Mulyati, 2022).

Leverage is another aspect that might impact tax avoidance. A company's high level of interest expenditure might minimize the company's tax burden. Companies with a high tax burden will choose to contribute to third parties with their own capital in order to reduce their tax burden. The more the leverage, the greater the tax avoidance (Miranda, Putri Anisa & Mulyati, 2022).

Table 1. 1 Table of Phenomenon

Company	Year	Sales Growth	Debt to Equity Ratio (DER)	Return on Asset (ROA)	Cash Effective Tax Rate (CETR)
ALKA	2020	-0.0785	2.9792	0.0160	0.1826
	2021	0.6978	2.8766	0.0349	-0.0106
	2022	0.1905	2.4769	0.0752	0.0104
ANTM	2020	-0.9992	0.6665	0.0362	0.2044
	2021	0.4045	0.5797	0.0566	0.3591
	2022	0.1947	0.4186	0.1136	0.3051
SGER	2020	0.5956	0.6564	0.0404	0.2878
	2021	0.9284	1.8492	0.1637	0.1277
	2022	1.6625	2.3301	0.1753	0.1683

Increased sales growth could lead to a higher tax burden for the company. It can be seen on PT. ALKA. The sales growth increased from -0.0785 to 0.6978 from the year 2020 to 2021. The increase in sales growth is usually due to the company’s increase in sales revenue. However, the CETR of PT. ALKA decreases from 0.1826 to -0.0106 in 2020 until 2021. As for PT. ANTM, sales growth increased from -0.9992 to 0.4045 in 2020 until 2021 due to the company's increase in sales revenue. In contrast, the CETR of PT. ANTM increased from 0.2044 to 0.3591.

In both PT. ALKA and PT. ANTM, the influence of the sales growth on tax avoidance is inconsistent. When a company's sales increase, the tax burden may increase as well. The tax burden will rise in line with the increase in sales. This may result in the corporation engaging in tax avoidance to reduce its tax burden and maximize its profit. Based on the research conducted by Dhimas Adityarahman Pamungkas & Titik Mildawati (2020), Sales Growth did not affect on tax avoidance. However, according to the research conducted by Sabila Dwi Agustiana & Eny Kusumawati (2022), sales growth has no significant effect on tax avoidance.

Increased leverage proxied by Debt to Equity Ratio (DER) could lead to a lower tax burden for the company. It can be seen on PT. SGER from the year 2021 - 2022. The increase of the leverage usually occurs because the company borrows funds from the bank. On the other hand, the CETR of PT. SGER increases from 0.1277 to 0.1683 in 2021 – 2022. As for PT. ANTM, DER decreased from 0.6665 to 0.5797 in 2020 until 2021 and the CETR of PT. ANTM increased from 0.2044 to 0.3591.

In both PT. SGER and PT. ANTM, the influence of DER on tax avoidance is inconsistent. As a company's leverage increases, the interest rate on bank loans rises, resulting in a decreased tax burden placed on the company. Companies may utilize this method to lower their tax burden. According to the research conducted by Hermawan (2018), Leverage has an impact towards Tax Avoidance. However, according to research conducted by Dhimas Adityarahman Pamungkas & Titik Mildawati (2020), leverage did not affect tax avoidance as the company's used debts for their operational cost.

Increased profitability proxied by Return on Asset (ROA) could lead to a higher tax burden for the company. It can be seen on PT. ALKA. The ROA increased from 0.0160 to 0.0349 in 2020 until 2021. The increase in profitability is usually due to the increase in the company's sales. However, the CETR of PT. ALKA decreased from 0.1826 to -0.0106. As for PT. SGER, ROA increased from 0.1637 to 0.1753 in 2021 until 2022. In contrast, the CETR of PT. SGER also increased from 0.1277 to 0.1683.

In both PT. ALKA and PT. SGER, the influence of ROA on tax avoidance is inconsistent. The tax burden of a company grows in line with its profitability. On the other hand, if a company's CETR decreases while its profitability increases, it is possible that the company is engaging in tax avoidance. According to the research conducted by Lidia Wahyuni, Robby Fahada & Billy Atmaja (2017), profitability does not affect tax avoidance. Meanwhile, the research conducted by Sabila Dwi Agustiana & Eny Kusumawati (2022), the test results show that the profitability variable has a significant effect on tax avoidance.

Based on the descriptions of the phenomena above, the authors conducted more specific research on several factors that could have an impact on tax avoidance from the mining sector listed on the Indonesia Stock Exchange, namely Sales Growth, Leverage, and Profitability. This research will certainly focus more on the mining sector in Indonesia.

1.2 Problem Limitations

The problem limitation of this research is:

1. The sample is limited to mining companies that have been listed on the IDX for at least 3 years and have published their financial statements for the period 2020-2022.

2. The indicator for sales growth is total revenue, for leverage is Debt to Equity Ratio (DER), and profitability is Return on Assets (ROA).

1.3 Problem Formulation

The main problem addressed in this study is the lack of understanding of the factors that influence tax avoidance in mining companies listed on the IDX. Specifically, the study aims to answer the following research questions:

1. Is there any significant impact of sales growth towards tax avoidance on mining companies listed on the Indonesia Stock Exchange partially?

2. Is there any significant impact of leverage towards tax avoidance on mining companies listed on the Indonesia Stock Exchange partially?

3. Is there any significant impact of profitability towards tax avoidance on mining companies listed on the Indonesia Stock Exchange partially?

4. Is there any significant impact of sales growth, leverage, profitability towards tax avoidance on mining companies listed on the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

The main objective of this research is to examine the effect of sales growth, leverage, and profitability on tax avoidance in mining companies listed on the IDX. The specific objectives are:

1. To determine whether there is a significant impact between the sales growth of the companies towards tax avoidance partially.

2. To determine whether there is a significant impact between the leverage of the companies towards tax avoidance partially.

3. To determine whether there is a significant impact between the profitability of the companies towards tax avoidance partially.

4. To determine whether there is a significant impact between the sales growth, leverage, and profitability of the companies towards tax avoidance simultaneously.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research will contribute to the literature on tax avoidance by examining the effect of sales growth, leverage, and profitability on tax avoidance in mining companies listed on the IDX. The findings of this study will provide insights into the factors that influence tax avoidance in the mining industry.

1.5.2 Practical Benefit

This research will benefit legislative bodies, tax authorities, and investors by providing insights into the factors that influence tax avoidance in mining companies listed on the IDX. The findings of this study will help legislative bodies and tax authorities to develop effective policies and regulations to reduce tax avoidance practices. Investors can use the findings of this study to make informed investment decisions.