

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Indonesia is one of the most populous countries in the world. Moreover, Indonesia has abundant natural resources and is strategically located, making it a global trade center. Because of this, competition between large companies is increasing, especially those listed on the Indonesian Stock Exchange. The increase in the number of large companies residing in Indonesia means that the state will receive more income, especially in the field of taxation. Therefore, taxes have always been the government's main focus because they are the most important focus of the state revenue and expenditure budget (APBN). For the state, taxes are one of the main sources of income used to fund state expenditure, both for regular expenditure and development expenditure.

Tax is a mandatory and coercive contribution to the state that is owed by taxpayers without receiving direct compensation and is collected based on law. The government wants to increase tax revenues because taxes play a large role in the state budget. State revenue is greatly influenced by taxes, the amount of which is the highest revenue from total state revenue. Differences in interests regarding taxation from the company side and the government will cause companies as taxpayers to try to minimize and even avoid the amount of tax owed.

Tax is an important income for the government, while companies will try to manage their tax burden to a minimum in order to obtain maximum profits. The government wants taxpayers to pay the tax burden according to the regulations

that must be paid. However, the problem is that companies tend to want to minimize the amount of tax they have to pay, because paying tax means reducing company profits. Based on this, tax planning, taxpayers or companies decide to implement tax avoidance practices, which is an option for taxpayers or companies to minimize their tax burden because basically tax avoidance is carried out by exploiting the weaknesses of tax laws and regulations, therefore it is legal. because it is not a violation of applicable tax laws and regulations.

Tax avoidance is an effort to legally reduce tax payments by looking for loopholes in tax laws and regulations. Even though tax avoidance is legal, this will reduce government income from the tax sector so the government does not want this to happen. Many cases of tax avoidance are often carried out by large companies in Indonesia which are very detrimental to state revenues which are known to be caused by sales growth, liquidity and leverage. The Director General (Dirjen) of Taxes at the Ministry of Finance (Kemenkeu) Suryo Utomo spoke about the findings of tax avoidance which is estimated to cost the state up to IDR 68.7 trillion per year. These findings were announced by the Tax Justice Network, reporting that due to tax avoidance, Indonesia is estimated to lose up to US\$ 4.86 billion per year. This figure is equivalent to IDR 68.7 trillion when using the rupiah exchange rate. In the Tax Justice Network report entitled *The State of Tax Justice 2020: Tax Justice in the time of Covid-19*, it is stated that from this figure, as much as US\$ 4.78 billion, equivalent to Rp. 67.6 trillion, of which is the result of corporate tax avoidance in Indonesia. Meanwhile, the remaining US\$ 78.83 million or around Rp. 1.1 trillion came from individual taxpayers.

Banking plays a key role in supporting the Indonesian economy. Through lending, banks help increase investment and economic growth. In this case, banking plays an important role in helping to finance small and medium businesses, which are an important economic resource for Indonesia. Banking also plays an important role in helping governments finance infrastructure and economic development projects. This is done by purchasing government securities and helping to finance the government through loans. This helps the government finance infrastructure projects and promote economic development.

Banking also plays an important role in helping people overcome financial problems. By providing financial products such as deposits and savings, banks help people overcome financial problems and ensure that their money is stored safely. Apart from that, banks also play an important role in helping people buy houses and finance the purchase of motor vehicles. This is done by providing products such as home ownership loans and motor vehicle ownership loans. This helps people buy the homes and motor vehicles they want and helps strengthen the Indonesian economy.

Banking also plays an important role in supporting other economic sectors, such as trade, industry and services. Through lending and financial products, banks help these sectors finance their activities and help strengthen the Indonesian economy. Banking also plays an important role in increasing people's access to financial products and services. This is done by helping expand the network and providing financial products that are more easily accessible to the public, such as

mobile banking and internet banking applications. This helps people have easier and more efficient access to products and services.

Sales growth is a change in sales that can experience an increase or decrease in sales. Sales growth is the ability of a company to increase sales in a certain period. In an effort to increase its sales and assets can make the company gain large profits, companies will avoid taxes, because increased profits due to sales growth also increase the tax burden borne by the company. This also makes the company's tax burden is high, so sales growth can motivate companies to implement tax avoidance. The higher the sales growth, the more tax avoidance will increase. Because with increasing sales growth the company will also get large profits and as a result it will incur a large tax burden, so companies tend to carry out tax avoidance. Based on the research conducted by Norisa, et al. (2022) entitled the influence of profitability, leverage, liquidity and sales growth on tax avoidance. The result show that simultaneously the results of this study indicate that the variables of profitability, leverage, liquidity, and sales growth have an effect on tax avoidance. Partially, profitability has no effect on tax avoidance, leverage has no effect on tax avoidance, liquidity has no effect on tax avoidance, and sales growth has no effect on tax avoidance.

Liquidity is the extent of a company's ability to meet its short-term obligations. The greater the liquidity of a company, the stronger the company's financial condition. Liquidity is shown by the size of current assets, namely assets that are easily converted into cash, which include cash, securities, receivables, inventories. Each company has a different level of liquid assets. The greater the

company's liquidity, the stronger the overall financial condition of the company and the greater the company's profitability and the more risky the type of funding that can arise. It because a company with a high liquidity ratio shows the company's ability to fulfill its short-term obligations, which indicates the company is in a good financial condition. healthy and easily sell the assets owned, if necessary so that the company tries to carry out tax avoidance to minimize the burden incurred.

Based on research conducted by Nyoriman (2022) entitled the effect of liquidity and sales growth on tax avoidance in various consumer goods industry sector companies listed on the Indonesia stock exchange for the 2014-2018 period. The t-test results show that liquidity has no effect on Tax Avoidance in various consumer goods industry companies Listed on the Indonesia Stock Exchange Period 2014-2018 and Sales Growth has a significant effect on Tax Avoidance in various consumer goods industry companies Listed on the Indonesia Stock Exchange Period 2014-2018. While the F-test results show that the Liquidity and Sales Growth variables significantly influence the Tax Avoidance at various consumer goods industry companies Listed on the Indonesia Stock Exchange Period 2014-2018. The coefficient of determination test results (R^2) shows that the Tax Avoidance variable can still be explained by the Liquidity and Sales Growth variables while the remaining Tax Avoidance variables can be explained by other variables not examined in this study such as Leverage and Profitability.

Leverage is another name for loan comparison. This comparison is used to analyze and interpret short-term financial positions. Debt ratio is calculated by

comparing total debt with total assets. The weight of interest incurred with debt will affect company taxes. The higher the debt ratio, the lower the company's efficient tax payment rate. Leverage shows the proportion of debt used in terms of investment financing. A company that does not have leverage means it uses its own capital. It can be concluded that leverage is used to measure how much of a company's assets are financed by debt so that interest costs arise. Interest costs are a fixed expense that is the company's obligation or responsibility. The use of leverage is measured by comparing total assets with total debt. By having high debt, the higher the interest burden borne by the company, therefore high interest burden can make the company reduce tax payments because the company is unable to pay taxes. Reducing the amount of tax burden is an opening to practice tax avoidance. Based on research conducted by Danardhito, et al. (2023) entitled determinants of tax avoidance: liquidity, leverage, activity, profitability, growth and company value. This study concludes that profitability has a positive effect on tax avoidance, while firm value has a negative effect on tax avoidance. Liquidity, leverage, activity, and growth have no effect on tax avoidance. Profitability has the most dominant influence on tax avoidance compared to other variables.

There are reasons why this research is conducted in the banking sector which is caused by the number of existing sectors, the financial services sector still occupies the 11th position which influences the level of the economy in Indonesia. The figure above also shows that the growth rate of the financial services and insurance sector continues to increase from 2020 to 2022.

Table 1.1. Research Data Phenomenon

Kode	Tahun	Tax Avoidance	Sales Growth	Liquidity	Leverage
AGRO	2020	0,51209888	-0,193619296	1,180703219	0,846952887
	2021	0,077935121	-58,30203797	1,170566115	0,8542875
	2022	0,901360774	-1,033203998	1,322472689	0,756159283
AGRS	2020	0,024781848	-0,386071064	1,23884724	0,807202024
	2021	0,269637161	-1,058861361	1,265299352	0,79032681
	2022	0,087249874	8,146372674	1,294862058	0,772283035
AMAR	2020	0,671104205	-0,653996478	0,98102918	1,019337671
	2021	4,051927277	-0,759488108	1,739591523	0,574847593
	2022	0,233102306	-29,62978059	3,390193397	0,294968423
ARTO	2020	0	1,024911963	2,300560399	0,434676699
	2021	8,417998686	-1,056549526	3,11501374	0,321025871
	2022	0,221020168	0,210987337	2,075143854	0,481894302
BABP	2020	0,347248339	-0,644157351	1,153562476	0,866879792
	2021	0,429281057	0,116099753	1,20304521	0,831223957
	2022	0,659193436	5,044254076	1,191683989	0,839148641

There are differences between the research conducted and previous research by Norisa, et al. (2022) entitled *Pengaruh Profitabilita, Leverage, Likuiditas Dan Sales Growth Terhadap Tax Avoidance* where the difference lies is that in previous research there was a profitability variable which was used as one of the independent variables, whereas in this research only 3 independent variables were used in the form of sales growth, liquidity and leverage. Apart from that, this research was conducted in 2023, whereas the previous research was conducted in 2022. The company sector used in this research was banking during the period 2020 - 2022, whereas in the previous research the research was conducted quantitatively using a sample of coal sub-sector mining companies listed on the IDX for the 2016-2020 period.

Based on some of the background descriptions above, it can be seen that there are various ways that a company can use to avoid tax and apart from that there are also many factors that influence the implementation of tax avoidance such as sales growth, liquidity and leverage.

Based on the background study above, the writer is interested to conduct research with the title: **“The Effect of Sales Growth, Liquidity, and Leverage Toward Tax Avoidance In Banking Companies Listed on the Indonesia Stock Exchange.”**

1.2 Problem Limitation

For the problem limitation, writer will focus on variable which are sales growth, liquidity, leverage and tax avoidance for the problem limitation. This paper aims to investigate on how sales growth, liquidity, and leverage affecting tax avoidance at banking company listed in Indonesia Stock Exchange.

1.3 Problem Formulation

The problem formulation in this study can be identified:

1. Does sales growth significantly has a partial effect towards tax avoidance at banking company listed in Indonesia Stock Exchange?
2. Does liquidity significantly has a partial effect towards tax avoidance at banking company listed in Indonesia Stock Exchange?
3. Does leverage significantly has a partial effect towards tax avoidance at banking company listed in Indonesia Stock Exchange?
4. Do sales growth, liquidity, and leverage significantly have a simultaneous effect towards tax avoidance at banking company listed in Indonesia Stock Exchange?

1.4 Objective of the Research

The objective of the research as follow:

1. To analyze whether sales growth has a significant effect towards tax avoidance at banking company listed in Indonesia Stock Exchange.
2. To analyze whether liquidity has a significant effect towards tax avoidance at banking company listed in Indonesia Stock Exchange.
3. To analyze whether leverage has a significant effect towards tax avoidance at banking company listed in Indonesia Stock Exchange.
4. To analyze whether sales growth, liquidity, and leverage have a significant effect towards tax avoidance at banking company listed in Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefit of the researches as follow:

1. Theoretical Benefit

- a. For Readers

The result from this study can be proof for readers to know that sales growth, liquidity, and leverage have a significant effect towards tax avoidance at banking company listed in Indonesia Stock Exchange.

- b. For Writer

The result from this study provide insight and experience as well as observations in a real life situation which is very useful for the writer about the effect of sales growth, liquidity, and leverage towards tax avoidance at banking company listed in Indonesia Stock Exchange.

c. For Other Researches

The result from this study can be used for reference for those who are interested in studying the same problem in the future about the effect of sales growth, liquidity, and leverage towards tax avoidance at banking company listed in Indonesia Stock Exchange.

2. Practical Benefit

a. For Banking Company Listed In Indonesia Stock Exchange

The researcher expects the result from this study could benefit the business to evaluate, and take the result as suggestion to know the effect of sales growth, liquidity, and leverage towards tax avoidance at banking company listed in Indonesia Stock Exchange.

b. For Writer

The result from this study make the writer gain new experience and more knowledge about the importance of sales growth, liquidity, and leverage towards tax avoidance at banking company listed in Indonesia Stock Exchange.

c. For Future Research

The researcher expects the result from this study could become a comparison for the future researchers who are interested of studying the same topic which is the effect of sales growth, liquidity, and leverage towards tax avoidance at banking company listed in Indonesia Stock Exchange.