

# CHAPTER I

## INTRODUCTION

### 1.1. Background of Study

Tax collection carried out by the government does not always get a positive response from taxpayers because there are differences in interests between the government and taxpayers. For the stated, the largest source of revenue comes from taxes used in administering the government, while for taxpayers it is a burden that must be paid as a manifestation and role in contributing to increasing national development. Tax collection is not an easy thing to implement. Tax from the company side is one of the factors considered because taxes are considered a burden that can affect the survival of the company.

The practice of tax avoidance in Indonesia is becoming increasingly common. Tax avoidance is an effort to avoid taxes legally which does not violate tax regulations to minimize the tax burden by exploiting weaknesses in tax provisions. Tax avoidance is a form of transaction scheme to minimize or reduce the tax burden by exploiting loopholes in a country's tax regulations, thus enabling tax experts to declare it legal because it does not violate tax regulations.

According to the Tax Justice Network report, Indonesia is estimated to face losses of US\$ 4.86 billion per year or the equivalent of Rp. 68.7 trillion (rupiah exchange rate of Rp 14,149 per US dollar) due to tax avoidance. In the headline entitled The Stated of Tax Justice 2020: Tax Justice in the Time of COVID-19, Tax Justice News reported that with a total of IDR 68.7 trillion, the losses were caused

by corporate taxpayers who committed tax avoidance in Indonesia. The amount of loss caused reached US\$ 4.78 billion or equivalent to IDR 67.6 trillion. Meanwhile, the remainder came from individual taxpayers with an amount reaching US\$ 78.83 million or the equivalent of Rp. 1.1 trillion ([www.pajakku.com](http://www.pajakku.com)).

Even though the practice of tax avoidance is permitted, the government does not really want this in the hope that companies can pay their taxes without having to use tax avoidance. Tax avoidance will continue to occur because people who are experts in the field of taxation can use loopholes in regulations to reduce the amount of tax payments to be paid. Tax avoidance is usually influenced by various things including profitability, sales growth, and company age. Profitability is the ability of a company to generate profits during a certain period at a certain level of sales, assets, and share capital. Profitability is closely related to profit but they have one key differentiator.

Profit is an absolute amount, while profitability is relative. Profitability is used as a metric to determine the scope of a company's profits in relation to the size of the business. So, it can be said that profitability is a measure of efficiency that showed the success or failure of a company. The reason is, even though it generates profits, the company does not necessarily make a profit. The profitability of a company can be assessed in various ways depending on the profits and assets or capital that will be compared with each other. The greater the profitability of a company, the greater the tax that must be paid, so the greater the tax avoidance efforts. Large profits will result in large tax costs, so management prefers to minimize tax costs by avoiding taxes.

Sales growth is defined as an increase in the number of sales from year to year. Optimization of the company's existing resources can be seen through the sales percentage from the previous year. The sales growth rate describes the success of sales activities in a company. High sales growth results in the company making more profits which can cause the company to pay a larger tax burden. From a business perspective, entrepreneurs see taxes as a burden that will reduce net profits and they would try to minimize the tax burden to maximize business profits by carrying out a series of tax strategies. Thus, the higher the sales growth of a company will increase the level of tax avoidance. This happens because if sales increase, it will increase the company's profits, which will result in higher tax costs that must be paid.

Company age can also affect tax avoidance activities. The age of the company is how long the company has been established and can survive on the IDX. The age of the company showed how long the company has existed and is able to compete in the business world. Aging companies must reduce costs including tax costs due to the experience and learning possessed by the company and the influence of other companies both in the same or different industries. The longer the operating period of a company, the more experience the company has and the tendency to carry out tax avoidance will be higher.

This research is based on previous research conducted by Ekaristi, et al. (2022) entitled Analysis of the Effect of Company Size, Profitability, Leverage, and Sales Growth on Tax Avoidance. The test result showed that company size and leverage have no effect on tax avoidance, while profitability and sales growth have

an influence on tax avoidance. Also, the research conducted by Khalid, et al. (2021) entitled *Understanding Corporate Tax Avoidance and the Causal Factors: Some Evidence from Malaysia*. The test result showed that firm size, capital intensity, and inventory intensity have no effect on tax avoidance, while return on assets and sales growth have a negative effect on tax avoidance, and also leverage has a positive effect on tax avoidance. The research conducted by Anggraini (2022) entitled *Effect of Profitability, Sales Growth, and Company Age on Tax Avoidance*. The results of the tests that have been carried out in this study are profitability and company age have no effect on tax avoidance, while sales growth has an effect on tax avoidance. Another research conducted by Anggita, et al. (2021) entitled *Pengaruh Umur Perusahaan, Ukuran Perusahaan, Profitabilitas, Pertumbuhan Penjualan, Leverage terhadap Tax Avoidance pada Perusahaan Transportasi yang Terdaftar di Bursa Efek Indonesia (BEI)*. The test result showed that simultaneously company age, company size, profitability, sales growth, and leverage have an effect on tax avoidance in transportation sector service companies listed on the IDX for the 2017-2019 period. Partially, company age, profitability, sales growth, and leverage have no effect on tax avoidance, while company size has an effect on tax avoidance in transportation services companies listed on the IDX for the 2017-2019 period.

Indonesia is ranked among the top countries as a producer of mining raw materials. The rapid development of mining sector is led by the huge potential that it has. Since mining products sell very well in the export market, it has made a huge contribution to the country's income (Oktavia, 2021). Kontan News (2023) stated that "*Menilik data Badan Pusat Statistik (BPS), sektor pertambangan dan*

*penggalian memberi kontribusi sebesar 12,22% terhadap pertumbuhan ekonomi nasional 2022. Ini meningkat dari kontribusi sektor tersebut ke pertumbuhan tahun 2021 yang sebesar 8,98% dan kontribusi ke pertumbuhan 2020 yang sebesar 6,44%".* This showed that mining sector gives a big contribution to Indonesia's economic growth and the increase in contribution from 2020 to 2022 showed the growing impact that mining sector has to the national economy.

There are number of mainstay sectors that are considered to support tax payments in Indonesia, one of which is mining sector companies. According to a news published by DDTC News in 2022 entitled *Setoran Pajak dari Sektor Tambang Tumbuh 3 Digit, Begini Perinciannya*, the contribution of mining sector from the total tax revenue reaches 10.1% (news.ddtc.co.id). Mining is an activity of extracting deposits of valuable and economically valuable minerals from within the earth's crust, either mechanically or manually, on the earth's surface, below the earth's surface, and below the water surface. The results of this activity include oil and gas, coal, iron sand, tin ore, nickel ore, bauxite ore, copper ore, gold ore, silver, and manganese ore. The mining sector is divided into 5 sub-sectors, namely: Coal, Oil & Gas, Metals & Other Minerals, Rocks, and Others. According to Minister of Finance Sri Mulyani, there are a number of sectors that have experienced a decline in tax revenues, where the mining sector has experienced the sharpest decline based on tax revenue data for July 2023. This sector has experienced a decline from 263.7% to only 44%.

From research conducted by Ekaristi, et al. (2022) entitled *Analysis of the Effect of Company Size, Profitability, Leverage, and Sales Growth on Tax*

Avoidance, there are several differences between the previous research and the current research. In terms of variables, the previous research uses 4 variables, company size, profitability, leverage, and sales growth, as the independent variables, whereas this research only discusses profitability, sales growth, and company age. Apart from that, this research was conducted on mining sector companies listed on the Indonesia Stock Exchange for the period 2019 to 2022, whereas the previous research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. The previous research establishes its research by quantitative method. The sample collection technique uses purposive sampling method. The sample used is manufacturing companies with sub-sector trade, services, and investments listed on IDX from the beginning of 2018 to 2020. This research also only uses analytical data in the form of descriptive statistics, multiple linear regression analysis, and partial tests using the t-test. Meanwhile, this research uses data analysis in the form of classical assumption testing consisting of normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests accompanied by multiple linear regression analysis tests, coefficient of determination tests, partial tests, and simultaneous tests.

Based on the background study above, the writer is interested in conducting research with the title: **“The Effect Of Profitability, Sales Growth, and Company Age on Tax Avoidance of Mining Sector Companies Listed on the Indonesia Stock Exchange”**.

## **1.2. Problem Limitation**

The problem limitations of this research are as follows:

1. The variables that are used in this research are limited to profitability, sales growth, company age, and tax avoidance.
2. The object of research used is limited to mining sector companies listed on the Indonesia Stock Exchange.
3. The period used for this research is limited to 2019 to 2022.

## **1.3. Problem Formulation**

Based on the description of the background of study above, there are problems in this study that can be identified:

1. Does profitability partially have a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange?
2. Does sales growth partially have a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange?
3. Does company age partially have a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange?
4. Do profitability, sales growth, and company age simultaneously have a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange?

#### **1.4. Objective of the Research**

The objectives of this research are as follows:

1. To analyze whether profitability partially has a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.
2. To analyze whether sales growth partially has a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.
3. To analyze whether company age partially has a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.
4. To analyze whether profitability, sales growth, and company age simultaneously have a significant influence on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.

#### **1.5. Benefit of the Research**

The benefits of this research are as follows:

1. Theoretical Benefit
  - a. For Readers

The result from this study can be proof for readers to know that profitability, sales growth, and company age affect tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.

b. For Writer

The result from this study provides insight and experience as well as observations in a real-life situation which is very useful for the writer.

c. For Future Research

The result from this study can be used for reference for those who are interested in studying the same problem in the future.

2. Practical Benefit

a. For Mining Sector Companies Listed on the Indonesia Stock Exchange

The researcher expects the result from this study could benefit the business to evaluate and take the result as a suggestion to know the effect of profitability, sales growth, and company age on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.

b. For Writer

The result from this study made the writer gain new experience and more knowledge about the importance of profitability, sales growth, and company age on tax avoidance in mining sector companies listed on the 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 in studying the same topic which is the influence of profitability, sales growth, and company age on tax avoidance in mining sector companies listed on the Indonesia Stock Exchange.