CHAPTER I

INTRODUCTION

1.1 Background of Study

Tax is an essential element in a country's financial system. These are the financial contributions that individuals, companies, or other entities must pay the government to support funding programs and public services. The primary purpose of taxes is to finance government spending, such as education, health services, infrastructure, defense, and various other social programs. Taxes can vary by type, such as income, sales, property, etc. An efficient and fair tax system can provide the necessary resources for the government to carry out its essential functions while considering the impact on society and the economy. In many countries, tax policy also encourages wealth redistribution, stimulates investment, and controls inflation (Astrina et al., 2022). Tax revenue is essential for the state as a source of income that provides benefits so the government can finance the program. The following is a table of the structure of Indonesian state tax revenues from 2020-2022

Table 1.1 Indonesian Tax Revenue Structure in Billion Rupiah for the 2020-2022

Tax Revenue	2020	2021	2022
Domestic Tax	1,248,415.11	1,474,145.70	1,832,327.50
Income tax	594,033.33	696,676.60	895,101.00
VAT and PPNBM	450,328.06	551,900.50	680,741.30
Property Tax	20,953.61	18,924.80	20,903.80
Total Tax Recipients	1,285,136.32	1,547,841.10	1,924,937.50

Source: *BPS* (2023)

Table 1.1 explains that during the 2020-2022 period, Indonesia's tax revenues have generally increased. The domestic tax category shows a steady upward trend from year to year, indicating domestic economic growth. Income taxes have also experienced a significant increase, reflecting efforts to maximize revenue from individuals and companies. Revenue from state and sales taxes has also increased over time, reflecting more excellent economic activity and taxable transactions. Nonetheless, land and building taxes show minor fluctuations in revenues. Abel also explained the high amount of Indonesian state tax revenue; In 2020, total tax revenue was around 1.285 billion rupiahs. In 2021, this amount will increase to around 1.548 billion rupiah; in 2022, it will reach its highest amount, around 1.925 billion rupiah. This indicates a continued increase in tax revenues over the period.

According to Pramiana (2022), tax has main benefits, which are very important in the context of a country's government and economy. Taxes are the main source of government revenue needed to finance various public programs and services such as infrastructure development, education and health services. Taxes also play a role in equalizing the distribution of wealth in society by charging higher rates to the rich and providing assistance to the less fortunate, thus reducing economic inequality. Taxes function as a financial control tool that the government can use to stimulate investment, regulate inflation, and direct the flow of capital following the desired policy.

Indonesia's high corporate tax avoidance trend is a serious problem that can harm state revenues and economic development. This phenomenon shows that some companies tend to use various legal methods and loopholes to reduce their tax obligations so that the state experiences significant losses in terms of revenue that should be used to finance public programs (Santoso & Hidayat, 2020). Losses of $4.86 billion annually, or around IDR 68.7 trillion, are huge and can directly impact the government's capacity to build infrastructure, provide public services, and promote inclusive economic Growth. Tax avoidance can also undermine public confidence in the taxation system and harm social justice.

According to Choi & Park (2022), tax avoidance is a practice by individuals, companies, or other entities to reduce their tax obligations by taking advantage of legal loopholes or strategies. Tax avoidance differs from tax evasion, which involves breaking the law by intentionally concealing or avoiding paying the due tax. One of the escorts that are indicated to commit tax avoidance often is the mining sector; this is evidenced by an investigation by Maftuchan & Yuliawati (2019) where it is explained that the practice of tax avoidance in mining companies such as coal is carried out because the costs are very high. Hence, mining companies tend to commit fraud to cover those costs. Miranda & Mulyati (2022) stated that the mining sector has historically been a wet sector, where fraudulent practices, including tax avoidance, often occur.

According to Monica & Irawati's (2021) research results, transfer pricing and sales growth influence tax avoidance. Transfer pricing determines the transaction price between two entities in the same group of companies in different tax jurisdictions (Oktavian & Mukhibad, 2022). This practice includes fixing prices for transferring various types of assets, products, or services between different units within a company, such as international branches, subsidiaries, or other affiliated entities. Research by Monica & Irawati (2021) states that transfer pricing effect manufacturing companies' tax avoidance. Companies can use transfer pricing practices to legally manipulate transaction prices between units within the company to reduce tax obligations legally. In the context of manufacturing companies, transfer pricing can affect tax avoidance due to several key factors. One of the factors that can affect the relationship between transfer pricing and tax avoidance is the operational complexity of manufacturing companies. Production, distribution and sales activities in different countries or regions can create opportunities for companies to regulate transfer pricing in ways that legally reduce their tax liability.

Meanwhile, in her research, Salsabila (2023) found no effect between transfer pricing and tax avoidance. This contrasts with the findings of Monica & Irawati (2021), who identified a significant influence of transfer pricing on tax avoidance among manufacturing companies. Salsabila's findings suggest that within her study's context, transfer pricing may not significantly contribute to tax avoidance in the mining sector companies listed on the Indonesia Stock Exchange. These differing results emphasize the complexity of the relationship between transfer pricing and tax avoidance, potentially influenced by industry-specific nuances and regulatory environments.

According to Kasmir (2019), sales growth refers to an increase in revenue or sales volume of a product or service from one period to another. Sales growth is usually measured in percentages and can describe how quickly or slowly a business is experiencing increased sales of its products or services. Sales growth is an important indicator for measuring business performance and can provide an overview of the success of marketing strategies, market demand, and product or service quality. In their research, Astrina et al. (2022) explained that sales growth is a significant factor determining companies' practice of tax avoidance. The pattern of tax avoidance can be one way to achieve this goal legally. Companies may seek legal loopholes or use complex transfer pricing methods to reduce their tax obligations and maximize the returns they can provide to shareholders.

Meanwhile, the results of Monica & Irawati (2021) explain that sales growth does not affect tax avoidance. This finding contradicts the viewpoint presented by Astrina et al. (2022), who assert that sales growth significantly influences companies' tax avoidance practices. Monica & Irawati's study suggests that in the context of their research, sales growth might not play a substantial role in driving tax avoidance among the examined companies. These divergent outcomes underscore the interplay between sales growth and tax avoidance, potentially shaped by unique organizational factors, industry dynamics, and economic conditions.

The Covid-19 pandemic has significantly impacted the mineral and coal mining (*Minerba)* sector. This decline was effected by the cessation of several projects due to the pandemic, such as social restrictions that limit worker mobility. Exceptional Staff of the Minister of Energy and Mineral Resources for Mineral and Coal Governance, Irwandy Arif, explained that the Covid-19 pandemic was the leading cause of the decline in investment in the *Minerba* sector this year. This is mainly due to projects that have been halted due to the impact of the pandemic. In

Minerba investments this year, the mining services business license sector contributed 39%, infrastructure and machinery 30%, intangible assets 13%, and buildings, ships, vehicles, and heavy equipment 23% (Umah, 2020).

However, the Mining Sector has experienced an increase and revitalization after the Covid pandemic; this can be seen from the value of circulating shares and mining company capital in the second quarter of 2023, as in the following table.

Tabel 1.2 The Phenomenon of ETR in Mining Companies 2020-2022

Year	Company Name	Sales Growth	Transfer Pricing	Tax Avoidance (ETR)
2022	ADRO	1.029	0.082	0.308
2021		0.575	0.045	0.368
2020		-0.267	0.058	0.287
2022	BIPI	-0.333	0.006	0.211
2021		-0.165	0.001	0.236
2020		0.108	0.001	0.235
2022	TOBA	0.374	0.007	0.181
2021		0.394	0.001	0.241
2020		-0.368	0.020	0.149

Source: Prepared by Writer (2023)

The mining sector has experienced improvement and revalization at the COVID-19 pandemic. This can be seen from the table above the sales growth from PT. ADRO are increasing from 2020-2022. The table above provides evidence of the positive impact to transfer pricing and ETR that show increasing from 2020-2022. The ETR of PT.ADRO also increase due to the increasing of sales growth and transfer pricing.

The BIPI company, Transfer pricing shows an increase from 2020 to 2022 , However the ETR is decrease in 2021 to 2022. The decrease of ETR in 2022 because the sales decrease from USD 65.586.242 in 2021 to USD 43.722.840 in 2022.

The sales growth of PT. TOBA from 2020-2021 was increase this lead to increase of ETR. While transfer pricing was increase from 2021 to 2022, however the ETR was decreased. This can lead by the decrease in sales growth.

Based on the explanation above, the researcher intends to research mining sector companies in 2020-2022. In order to be discussed further, the researcher decided to continue the research titled "**The Effect Of Sales Growth And Transfer Pricing Toward Tax Avoidance on Mining Sector Companies Listed on the Indonesia Stock Exchange**."

1.2 Problem Limitation

Referring to the background above, the research provides the following research limitations:

1. The research object of research is a mining company listed on the Indonesian Stock Exchange.
2. Sales growth and transfer pricing are independent variables, and Tax Avoidance is the dependent variable.
3. The research period is from 2020 to 2022.

1.3 Problem Formulation

Referring to the background above, researchers can also provide research formulations as follows:

1. Does Sales Growth partly affect tax avoidance by mining companies listed on the Indonesia Stock Exchange?
2. Does Transfer Pricing partly affect tax avoidance by mining companies listed on the Indonesia Stock Exchange?
3. Do Sales Growth and Transfer Pricing simultaneously affect tax avoidance by mining companies listed on the Indonesia Stock Exchange?

1.4 Objectives of the Research

The aim of this research is:

1. To identify whether Sales Growth partly effect toward tax avoidance by mining companies listed on the Indonesia Stock Exchange.
2. To identify whether Transfer Pricing partly effect toward tax avoidance by mining companies listed on the Indonesia Stock Exchange.
3. To identify whether Sales Growth and Transfer Pricing simultaneously effect toward tax avoidance by mining companies listed on the Indonesia Stock Exchange.

1.5 Benefit of Research

The benefits of this research are:

1.5.1 Theoretical Benefit

Through research, the results can become a reference for subsequent studies to study and develop the impact of transfer pricing and sales growth on tax avoidance of mining entities listed on the Indonesia Stock Exchange in 2020-2022.

1.5.2 Practical Benefit

a. For Companies and Investors

Companies can consider research when analyzing financial statements, especially transfer pricing and sales growth, for tax avoidance. It can provide input to investors to be more observant in analyzing information on companies, especially mining companies that carry out tax avoidance

b. For Regulators

Research can be a reference and source of reference in making policies or evaluating policies that have been implemented, mainly so that tax avoidance does not occur in the mining sector.