CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is one source of state revenues which are used by government to cover its expenditures. According to the Ministry of Finance (Kemenkeu) in 2020, tax revenues in Indonesia reached Rp 1,865.7 T, which means 83.54% of state revenues and makes the taxes become the main source of APPBN.

From an accounting perspective, tax is a burden that will lower the profit, which is in opposition to the objective of a firm that seeks to maximize earnings. Because of these disparities in interests, paying taxes has become a burden and a duty, leading many businesses to attempt to avoid paying taxes.

According to (Budiman & Setiyono, 2012), tax avoidance is a manipulative behavior used to lower the taxable income (PKP) of entity and individual taxpayers while still adhering to the relevant tax laws. In this situation, it can be asserted that entity or individual taxpayers have not obviously broken the law, but their actions are not in line with the legislation's declared intent and goals.

Tax avoidance has become an important issue in corporate finance and taxation, attracting the attention of researchers, policy makers, investors, and the public. In the context of manufacturing companies listed on the Indonesian Stock Exchange (IDX), it is important to know the factors that influence tax avoidance.

Tax avoidance is still within the framework of legislation. This means that no legal violation has been committed and instead, tax savings are obtained in such a way to avoid greater taxes. However, tax avoidance is not without costs. Direct costs such as implementation costs, loss of reputation, penalties threats must be borne by the company. The costs incurred by companies in implementing tax avoidance practices should not be greater than the benefits. Tax avoidance agency points out that tax avoidance is not always desired by shareholders because there are costs incurred includes costs directly related to tax avoidance activities and indirect costs that may outweigh the benefits of doing tax avoidance practices.

Profitability is one of the factors that can affect tax avoidance. Profitability is a company's ability to earn profits and is also a factor in tax burden. If a company has greater profits, it has to pay greater tax burden.

Leverage is a comparison that reflects a company's debt which has to finance its operational activities. Companies that use debt in their financing composition will have interest charges. The interest expense reduces pre-tax profit. The higher leverage ratio increases the interest costs. Increasing interest costs will have the influence of reducing the company's tax burden.

Capital Intensity is an investment activity done by a company by linking inventory and fixed assets. To obtain greater profits, a company usually tends to spend funds on operating activities and asset funding. If the depreciation expense increases due to the large investment in fixed assets, this will enable the company to minimize its tax burden.

Writer chooses manufacturing companies as the field of the study because this sector is regarded as the engine of economic growth. It creates jobs in the secondary and tertiary sectors.

The manufacturing sector processes raw materials into completed goods. The growth of a nation's manufacturing industries is a key indicator of its economic importance. Industrial development is crucial to decrease unemployment and poverty in our nation.

Table 1. 1 Table of Phenomenom

Company	Year	Profitability	Leverage	Capital Intensity	Tax Avoidance
ALDO	2022	0.041920	0.512261	0.541804	0.224883
AMFG	2022	0.030603	0.522191	0.686044	-0.050157
ASII	2022	0.097799	0.410303	0.144051	0.197857

Source: Prepared by Writer (2023)

Table 1.1 above shows the value of Return On Assets (ROA), Debt to Assets Ratio (DAR), and Capital Intensity Ratio (CAPINT) for the period of 2022. The profitability of ALDO in 2022 is 0,41920 while ETR is 0,224883. Meanwhile, the ASII company has a ratio of 0.097799, but the ETR is 0.197857.

Another phenomenon is leverage. In the table, it is shown that DAR of ALDO is 0.522191 and the ETR is 0.224883. The DAR of AMFG is 0.522191 while the ETR is -0.050157.

The last phenomenon is capital intensity. In the table, ALDO has lower capital intensity than AMFG, but ALDO has higher ETR than AMFG. Compared to ASII, ALDO has higher capital intensity and ETR.

1.2 Problem Limitation

This study results and conclusions may be limited by the sample size of the manufacturers included in the study. If the sample size is relatively small or not sufficiently representative of the entire manufacturing companies listed on the Indonesian Stock Exchange, the generality of the results may be compromised.

The following are the problem limits of this research, such as:

1. this research's object is limited to manufacturing companies listed on Indonesia Stock Exchange.
2. The period of data used in this research is the year of 2022
3. The independent variable in this research is profitability, leverage, and capital intensity.
4. The dependent variable in this research is tax avoidance.

1.3 Problem Formulation

This study aims to answer the following research questions:

1. Does Profitability have an effect toward tax avoidance of manufacturing companies that listed on the IDX?

2. Does Leverage have an effect toward tax avoidance of manufacturing companies that listed on the IDX?
3. Does Capital Intensity have an effect toward tax avoidance of manufacturing companies that listed on the IDX?
4. Do profitability, leverage, and capital intensity significantly affect tax avoidance of manufacturing companies listed on IDX?

1.4 Objectives Of Research

The objectives of the research on "The Effect of Profitability, Leverage, and Capital Intensity Toward Tax Avoidance of Manufacturing Companies Listed on the Indonesia Stock Exchange" are as follows:

1 To Identify the Effect of Profitability toward Tax Avoidance of manufacturing companies listed on Indonesia Stock Exchange

2 To Identify the Effect of Leverage toward Tax Avoidance of manufacturing companies listed on Indonesia Stock Exchange

3 To Identify the Effect of Capital Intensity toward Tax Avoidance of manufacturing companies listed on Indonesia Stock Exchange

4 To Identify the Effect of Profitability, Leverage, and Capital Intensity toward Tax Avoidance of manufacturing companies listed on Indonesia Stock Exchange

1.5 Benefit of Research

1.5.1 Theoretical Benefit

This research contributes to the existing body of knowledge on tax avoidance practices, especially of manufacturing industries listed on the Indonesian Stock Exchange. By examining the effect of profitability, leverage, and capital intensity toward tax avoidance of manufacturing companies listed on Indonesia Stock Exchange, this study reveals the factors that influence tax planning decisions of manufacturing companies.

The findings of this study have policy implications for Indonesian tax authorities and policy makers. Lessons learned will help develop more effective tax policies that promote transparency, fairness and responsible tax planning of manufacturing company.

1.5.2 Practical Benefit

The study provides manufacturing companies listed on the Indonesian Stock Exchange with valuable insight into the factors that effect tax avoidance practices. This understanding helps businesses develop more informed and effective tax planning strategies to optimize their tax position while ensuring tax compliance.

The study's results can inform tax authorities and policymakers in Indonesia about the relationship between financial metrics and tax avoidance of manufacturing sector. The insights gained can assist the design of tax policies.