

CHAPTER I

INTRODUCTION

1.1 Background of The Study

Indonesia is a diverse nation and one that has contributed the most to the global market. If counted by income, Indonesians have such a wide gap, which makes a difference in the amount of taxes that each individual and business must pay. Individuals or every household pay a range of taxes to the government, and every company pays taxes to the government subject to different tax rule.

One of the primary ways the nation raises money is through taxes, which also help the country's development. Indonesia is home to the world's fourth-largest population. A country will pay more attention to its taxpayers, as they play a really important role in the country's revenue. If the tax increase means the budget can be allocated for other development in the country, it will be increased as well.

According to General Provision on Taxation Law Number 28 Year 2007 under Article 1 Paragraph 1, taxes are an obligatory contribution by every individual or entity to the state based on the law without directly rewarded. Tax is used for the prosperity of all people in the nation. By this law, there is no direct impact for individuals, but for entities, it might be impacting their revenue as tax is counted as an expense for the company that reduces the net income of the enterprise.

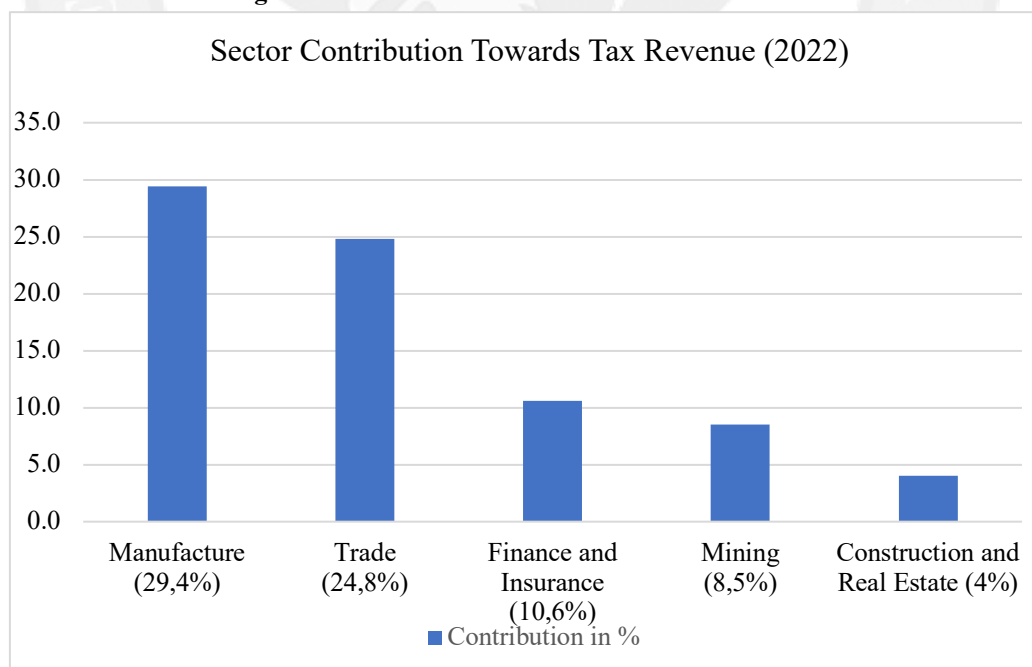
Table 1.1 Tax Revenue from Year 2019-2022 (in Trillion Rupiah)

Taxes	2019	2020	2021	2022
Income Tax	772.2 (49.95%)	594.03 (46,2%)	696.7 (45,01%)	895.1 (46,5%)
VAT & Sales Tax on Luxury Goods	531.6 (34.38%)	450.3 (35,04%)	551.9 (35,66%)	680.7 (35,36%)
Custom & Excise	213.5 (13,81%)	213.17 (16,59%)	269.2 (17,39%)	316.8 (16,46%)
Land & Building Tax	21.1 (1,36%)	20.9 (1,63%)	18.9 (1,22%)	20.9 (1,09%)
Other Taxes	7.7 (0,5%)	6.7 (0,52%)	11.1 (0,72%)	11.4 (0,59%)
Total	1,546.1	1,285.1	1,547.8	1,924.9

Source: *Badan Pusat Statistik* (BPS) 2018-2022
Prepared by the writer (2023)

From 2019 to 2022, the income tax is relatively increasing, as are the VAT and sales tax on luxury goods, customs and excise, and other taxes that contribute to the tax revenue. Hence, the land and building tax diminishes throughout the period that the researcher takes as the reference for this research paper in tax revenue data. Taxes contribute a notable amount to a country's revenue.

Figure 1.1 Sector Contribution Towards Tax Revenue



Source: *Kementerian Keuangan Republik Indonesia* (2022)
Prepared by the writer (2023)

Minister of Finance Sri Mulyani stated at the *Anggaran Pendapatan Belanja Negara* (APBN) conference that the biggest contribution sector towards the tax revenue of Indonesia is manufacturing, with a contribution of 29.4%, followed by trade sectors as the second biggest contribution, with a contribution of 24.8%. Then, finance and insurance, which contribute 10.6% of the country's tax revenue, and mining, which contributes 8.5% of the nation's tax revenue, At the fifth biggest contribution, there is construction and real estate, which have a contribution of 4%.

Indonesia, as a country with many mineral reserves such as nickel minerals that rank third on the global level, gives almost half of its contribution to gold products. In 2022, the mining sector contributed 8.5% to the tax revenue, and to compare as of October 2022, it grew by 296.3% as of June 2022. It is inevitable to say that the mining sector contributes quite a lot to the GDP of Indonesia, to the tax rate, and to many other sectors.

Based on the phenomena, the researcher made the specific decision to investigate the significant effects of firm value as an intervening variable, profitability, leverage, and firm size on tax avoidance, with a focus on the mining industries that are listed on the Indonesia Stock Exchange. This study is going to be conducted with the title **“The Effect of Profitability, Leverage, and Firm Size on Tax Avoidance with Firm Value as an Intervening Variable at Mining Sector Companies Listed on the Indonesia Stock Exchange”**.

1.2 Problem Limitation

There are numerous limitations to this research paper, as stated below:

1. Limited only to mining enterprises displayed on the Indonesia Stock Exchange were the object of this study.
2. The timeframe of this research paper will only cover 2018-2022.
3. This research focused on profitability using return on assets.
4. This research focused on leverage using the debt-to-equity ratio.
5. This research focused on the firm size of the company by the asset.
6. This research focused on the firm value of the company.
7. This research focused on tax avoidance using the cash effective tax rate.
8. This research focused on the effect of profitability on tax avoidance.
9. This research is focused on the effect of leverage on tax avoidance.
10. This research is focused on the effect of firm size on tax avoidance.

1.3 Problem Formulation

Problem formulations in this research are as follows:

1. Does profitability have any significant effect on firm value at mining sector companies listed on the Indonesia Stock Exchange?
2. Does leverage have any significant effect on firm value at mining sector companies listed on the Indonesia Stock Exchange?
3. Does firm size have any significant effect on firm value at mining sector companies listed on the Indonesia Stock Exchange?

4. Does profitability have any significant effect on tax avoidance at mining sector companies listed on the Indonesia Stock Exchange?
5. Does leverage have any significant effect on tax avoidance at mining sector companies listed on the Indonesia Stock Exchange?
6. Does firm size have any significant effect on tax avoidance at mining sector companies listed on the Indonesia Stock Exchange?
7. Does firm value have any significant effect on tax avoidance at mining sector companies listed on the Indonesia Stock Exchange?

1.4 Objective of The Research

This research has several objectives that need to be focused on, including:

1. To figure out whether profitability has a significant effect on firm value at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.
2. To figure out whether leverage has a significant effect on firm value at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.
3. To figure out whether firm size has a significant effect on firm value at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.
4. To figure out whether profitability has a significant effect on tax avoidance at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.

5. To figure out whether leverage has a significant effect on tax avoidance at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.
6. To figure out whether firm size has a significant effect on tax avoidance at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.
7. To figure out whether firm value has a significant effect on tax avoidance at mining sector companies that are listed on the Indonesia Stock Exchange for the period 2018-2022.

1.5 Benefit of The Research

The benefits of this research paper are divided into two categories, as explained below:

1.5.1 Theoretical Benefit

From a theoretical perspective, this research result is anticipated to improve the understanding of taxation for writers, taxpayers, the government, and companies. Furthermore, the result of this research is to educate taxpayers, especially in the mining sector, about the rules and obligations of paying taxes and tax avoidance. Moreover, to gain experience in the taxation area, especially about “The Effect of Profitability, Leverage, and Firm Size on Tax Avoidance with Firm Value as Intervening Variable at Mining Sector Companies Listed on the Indonesia Stock Exchange.”

1.5.2 Practical Benefit

1. For company

This research will be useful to mining companies in terms of consideration and useful suggestions before making decisions. It is useful for the company to know the strengths and weaknesses of the sector in order to keep improving and to know more about the competitors in the same sector. This paper focuses on tax, which may be a consideration for the company to cut down on their tax payment, like the title of this research paper, which pertains to tax evasion.

2. For investors

This research is anticipated to be used as a consideration source before investing in a company because it gives investors thorough information about the company. For foreign investors, they can use this paper as an insight to compare several companies in the mining sector.

3. For institutions

This study seeks to improve previous research findings in connection with tax avoidance. Also, scientific data can be updated so that it can be cited in subsequent research papers on a similar topic.

4. For Tax Officers

This research is anticipated to inform the Directorate General of Taxation (DGT) about tax policy and to use it as a tool to do deeper research about tax policy, develop new tax policies, and reduce the tax practice of tax avoidance.