CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Indonesia is one of the world's most populous developing countries with abundant natural and human resources in a strategic geographic location. The country's revenue comes from various sectors, including tax. Tax has a big contribution to the development of the country compared to other sources (Annastasari & Aris, 2022). Tax that must be paid by every individual and business owner are used by the government to provide better facilities, improve the society's welfare and the country's infrastructure.

Citizens who pay taxes are classified into individual and corporate taxpayers. Both type of taxpayers are obliged to pay taxes in accordance with tax provisions as regulated in Law Number 36 Year 2008 Article 2 Paragraph 1. Corporate taxpayers are expected to contribute a large amount of tax to the country. The government implemented various policies regarding taxation to maximize the income from tax since it has a significant effect on the national budget (Nugraha, 2015). Therefore, tax is a coercive contribution that is useful for the interests of the citizens and country.

Table 1.1 Realization of Country's Revenue (in Billion Rupiah)

Source of Tax Revenue	2020	2021	2022
Tax Revenue	1,285,136.32	1,547,841.10	1,924,937.50
Non-Tax Revenue	343,814.21	458,493.00	510,929.60
Bequest	18,832.82	5,013.00	1,010.70
Total	1,647,783.34	2,011,347.10	2,436,877.80

Source: BPS - Statistics Indonesia 2020-2022

Prepared by the writer (2023)

The data above shows that tax ranks first compared to the other income in the country's revenue. According to the Directorate General of Tax year 2021, the biggest contribution of Income Tax Article 21 comes from government administration, manufacturing, financial, and insurance sectors. The financial sector includes banking companies. Based on Law No. 10 year 1998 Article 1 number 2, a bank is a business entity that receives funds from the public in the form of savings and then channel it to the public in the form of credit and/or in other forms to increase the general population's standard of living.

A bank acts as a financial intermediary where it offers various services such as investments, loans, and savings. When a client saves money in the bank, the bank provides compensation in the form of interest. Similarly, when the bank provides loans or credit, the client will be charged interest. Offering funds to clients in the form of credit is the main and largest activity of a bank which will determine the size of the bank's profit. If a bank is incapable of giving credit to clients while there are lots of funds stored, the bank can offer credit through the capital market or money market. This method must be taken to earn profit and avoid loss because the bank needs to pay interest of savings to the clients. (Sari et al., 2020)

The government has a goal to maximize tax revenue which is contrary to the company's goal as a corporate taxpayer, where tax is considered as a burden that reduces the profits and net income of the company. Generally, a company will implement strategies to minimize the tax payable amount and there is a possibility that the company will be aggressive in taxation. Tax aggressiveness is a way to manipulate taxable income that is done either in a legal way by tax planning through tax avoidance or illegal way through tax evasion (Mustika et al., 2020). The greater gaps and savings lead to higher tax aggressiveness (Zsazya, 2019).

Media Detiknews recently wrote a case regarding corruption and tax evasion carried out by a former tax attorney for Panin Bank, Veronika. Veronika has been proven to give out 500.000 Singaporean Dollars or the equivalent of 5.5 billion Rupiah to Angin Prayitno and the subordinates with a total of 25 billion Rupiah bribes promised. The Head of the Sub-directorate of Cooperation and Audit Support of the Directorate General of Taxes, Supervisor, and the tax audit team were given the bribes to manipulate the tax calculations of PT Bank Pan Indonesia, Tbk or Panin Bank for the tax year 2016. Panin Bank was found to underpay the taxes of 926 billion Rupiah by the tax audit team led by Angin Prayitno. Veronika requested to modify the tax obligations to be around 300 billion Rupiah and stated that Panin Bank would provide 25 billion Rupiah as the commitment fee to the audit team (Budi, 2023).

The chance of tax aggressiveness is due to the tax system conducted in Indonesia, which is self-assessment system where taxpayers are given the authority to conduct tax obligations by self-calculating and self-reporting the taxes. Therefore, this system will trigger taxpayers to minimize the tax, either in a legal or illegal way. There is a high chance that tax aggressiveness will continue to happen considering the likelihood of minimizing the tax burden by taxpayers (Putri & Hanif, 2020). Tax aggressiveness will cause issues for the government's revenue budget due to low tax ratios, but it is an advantage for the company to implement tax aggressiveness due to lower tax burden (Tampubolon, 2021).

Tax aggressiveness is practiced exploiting tax regulations which is difficult to judge whether it is correct. For example, Corporate Social Responsibility (CSR), when extremely implemented, can become a way to do tax evasion. The government will face difficulty in tracking the cash flows of a company who implemented CSR because it is usually implemented under the company's management. Plenty of companies are following the laws by paying the tax obligations, but there are also some companies that tend to see the tax laws and take advantage of the loopholes or gaps for the benefit of the companies (Tampubolon, 2021).

The factor that can affect the tax aggressiveness of a company is liquidity (Putri & Hanif, 2020). Liquidity is a ratio that shows the financial capability of a company in paying the short-term liabilities. Company with a high liquidity ratio reflects a good financial situation with sufficient cash that means the company is not hesitant to pay its short-term obligations. On the other hand, a company with low liquidity ratio reflects that the company is having difficulty in paying its short-term obligations. A company with low liquidity will choose to sustain the cash flow rather than paying the tax obligations (Tampubolon, 2021). Therefore, it can lead the company to go against government's laws and will result in tax aggressiveness. Based on previous research by (Putri & Hanif, 2020), (Christy, 2023), and (Dewi et al., 2021), liquidity has a significant effect on tax aggressiveness.

Another factor that can affect tax aggressiveness is leverage (Novianti, 2023). Leverage is the company's ability to finance the daily operations and investment using debts. Leverage shows the number of assets a company owns that are financed by debts. A company with high tax obligations will choose to have high debts to reduce the tax burden. The higher debts cause higher interest rate. Therefore, it will cause a decrease in profit as well as the tax burden (Putri & Hanif, 2020). Previous research done by (Christy, 2023), (Putri & Hanif, 2020), and (Mustika et al., 2020) stated that leverage has a significant effect on tax aggressiveness.

Profitability is used to assess the investment activities on return of assets (Leksono et al., 2019). Every company will have a goal to increase the profit as high as possible (Kusmuriyanto et al., 2023). The company's high profit is caused by high return on assets and high return on investment. Companies with high profits will tend to avoid paying taxes because it will result in an increase of tax expense. As a result, the company will carry out tax aggressiveness. Contrary, companies that suffered losses will have low profit and will pay lower taxes (Tampubolon, 2021). Previous research by (Dewi et al., 2021), (Christy, 2023), and (Yanti & Hartono, 2019) stated that profitability has a significant effect on tax aggressiveness.

Company size is the identity of a company based on the scale which can be classified by total assets (Leksono et al., 2019). The company size can be used to indicates the ability to perform the economic activities (Leksono et al., 2019). A large company shows that it has a large number of assets. The larger a company is, the higher the chances of tax aggressiveness by doing tax avoidance. Based on the research done by (Yanti & Hartono, 2019) and (Susanty & Romadhina, 2022), company size has a significant effect on tax aggressiveness.

Earning management can affect tax aggressiveness (Astuti & Asalam, 2023). Earning management is an effort in changing the financial statements information from the actual condition (Gunawan & Resitarini, 2019). The manager of a company will decrease the income stated in the financial statements to avoid paying a high tax. (Kusuma & Firmansyah, 2018), (Tiaras & Wijaya, 2017) and (Purwanto, 2016) stated that earning management has a significant effect on tax aggressiveness.

Based on the recent phenomenon and previous research stated above, the researcher is conducting this research with the object of banking companies to observe if profitability, liquidity, leverage, company size, and earning management have a significant effect towards tax aggressiveness with the title: **"THE EFFECT OF PROFITABILITY, LIQUIDITY, LEVERAGE, COMPANY SIZE, AND EARNING MANAGEMENT TOWARD TAX AGGRESSIVENESS IN BANKING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE"**

1.2. Problem Limitation

The problem limitation by the writer as follows:

1. The research object is Banking Companies in the Financial Sector listed on the Indonesia Stock Exchange.
2. The independent variables are profitability, liquidity, leverage, company size, and earning management with tax aggressiveness as the dependent variable.
3. The period of the research is 2020-2022.

1.3. Problem Formulation

The problem of this research are:

1. Does profitability partially have significant effect on Tax Aggressiveness in banking companies listed on Indonesia stock exchange?
2. Does liquidity partially have significant effect on Tax Aggressiveness in banking companies listed on Indonesia stock exchange?
3. Does leverage partially have significant effect on Tax Aggressiveness in banking companies listed on Indonesia stock exchange?
4. Does company size partially have significant effect on Tax Aggressiveness in banking companies listed on Indonesia stock exchange?
5. Does earning management partially have significant effect on Tax Aggressiveness in banking companies listed on Indonesia stock exchange?
6. Do profitability, liquidity, leverage, company size, and earning management simultaneously have significant effect on Tax Aggressiveness in banking companies listed on Indonesia stock exchange?

1.4. Objective of the Research

Based on the problem formulation, the objectives of the research are:

1. To identify the effect of profitability on tax aggressiveness partially in Banking companies listed on Indonesia Stock Exchange for the year 2020-2022.
2. To identify the effect of liquidity on tax aggressiveness partially in Banking companies listed on Indonesia Stock Exchange for the year 2020-2022.
3. To identify the effect of leverage on tax aggressiveness partially in Banking companies listed on Indonesia Stock Exchange for the year 2020-2022.
4. To identify the effect of company size on tax aggressiveness partially in Banking companies listed on Indonesia Stock Exchange for the year 2020-2022.

5. To identify the effect of earning management on tax aggressiveness partially in Banking companies listed on Indonesia Stock Exchange for the year 2020-2022.
6. To identify the effect of profitability, liquidity, leverage, company size, and earning management simultaneously on tax aggressiveness in Banking companies listed on Indonesia Stock Exchange for the year 2020-2022.

1.5. Benefits of the Research

1.5.1. Theoretical Benefit

This research is expected to be a reference and to provide a deeper understanding and knowledge for future research related to tax aggressiveness with profitability, liquidity, leverage, and company size as the independent variables.

1.5.2. Practical Benefit

1. To provide information for companies regarding tax aggressiveness and the factors that influence it.
2. To provide information for investors regarding the companies with tax aggressiveness to make wise investment decision.
3. To provide information for government to implement or revise the law about taxation to minimize tax aggressiveness and to achieve even higher tax revenue every year.