

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is a developing country that always aims to achieve national growth in all sectors. Indonesia uses taxation system to know the income of some development to give changes in this country. Because of its coercive nature, it is no wonder that someone who does not pay taxes will be fined or have their rights to take care of something administratively hindered. In taxation system, individual or corporate are obligated to pay taxes to the government as taxpayers. If taxpayers can minimize the expenditures or tax burden as much as possible, they can get much profit.

In this research, the researcher chooses mining companies because the mining companies have the high income because of the supply and demand in the market that can affect the tax income, so to decrease tax expense the mining companies use tax avoidance to get much profit.

According to the Law No. 28 of 2007 on Taxation, an individual or company owes an obligation to contribute to the state that is compelled by law, without obtaining a direct return, and it is used for the state's aims for the best benefit of the people. According to the idea behind tax law, paying taxes is not only a responsibility, but also a right of every person to participate in governmental finance and national development.

The taxpayers will decrease the expected tax amount or can be known as tax avoidance. The purpose of tax avoidance is to minimizing the tax burden by exploiting a loophole in a country's tax provisions (Dina Lathifa, 2022). The accessibility of tax loopholes motivates taxpayers to engage in tax avoidance procedures. This practice does not violate the content or provisions of the law but still within the legal framework, and is not in line with the purpose and intent of the law (Maghastria Assiddiq, 2022).

The issue of tax avoidance and the taxation system as taxpayers might be considered to reduce the amount of tax burden, therefore going became reality. On the other hand, because taxes are the government's main source of revenue, it depends on them to fund national development projects. The government seeks to optimize tax revenue, which is inextricably linked to a number of challenges; additionally, Indonesia's tax system is based on self-assessment, which implies that taxpayers are responsible for calculating, paying, and reporting tax amounts in compliance with applicable tax laws and regulations. (Susilowati, 2020).

Avoiding taxes is a complex and unusual challenge, because tax avoidance is allowed, but on the other hand, this is not desired by the government. Tax avoidance thought to be legal since it is believed that tax avoidance methods take advantage of gaps in the tax code, which will have an impact on state income from the tax sector. There are a variety of elements that might influence firms and organizations when trying to engage in tax avoidance; this study examines the following aspects: profitability, leverage, and firm size. Profitability may be determined by calculating return on asset (ROA). The higher a company's

profitability, the more likely it is to aim to generate the optimal tax by lowering the tax burden.

Aside from profitability, leverage is one of the variables highlighted in this study that can affect a corporation's option to use tax avoidance. The higher the amount of a corporation's debt, the less likely it is to engage in tax avoidance procedures. Another variable that affects a company's tax avoidance is firm size. Another way for calculating firm size is to calculate the total amount of assets possessed by a firm. Firms having a large number of assets are more likely to make significant profits.

Table 1. 1 Table of Phenomena

Company	Year	ROA	DER	Firm Size	ETR
PT. AKR Corporindo Tbk.	2020	0.05	0.77	30.56	1.19
	2021	0.05	1.08	30.79	0.21
	2022	1.07	1.07	30.93	0.20
PT. Aneka Tambang Tbk.	2020	0.04	0.67	31.09	0.30
	2021	0.06	0.58	31.12	0.39
	2022	0.11	0.42	31.15	0.27
PT. Elnusa Tbk.	2020	0.03	1.02	29.65	0.28
	2021	0.02	0.91	29.61	0.46
	2022	0.04	1.15	29.81	0.17

Source: Prepared by Writer (2024)

As shown in table 1.1, the writer chose three mining companies to study and discuss for this research. This study used profitability, leverage, and firm size as factors to determine if they have an impact on tax avoidance, the ratios are shown

in the table. The three companies selected as representatives are PT. AKR Corporindo Tbk, PT. Aneka Tambang Tbk, and PT. Elnusa Tbk.

The profitability of a company engaged in tax avoidance is calculated and measure in this study using the return on assets ratio. Taking PT. Aneka Tambang Tbk. as an example, its profitability ratio falls significantly between 2020 and 2022 dues to a decrease in the company's sales in 2020. In principle, as a company's growth increases, it also increases the chance of tax avoidance, the more profit a company produces, the more tax is assessed on the company. Profitability also has a positive impact on tax avoidance.

Leverage indicates how a corporation uses liabilities to support its operations and activities. As shown in the table above, the leverage ratio of PT. Elnusa Tbk. spikes from 2020 to 2022, due to a growth in short-term and long-term debt. As a result, the presence of the interest expenses account deducts the company's earning, lowering the amount of tax imposed on the company. Leverage contributes positively to tax avoidance.

The last independent variable shown in the table is firm size. Since can be seen from the data, the firm size of PT. AKR Corporindo Tbk. has reduced from 2020 to 2022, since both current and non-current assets have decreased in the following year. When the value of assets increases or decreases, the amount of depreciation also changes. This in turn, will cause fluctuations in the number of expenses that the company must suffer also, the amount of taxes assessed on the companies will be changed. Firm size has a positive impact on tax avoidance.

Based on the explanation given on the table of phenomena and theories identified above, the writer aims to determine whether the research variables have an impact on tax avoidance on mining companies listed on the Indonesia Stock Exchange, with the title “**The Effect of Profitability, Leverage, and Firm Size on Tax Avoidance in Mining Companies listed on the Indonesia Stock Exchange**”.

1.2 Problem Limitation

The following phenomena are used to clear for understanding of this research:

1. This research focuses on mining companies listed on the Indonesia Stock Exchange from 2020 to 2022.
2. The research focuses on profitability, leverage, and firm size as independent factors, with tax avoidance as the dependent variable.

1.3 Problem Formulation

Based on the results of the study, may determine how to evaluate multiple variables such as profitability, leverage, and firm size when calculating tax avoidance. The problem formulation for this situation is as follows:

1. Does profitability significantly affect to tax avoidance for mining companies that listed on the Indonesian Stock Exchange?
2. Does leverage significantly affect to tax avoidance on the mining companies listed on the Indonesia Stock Exchange?

3. Does firm size significantly affect to tax avoidance on the mining companies listed on the Indonesia Stock Exchange?

1.4 Objectives of the Research

Based on the problem's formulation above, the research determined the research objectives, which are:

1. To determine if profitability has a significant impact on tax avoidance in mining companies listed on the Indonesian Stock Exchange.
2. To determine if leverage has a significant impact on tax avoidance in mining companies listed on the Indonesia Stock Exchange.
3. To determine if firm size has significant impact on tax avoidance in mining companies listed on the Indonesian Stock Exchange.

1.5 Benefit of the Research

Regarding the research's advantages, both theoretical and practical, they are as follows:

1.5.1 Theoretical Benefit

1. Theoretically, the findings of this study should be used as a source of information in the future.
2. This study aimed to complete theoretical research on the effects of profitability, leverage, and firm size on tax avoidance.

1.5.2 Practical Benefit

1. This research provides guidance for mining companies on the topics that are being discussed and analysed in this research.
2. This research aims to improve the state's understanding of tax avoidance and contribute to existing research.

