

CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia is one of those developing countries which have a potential to become a better country. A tax is a mandatory financial charge upon a taxpayer by a governmental organization in order to fund a variety of public expenditures. Tax is Indonesia's main source of income from its citizens to help the government and the development of the country. The government uses tax to enhance national structure to achieve general welfare in many sectors (Darmawan and Sukartha, 2014). Thus, the government has the capability to develop programs which can be enjoyed by society in return of paying tax.

Indonesia's currency was decreasing quite rapidly because of financial crisis in the foreign country which led to the government of Indonesia to take action in order to settle down the problem. Receiving money from its citizens in the form of tax is one way to help and support the country. This kind of devotion towards the country will become the main source of financing the government and development of the country.

However, the government of Indonesia has not yet had the power to achieve and make use of its source of income to the fullest. This problem arises due to many tax payers who supposed to report their amount of tax payment, but do not have willing to pay. Many tax payers tend to lessen the amount of tax or even try to avoid it. No one likes to pay taxes, but taxes are the law. The revenue generated by the government from taxation forms a major source of finance to the federal government capital expenditure which is crucial to sustainable economic development. A major challenge to the government in generating this revenue has been the increasing rate of tax evasion and tax avoidance. Therefore, tax evasion and tax avoidance are important factors to be considered as they affect both the volume and nature of government finances, which is the

answer to economic development.

The terms “tax avoidance” and “tax evasion” are often used interchangeably, but they have very different concepts. Basically, tax avoidance is legal, while tax evasion is illegal. Tax evasion is caused by a blatant disrespect of tax law and wishing to avoid paying into a system they believe they are magically exempt from, while tax avoidance is caused by the desire to pay as little taxes as possible.

There are 5 kinds of ways property and real estate developers perform tax avoidance. First, by consider holding your property within a limited company. Many landlords do not consider renting out property to be a business. Second, do not report all their sales. Third, transfer property to their spouse. By transferring or selling property to wife or husband, they do not need to pay Capital Gains Tax. Fourth, make the most of allowable expenses. It is important to keep receipts and records to affirm any claims for allowable expenses. Fifth, by increasing your rent.

The tax avoidance phenomenon occurred in 2013. The SIM simulator, where there was a sale of luxury houses by the developer to the defendant, for Rp. 7.1 billion in Semarang. However, in the notarial deed, only Rp. 940 million was written which has a Rp. 6.1 billion differences. For this transaction, there is a potential VAT that must be deposited 10 percent times Rp. 6,1 billion or Rp. 610 million. Another deficiency is the final Income Tax of 5 percent multiplied by Rp. 6.1 billion or Rp 300 million. The total tax deficit is Rp. 900 million. If this developer sells hundreds of luxury housing units, the state loss could reach tens of billions of rupiah from a housing project.

Table 1.1
Net Income After Tax, Fixed Asset, Total Asset and Cash
Tax Paid in some property and real estate company that listed
in IDX 2013 to 2018 (Rp. ‘000)

Company	Years	Net Income After Tax	Fixed Asset	Total Asset	Cash Tax Paid
PT Agung Podomoro Land Tbk (APLN)	2013	930.240.497	10.932.862.184	19.679.908.990	1.177.175.519
	2014	983.875.368	12.767.606.945	23.686.158.211	1.229.697.293
	2015	1.116.763.447	14.777.458.588	24.559.174.988	1.138.920.945
	2016	939.737.108	17.537.994.512	25.711.953.382	960.933.911
	2017	1.882.581.400	19.357.142.313	28.790.116.014	1.896.492.410
PT Alam Sutera Realty Tbk (ASRI)	2013	889.576.596	11.627.961.837	14.428.082.567	1.081.775.829
	2014	1.176.955.123	13.736.275.799	16.924.366.954	1.385.766.654
	2015	684.287.753	16.010.952.567	18.709.870.126	758.957.294
	2016	510.243.279	17.103.821.341	20.186.130.682	591.353.409
	2017	1.385.189.177	18.410.472.205	20.728.430.487	1.444.664.431
PT Sentul City Tbk (BKSL)	2013	605.095.613	4.003.109.162	10.665.713.361	32.938.873.430
	2014	40.727.292	2.817.626.305	9.796.065.262	66.128.671.912
	2015	61.673.665	6.954.482.566	11.145.896.809	88.892.654.785
	2016	562.426.910	8.091.338.827	11.359.506.311	35.634.512.563
	2017	468.559.181	10.380.164.732	14.977.041.120	11.166.958.768

Source : www.idx.co.id

The increasing of net income, fixed asset and assets will cause the increasing of tax expense. In table 1.1, it can be seen that from PT Agung Podomoro Land Tbk, the net income, fixed asset and total asset from 2013 to 2015 increased, but the tax payment decreased. In 2016 to 2017 the net income, fixed asset and total asset kept increasing and the tax payment was also increasing.

PT Alam Sutera Realty Tbk had an increase of net income from 2013 to 2014 and a quite big falling off in 2015 and 2016 where it increased again the following year in 2017. The fixed asset as well as the total asset kept on increasing every year from 2013 through 2017. However, the tax paid decreased rapidly from 2013 to 2016 and increased massively in 2017.

The net income from PT Sentul City Tbk in 2013 to 2015 decreased in a big amount and rised up again in 2016 to 2017. The fixed asset as well as the total asset kept on increasing every year from 2013 to 2017. The tax paid was increasing from 2013 to 2015 and decreasing again from 2015 to 2017.

If the total asset of a company is high then the corporate size is also high. It can be seen that the total asset from the above table keeps increasing each year, therefore higher corporate size can cause higher tax payment, which will cause more tax avoidance.

Some cases and table above show that tax avoidance is an important issue to get more attention. Research on tax avoidance has been widely used as the object of research and many influencing factors have been tested by many researchers before.

Research conducted by Maharani (2014) to research the effect of profitability on tax avoidance, the results of the study showed that profitability has a negative effect on tax avoidance. Research done by Fadilla Rachmitasari (2015) on the effect of leverage on tax avoidance showed that leverage has a positive effect on tax avoidance. Merslythalia

and Lasmana (2016) to research the effect on institutional ownership on tax avoidance. The result showed that institutional ownership has a negative effect on tax avoidance. Supramono (2010) to research the effect on debt to equity on tax avoidance. The result of the research showed that debt to equity has a positive effect on tax avoidance. Calvin and Sukartha (2015) on the research on the effect of debt to equity on tax avoidance also showed that the result has a positive effect on tax avoidance. By looking at the results of previous studies, it is known that there are differences concluded from the results of the influence of profitability, leverage, institutional ownership, and debt to equity of tax avoidance. However, the results of the research study are still not clear about the effect of profitability, leverage, institutional ownership and debt to equity on tax avoidance. Therefore, the writer is interested to emphasize retesting the variables with the hope of obtaining consistent results.

In conclusion, some factors that could influence tax avoidance are profitability, leverage, debt to equity, capital intensity, and institutional ownership.

For this reason, the writer is interested in conducting research with the title “The Influence of Profitability, Firm Size and Capital Intensity towards Tax Avoidance in Property and Real Estate Companies listed in the Indonesia Stock Exchange”.

1.2 Problem Limitation

Based on the background of the study above and because of the of time constraints, the writer limits the problem limitations as:

1. The data is taken from annual financial statements on property and real estate sector of companies listed in the Indonesia Stock Exchange (IDX) taken in year 2013 to 2018.
2. The writer insists in taking property and real estate sector because in Indonesia, the development in this sector keeps increasing.
3. The variables used in this study as the independent variables are profitability, firm size and capital intensity while the dependent

variable is tax avoidance.

1.3 Problem Formulation

Based on the background of study above, then it can be drawn in the formulation of the problem as follows:

1. Does profitability partially have influence towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2018?
2. Does firm size partially have influence towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2018?
3. Does capital intensity partially have influence towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2018?
4. Do profitability, firm size and capital intensity simultaneously have influence towards tax avoidance in property and real estate companies that listed in Indonesia Stock Exchange 2013 to 2018?

1.4 Objectives of the Research

Based on the description problem formulation above, author has some objective of the research as follow:

1. To identify whether profitability partially influences tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2018.
2. To identify whether firm size partially influences tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2018.
3. To identify whether capital intensity partially influences tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2018.
4. To identify whether profitability, firm size and capital intensity simultaneously influence tax avoidance in property and real estate companies listed in the Indonesia Stock Exchange 2013 to 2018.

1.5 Benefits of the Research

1. Theoretical Benefit

The research provides benefits theoretically to:

a. For writer

By analyzing the influence of profitability, firm size, and capital intensity towards tax avoidance in property and real estate sectors that listed in Indonesia Stock Exchange, the writer hopes to get more understanding and knowledge.

b. For readers

The results of this research is expected to provide knowledge for the readers in order to know the influence of profitability, firm size, and capital intensity towards tax avoidance.

2. Practical Benefit

The research provides benefits practically to:

a. For the Company

This research is expected to become an additional consideration for the management in processing their tax calculation by minimizing it using tax avoidance without violating the tax laws.

b. For next researchers

This research can be used as an additional references and information related to the discussion object and the variable used for those who study the same topic as this research.

1.6 Systems of Writing

The purpose of systems of writing is to make it easier for readers to understand the content of this research. The outline of research is organized as below:

CHAPTER I: INTRODUCTION

This chapter is explaining about the background of the study that explain about the influence of profitability, firm size and capital intensity ratio on tax avoidance in property and real estate companies listed on the Indonesian Stock Exchange 2013-2018.

CHAPTER II: LITERATUREREVIEWAND HYPOTHESIS DEVELOPMENT

This chapter is explaining about theoretical background that become the base and related to the problems that will be discussed in research.

CHAPTER III: RESEARCH METHOD

This chapter is explaining about research design, population and sample, data collection method, types and sources of the data, and the methods of analysis used in this research.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter is explaining about collective and descriptive data research, and contains the results of data analysis also discussion about the results of data analysis.

CHAPTER V: CONCLUSION

This chapter contains of conclusion about the results of the research, and the recommendation to related parties in this research.