

CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia is still counted as a developing country. Therefore, the government needs to implement the development over the country to create the national prosperity. In conducting the national development, there are two sources of funding. They are from the tax and non-tax sectors. In the tax sector, tax is a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions. Taxes have two main effects. First, they transfer purchasing power from households and firms to the public sector that means the main sources for the government to sustain financing in carrying out domestic development and routine state expenditure as set out in the State Expenditure and Expenditure Budget (APBN). Second, tax creates incentives to move from taxed activities to non taxed activities and from high tax activities to low tax activities, because of that taxpayers always seek an opportunity to not paying their tax. Although they know taxes play a very important role in state revenues, there are still many taxpayers do not perform their obligations in paying taxes to government. To increase taxpayers awareness, government had already tried to reform their tax and seeks to streamline the tax system to be more neutral, simple, stable, more justice and legal certainty and transparency to increase state revenues for the example self assessment system that calculate, collect and paying tax by themselves. However, many taxpayers, both personal and corporate, still consider paying taxes is an expense that will reduce the taxpayer's income. Therefore, they will tend to find ways to reduce the taxes to optimize their profits. The efforts in minimizing taxes can be done with tax management, that consist of two types which are legal (tax avoidance) and illegal (tax

evasion). In tax avoidance, company take advantage of the tax law weakness to avoid tax payments without violating the law. But if the company cross the boundaries from the tax law, it can be stated that the company has done tax evasion which the status is illegal.

In 2013, Directorate General of Taxes (DGT) found 7 kinds of ways that how property and real estate developers perform tax avoidance . First, by using price that below the actual selling price in calculating the Tax Base (DPP). Second, individuals or companies do not register themselves as Taxable Entrepreneurs (PKP) but collect Value Added Tax (PPN). Third, do not report all their sales. Fourth, do not cut out and collect Income Tax (PPh). Fifth, illegally crediting input tax. Sixth, avoidance of Luxury Value Added Tax-Goods (PPnBM) and Article 22 on luxury housing. Seventh, sell land and building, but only reported the sales of land. (www.medanbisnidaily.com, 2013)

In 2013, Chandra Budi, Head of the External Relations Section of the Directorate General of Taxes, said that based on cross-examination of Real Estate Indonesia (REI), data carried out by the Directorate General of Taxes (DGT) in 2011-2012, there was a potential income tax (PPh) of IDR 30 trillion, which does not include VAT, but the fact that the tax paid to government from the property sub sector for that year was only around IDR 9 trillion (www.finance.detik.com). And in 2016 the tax revenue that the government received was only IDR 76.79 trillion, down from the previous year which reached IDR 85.75 trillion. The growth in the property sub sector, real estate and building construction as well keep increased, from 29% in 2010 increased to 32% in 2011 and 51% in 2012, but this growth was not followed by an increase in effective taxes rate.

Beside of case above, writer also prepares the table of phenomenon from some company which related to tax avoidance.

Table 1.1
Net Income After Tax, Total Equity, Total Asset and Cash Tax
Paid in some property and real estate companies that listed in IDX
2013 to 2017 (Rp. '000)

Company	Years	Net Income After Tax	Total Equity	Total Asset	Cash Tax Paid
PT Summarecon Agung Tbk (SMRA)	2013	1.095.888.248	4.657.666.667	13.659.136.825	266.178.220
	2014	1.617.479.556	6.416.455.956	15.872.671.877	234.053.124
	2015	1.064.079.939	7.529.749.914	18.758.262.022	235.480.372
	2016	605.050.858	8.165.555.485	20.810.319.657	288.946.501
	2017	532.437.613	8.353.742.063	21.662.711.991	223.095.744
PT Plaza Indonesia Realty Tbk (PLIN)	2013	33.342.916	2.159.752.050	4.126.804.890	81.046.881
	2014	358.995.455	2.366.327.853	4.544.932.176	93.643.342
	2015	279.689.919	2.406.569.383	4.671.089.985	111.715.017
	2016	725.619.401	2.285.244.690	4.586.569.370	138.556.393
	2017	286.288.858	986.912.868	4.639.438.405	107.404.392
PT Gading Development Tbk (GAMA)	2013	20.527.562	1.044.340.697	1.290.583.599	898.517
	2014	47.282.552	1.091.623.255	1.390.092.733	2.509.485
	2015	4.980.106	1.096.560.457	1.336.562.720	8.448.456
	2016	1.198.836	1.097.670.948	1.344.868.368	1.442.872
	2017	430.230	1.098.164.523	1.402.556.223	1.662.139

Source : www.idx.co.id

The increasing of net income, equity and assets will cause the increasing of tax expense. In table 1.1, it can be seen that from PT Summarecon Agung Tbk, the net income, total equity and total asset from 2013 to 2014 is increasing, but the tax paid is decreasing. In 2016 to 2017, the total equity and total asset keep increasing, but the tax paid is decreasing.

PT Plaza Indonesia Realty Tbk had drastically increasing of net income in 2013 to 2014 in the amount of increase 325.652.539.000 but the tax paid in 2013 to 2014 only in the amount of 12.596.471.000 followed by in 2014 to 2016, the net income is decreasing but the tax paid is

increasing. And the total equity and total asset in 2015 to 2016 is increasing but the tax paid is decreasing.

Lastly, in 2014 to 2015, PT Gading Development has a decreasing net income but the tax paid is increasing.

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 done by Pohan (2009) and Anissa (2011) to research the effect of institutional ownership on tax avoidance, the results of the study showed that institutional ownership had no significant effect on tax avoidance. Supramono (2010) and Sri Mulyani (2013) to research the effect of leverage on tax avoidance, find that leverage has a significant effect on the tax avoidance. Surbakti (2012) to research the effect of firm size and leverage on tax avoidance. The results found that firm size has a significant effect on tax avoidance, but leverage has no significant effect against tax avoidance. Results of research conducted by Kurniasih and Sari (2013) states that Return on Assets (ROA), firm size and fiscal loss compensation has a significant effect on tax avoidance, but leverage does not has significant effect on tax avoidance. Maharani and Suardana (2014) and Darmawan and Sukartha (2014) found the results that ROA has effect on tax avoidance but leverage does not have a significant effect against tax avoidance. Prakosa (2014) states that leverage, firm size and fiscal loss compensation have no significant effect on tax avoidance, but for profitability results in a significant effect tax avoidance. Meanwhile, research conducted by Herawati (2014) found the result is that institutional ownership has a significant 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 ROA, leverage, firm size, fiscal loss compensation and institutional ownership of tax avoidance. But the research results are still not clear about the effect of Return On Assets

(ROA), leverage, firm Size, fiscal loss compensation and institutional ownership towards tax avoidance. Because of that, the writer is interested to emphasize retesting the variables with the hope of obtaining consistent results.

And beside of that, we can see that the development of property and real estate sector in Indonesia is keep developing. New houses, big building such as hotel, apartment continuously built from year to year but the state's income no increase. Therefore, the writer is interested in conducting research with the title "The Influence of ROA, Debt to Equity and Firm Size towards Tax Avoidance in Property and Real Estate Companies listed in the Indonesia Stock Exchange".

1.2 Problem Limitation

Base on the background of the study above and because of the limit of time, 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 2017.
2. The writer insists in taking property and real estate sector because in Indonesia, the development in this sectors is keep increasing from year to year.
3. The variables used in this study as the independent variables are return on asset (ROA), debt to equity (DER) and firm size while the dependent variable is tax avoidance.

1.3 Problem Formulation

In accordance with the problem limitation stated above, the researchers trying to formulate the problems to be discussed in this study which are :

1. Does ROA partially have influence towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2017?

2. Does debt to equity partially have influence towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2017?
3. Does firm size partially have influence towards tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2017?
4. Do ROA, debt to equity and firm size simultaneously have influence towards tax avoidance in property and real estate companies that listed in Indonesia Stock Exchange 2013 to 2017?

1.4 Objective of the Research

In accordance with the formulation of the problem above, the objectives of this reserach is :

1. To identify whether ROA partially influences tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2017.
2. To identify whether debt to equity partially influences tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2017.
3. To identify whether firm size partially influences tax avoidance in property and real estate companies listed in Indonesia Stock Exchange 2013 to 2017.
4. To identify whether ROA, debt to equity ratio and firm size simultaneously influence tax avoidance in property and real estate companies listed in the Indonesia Stock Exchange 2013 to 2017.

1.5 Benefit of the Research

This research is expected to provide benefits for various parties related to the research topic, including :

1. Theoretical Benefit

The research provide benefits theoretically to :

a. For writer

By analyzing the influence of ROA, debt to equity ratio, and firm size towards tax avoidance in property and real estate sectors that listed in Indonesia Stock Exchange, the writer hope 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 ROA, debt to equity ratio, and firm size towards tax avoidance.

2. Practical Benefit

The research provide benefits practically to :

a. For the Company

As for the company, this research is expected can 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.

c. For government (Tax Department)

This research is expected to be able to assist government in tax department in making regulations or tax policies so that the potential of state revenue from the tax sector can be maximized and also in tackling tax evasion that has been done by companies.

1.6 System of Writing

To provide an overview of the contents this research, it will be compiled in this systematic of writing as follows :

CHAPTER I : INTRODUCTION

This chapter explains the information about the research such as background of study, the problem limitation, problem formulation, the objective of the research, benefit of the research by theoretical and practical, and the systems of writing of this research. Problem limitation only consists the information and data about the study that want to be research about return on asset, debt to equity, firm size and tax avoidance. Objective of the study is to identify the relationship and the effect of the relationship between the variables in this study.

CHAPTER II : LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter describes the theoretical basis that are given by experts as trusted sources that related to this research as the basis of references to conduct this research and the objective in searching for proof and solutions for the hypothesis proposed, previous research that related to this research, research framework which are formulated to conduct this research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses the research method that is quantitative by explain the variable used in this research, population and sample of the research, 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 describes the object of the research which is companies in Indonesia Stock Exchange, data analysis, and interpretation of results of this research.

CHAPTER V: CONCLUSION

This chapter will be contained the conclusion of the results obtained from the research that had been done, implication for companies and also recommendation that can be useful for the next researchers.