CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is a fourth biggest country in the world in terms of population. Based on the Central Bureau of Statistics, Indonesia's population continues to grow, wherein 2020, it has 270 million inhabitants. As the population grows, the needs for residences, offices, shopping centers, amusement parks also increase, moving the property and real estate sectors to develop. It is showed from the Ministry of Public Works and Public Housing data that property and real estate still have many demands, whereas there are still 13 million housing needs throughout the country.

The property and real estate sectors become one favorite investment since it is low risk and high return. The price of the property and real estate keep increasing when the demand exceeds the supply. Even though the market keeps expanding, but the buying power of consumers still low.

Therefore, to overcome the buying power in property and real estate, the government issues several benefits such as relaxing the loan-to-value ratio, lowering the benchmark interest rate, and ease of licensing for the subsidized house. These regulations had been applied since the year 2019 and significantly impacted economic growth (The Association of Indonesian Real Estate Companies, 2020).

On the other side, the property sector has more significant effects on other sectors in the economy through two roles: forward linkage and backward linkage. Forward linkage roles or a forward-oriented role means that property can invite new investment in Indonesia’s economy. Meanwhile, backward linkage roles represent the property sector’s contribution to other industrial movements.

According to Srimulyani, the development of property and real estate sectors at the same time can develop other industries such as material, logistics, service, and financial sectors (Kencana, 2019). Therefore, growth in these sectors indirectly boosts national productivity by reducing the unemployment rate and poverty rates. Besides that, property and real estate sectors can also contribute to the state revenue in the form of tax.

According to Article 1 paragraph (1) on KUP Law No. 28 on the year 2007, tax is a mandatory contribution to the state-owned by individuals or entities formed based on the law, with no direct compensation, and used for the country’s needs for the greatest prosperity of the people. Tax gives a lot of benefits for the government to finance various projects to develop the state. But companies subjected to tax assumed it as an expense since it reduces the profit of companies. To optimize the profit, companies always want to pay a minimum tax (Astuti and Aryani, 2017).

There are two ways to minimize the tax, which are tax avoidance and tax evasion. It looks like they represent the same meaning, but it has a different purpose. Tax avoidance means to minimize the tax legally while tax evasion means to minimize the tax illegally. According to Gribnau (2015), tax evasion is a violation of the law and can entail deliberate non-disclosure that may or may not mislead. Meanwhile, according to Freedman (2004, pp. 335-6) in Oats and Tuck (2019), in the broadest context, tax avoidance includes all activities of reducing, removing or postponing tax liability.

Tax avoidance becomes a prevalent issue since Indonesia has a lower tax ratio than other countries in ASEAN. The tax ratio can show the ability of the government to collect the tax. According to the Directorate General of Tax, the tax ratio in the year 2019 decreased 0.8% from the year 2018, about 11.5%. Therefore, the tax collected was still less than optimal since it falls.

According to Putri (2018), the tool to measure tax avoidance is the effective tax rate (ETR). The definition of the effective tax rate is the ratio between the tax liabilities generated by taxable income based on tax regulation toward income in accounting which calculate according to Accounting Standard. The effective tax rate is used because the source in doing tax avoidance is from income tax and the other tax expense which, can be categorized as a burden by companies. It can also measure the external impact, such as changing taxation regulation toward the tax expenses of the company.

Tax avoidance activity can be reflected through many variables. One of the variables that can determine whether one company does tax avoidance is company size. Company size can describe how big the company is, the operational activity, and income obtained by the company. A large company tends to manage its finances and resources properly, especially in managing the tax expense. Besides that, the large company have more complex transactions that made the company can use the law's loophole to avoid the tax. As a result, companies keep maintaining their good reputation in public by avoiding the risk of paying a forfeit. Therefore, the size of a company can indicates tax avoidance practice. Based on research conducted by Poli (2019) show that the company size has a significant effect toward tax avoidance while the research conducted by Titisari and Mahanani (2017), company size has an insignificant effect toward tax avoidance.

Leverage is a ratio to measure the amount of funds from outside the company to run its operational activities. Companies that tend to do tax avoidance use the source of funds in debt from a third party that does not have any relationship with the company. The interest expense that may occur from debt can reduce the taxable income. As a result, the low taxable income will impact the company's tax payment. Therefore, leverage can indicate whether one company does tax avoidance or not. The research of Salaudeen and Eze (2018) shows that leverage has a negative effect toward tax avoidance while the research conducted by Stamatopoulos et al. (2019), leverage has an insignificant effect toward tax avoidance.

Sales Growth holds an essential role in the company because it can show the success of investments in the past and predict the growth of sales in the future. The rise in sales escalated the revenue in the company. According to Weston and Brigham (1991) in Dewinta and Setiawan (2016), assets support sales activity, so if the sales increase then assets also must increase. It made sales have strategy influenced toward the company. The consistency of improvement in the operational activity indicates that the company has experienced better growth. The increase in revenue potentially impacts the company’s tax payment. Based on Rodriguez et al. (2020), sales growth had a negative effect toward tax avoidance while research conducted by Wahyuni et al. (2017), sales growth had a positive effect toward tax avoidance.

Table 1.1 Company Size, Leverage, Sales Growth and Tax Avoidance of some companies in Property and Real Estate Industries for the year 2014 – 2018.

Company	Year	Company Size {Ln(total assets)}	Leverage (DAR)	Sales Growth	Tax Avoidance (ETR)
LPKR (PT Lippo Karawaci Tbk)	2016	31,451	0,516	18,267%	21,208%
	2017	31,670	0,474	4,994%	26,573%
	2018	31,539	0,489	12,618%	18,718%
BSDE (PT Bumi Serpong Damai Tbk)	2016	31,276	0,364	5,028%	1,351%
	2017	31,459	0,365	58,659%	0,753%
	2018	31,584	0,419	-35,937%	3,329%
CTRA (PT Ciputra Development Tbk)	2016	31,001	0,508	-10,313%	11,693%
	2017	31,088	0,513	-4,400%	3,730%
	2018	31,166	0,515	19,054%	3,554%

Source: Prepared by the writer (2021)

Based on previous research, the effective tax rate can show whether one company have done tax avoidance or not. The high effective tax rate indicates that the company has more tax expenses which indicate the company’s low possibility does tax avoidance. In reverse, a decrease in the effective tax rate could be interpreted as higher likelihood for the company to avoid tax payments (Ambarukmi and Diana, 2017).

Table 1.1 above shows the inconsistent phenomenon between company size, leverage and sales growth toward tax avoidance in property and real estate companies that had fulfilled specific criteria for being listed at Indonesia Stock Exchange for 2014 – 2018.

PT Ciputra Development Tbk (CTRA) had total assets increase consistently during the period 2016 – 2018. One of the factors of the rise in assets was an increase in fixed assets. The percentage of tax avoidance from 2016 to 2018 decreased 7,963% and 0,176% in the subsequent two years. According to Sari et. al (2016), fixed assets have depreciation expenses. It is one of the deductible expenses categories that can reduce the taxable income—the smaller amount of taxable income, the smaller amount of tax payment. Therefore, assets as an indicator of company size can indicate the tax avoidance practice.

From the year 2016 to 2017, PT Ciputra Development Tbk had leverage increase 0,005%, but the ETR decreased 7,963%. The same phenomenon was also found from 2017 to 2018, in which leverage increased 0,002% and the ETR decreased 0,176%. One factor of increase in leverage was an increase in bank loans and financial institutions loans. Leverage can indicate tax avoidance practice because debt from bank loans and financial institutions loans incurred interest expense (Setiawan and Al-Ahsan, 2016). It can be used to reduce the taxable income, which minimizes the tax paid.

PT Lippo Karawaci Tbk (LPKR) had sales growth decreased 13,273% from 2016 to 2017 due to a decrease in urban development. From the year 2017 to 2018, the percentage of sales growth increased 7,624%, which contributed from urban development, large-scale integrated development, healthcare, hospitality and infrastructure, and property and portfolio management. On the other side, the percentage of tax avoidance in 2016 – 2018 increased by 5,365% and decreased by 7,855% during the period. The same phenomenon was also found in PT Bumi Serpong Damai Tbk (BSDE), wherein sales from the year 2016 to 2017 increased 53,631 % but the percentage of tax avoidance decreased 0,598%.

Based on the explanation above, it shows different results regarding the factor that effect tax avoidance. In this case, the writer is motivated to research tax avoidance with the title **"The Effect of Company Size, Leverage and Sales Growth toward Tax Avoidance in Property and Real Estate listed at Indonesia Stock Exchange".**

1.2 Research Limitation

The limitation of this research is as follows:

1. The independent variables that will be used in this research is limited only to company size, leverage and sales growth whereas many factors can be used to indicate tax avoidance.
2. The dependent variable that will be used in this research is limited only for tax avoidance.
3. The company that will be used in this research is Property and Real Estate companies listed at Indonesia Stock Exchange

4. The periods in this research are limited only from 2014-2018

1.3 Problem Formulation

Based on the existing description, the writer lists the problem formulation as follows:

1. Does company size partially have a significant effect toward tax avoidance in property and real estate companies listed at the Indonesia Stock Exchange?
2. Does leverage partially have a significant effect toward tax avoidance in property and real estate companies listed at the Indonesia Stock Exchange?
3. Does sales growth partially have a significant effect toward tax avoidance in property and real estate companies listed at the Indonesia Stock Exchange?
4. Do company size, leverage and sales growth simultaneously have a significant effect toward tax avoidance in property and real estate companies listed at the Indonesia Stock Exchange?

1.4 Research Objective

There are several objectives in this research as follows:

1. To determine the effect of company size toward tax avoidance in property and real estate companies partially
2. To determine the effect of leverage toward tax avoidance in property and real estate companies partially
3. To determine the effect of sales growth toward tax avoidance in property and real estate companies partially

4. To determine the effect of company size, leverage and sales growth toward tax avoidance in property and real estate companies simultaneously

1.5 Benefit of the Research

There are several benefits in conducting this research as follows:

1.5.1 Theoretical Benefit

Theoretical benefit in conducting this research is as follows:

1. For students, this research can be used as a reference for further analysis and enhance the knowledge about factors that influenced the company to tax avoidance.
2. For society, this research can be used as information about tax avoidance.
3. For the writer, this research can be used as material for analysis so that it can enhance the knowledge and experience regarding tax avoidance.

1.5.2 Practical Benefit

Practical benefit in conducting this research is as follows:

1. For the government, it can be used to set regulations so that the practice of tax avoidance made by the company can be reduced.
2. For a company, it can be used for awareness to not avoid the tax which will be reducing the state revenue and making decisions wisely so that it does not violate the regulation.