

CHAPTER I

INTRODUCTION

1.1 Background of Study

A country's growth is always seen in terms of its economic development. The problem of economic growth can be seen as a macroeconomic in long-term period. Since the ability to produce and develop a product or service will keep increasing every year, the opportunity to generate greater profit also becomes a big challenge to every investor in Indonesia. But, besides gain their profit, they need to pay the tax to the government.

Paying tax is one of the obligations that must be done by every entrepreneur and businessman. Therefore, tax is one of biggest contributions to Indonesia's economy. 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 are supposed to report their amount of tax payment is not willing to pay. Many tax payers tend to lessen the amount of tax or even try to avoid it.

The corporate income tax is the third-largest source of federal revenue, although substantially smaller than the individual income tax and payroll taxes. According to Fadhlania (2019), Taxpayers are classified as

individual taxpayers and corporate taxpayers. Law No. 28 of 2007 defines a corporation as a group of individuals and/or capital as an entity, whether or not it carries on business, such as a limited liability company, limited liability company, etc. A limited liability company, another company, a state-owned enterprise, or any corporation, company, concierge, pension fund, partnership, association, fund, public organization, organization, socio-political or other organization in any name and form other types of institutions, including permanent establishments.

However, most business decisions are either directly or indirectly influenced by taxes. To gain more profit, taxpayers streamline the expense that can be deductible their tax to minimize the income tax. According to Wijayanti, Wijayanti, Chomsatu (2017), from the taxpayer's point of view, tax payment is one of the factors that reduce income and income, if the tax paid is greater than the proper amount, the welfare of shareholders is not optimal. The profits you get will never reach the maximum level. For this reason, companies try to pay the minimum tax by implementing a tax planning.

The revenue generated by government taxes is the main source of federal investment in equipment and is essential for sustainable economic development. A major challenge that governments face in generating these revenues is the increasing rate of tax avoidance. Thus, tax avoidance and tax avasion are both important factors to consider as they affect both quantity and nature of public finance which is a response to economic development.

Companies did the tax avoidance as an attempt to avoid taxes by taking advantage of weaknesses in the law without violating the established rules to minimize the amount of tax payable (Pohan 2013). Tax avoidance is the only way to avoid tax legally that does not violate taxation Regulations. According to Sari (2014) in Handayani (2017), tax avoidance is a transaction scheme that is shown by minimizing the tax burden by utilizing the weaknesses (loopholes) of a country's taxation provision. An example of tax avoidance in Indonesia is PT Toyota Motor Manufacturing Indonesia. The General IRS said PT Toyota Motor Manufacturing Indonesia was using transfer prices to avoid taxes. The method used by PT Toyota Motor Manufacturing Indonesia is to sell at a transfer price that violates the legitimate business principles and practices of Singapore-related companies. Singapore's taxes are actually lower than Indonesia's, so there are indications that many multinationals are choosing to shift their profits to Singapore.

According to Kasmir (2016) in Kimsen, Kismanah, Masitoh (2018), profitability can be defined as the company's ability to gain the earning/ profit. Company performance can be see by using profitability ratio. Larger profitability ratio, larger performance compared to competitors. According to Sahab (2018:160), the net profit ratio calculates with the number of earnings after tax compared to the net of sales. Therefore, the purpose of the normality test is to find out whether the distribution of data following or approaching the normal distribution which is distribution data with bell shaped. higher profit that the company earn, greater amount of income tax should be pay.

Profitability also related to return on assets. Since the higher value of return on assets, means the better performance of the company. Besides that, the result of a study conducted by Maharani (2014) to study the effect of profits on tax avoidance show that profitability will adversely affect tax avoidance. Other research states that this variable has no effect on tax avoidance because the higher the debt level of a company, the management will be more conservative in conducting financial reporting or company operations. Directors and managers will be more careful and will not take high risks to carry out tax avoidance activities in order to reduce the tax burden. So that the higher the level of debt of a company, it will not affect the practice of tax avoidance.

Dividend policy is a very important decision in determining the results of profits. The proceeds will usually be distributed to shareholders in the form of dividends. But in addition to distributing dividends, companies can also use this profit as retained earnings for capital turnover and transactions, so that the resulting profits can be even greater. Dividend policy is part of the decision to invest. Therefore, decisions in dividend policy are considered very important in the sustainability of a company, either by directors, shareholders, or company managers. If they decide to distribute dividends, the retained earnings will be small, and the formation of the company's internal funds will decrease. Conversely, if the company invests these funds as retained earnings, the resulting dividends will be smaller and can affect the company's stock price.

The distribution of dividends has been awaited by investors as a realization of the expected return on investment funds to buy company funds. Determining the amount and size of cash distributed to shareholders can affect dividend payout ratios such as company profitability, cash flow, taxes, debt ratio, and sales growth. As tax rates rise, companies increase share buybacks and reduce dividends. Tax rates and dividends depend on an individual's investment rate. Tax changes affect personal income and the value of stocks. And how to avoid taxes is not without risk and cost. Therefore, efforts to simplify individual and corporate tax rates need to create a structure that favors the size and taxation of capital gains.

According to Han et al (1999), taxes are often expected to be inversely proportional to shareholding. However, the results here show that taxes are positively correlated with stock ownership. People prefer dividends over capital gains because they treat taxes differently. Meanwhile, the results of research conducted by (Fadhlania, 2019), namely dividend policy does not affect tax avoidance

Looking at the results of previous studies, we can see that there are differences in the findings on the bottom line effects of profitability and dividend policy on tax avoidance. However, the research results are still unclear about the impact of profitability and dividend policy on tax avoidance. Therefore, the authors wish to focus on retesting the variable to obtain consistent results.

In conclusion, the factors that can influence tax avoidance are profitability and dividend policy. For this reason, the author is interested in conducting research with the title “The Influence of Profitability and Dividend Policy on Tax Avoidance in Miscellaneous Sector listed in Indonesia Stock Exchange”

1.2 Problem Limitation

From the information that the author describe above, we can see the limitation problem of this study. Therefore, the writer limits the problem limitation as:

1. Annual financial statement on Miscellaneous Industries sectors of companies listed in Indonesia Stock Exchange (IDX) taken in year 2014 to 2019 as reference of the data.
2. The author insists to use this Miscellaneous Industries sector is part of 9 important sectors and is a mainstay in the future.
3. The variables of this research is profitability, dividend policy and tax avoidance.

1.3 Problem Formulation

This research discuss whether profitability and dividend policy have significance influence on tax avoidance in miscellaneous industries sector listed in Indonesia Stock Exchange 2014 to 2019.

Regarding to the limitation of time, ability, and knowledge, the author will only focus on examining:

1. Does profitability influence tax avoidance in miscellaneous industries sector listed in the Indonesia Stock Exchange from 2014 to 2019?
2. Does dividend policy influence tax avoidance in miscellaneous industries sector listed in Indonesia Stock Exchange from 2014 to 2019?
3. Do profitability and dividend policy influence tax avoidance in miscellaneous industries sector listed in Indonesia Stock Exchange from 2014 to 2019?

1.4 Research Objective

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

1. To analyse the influence of profitability toward tax avoidance in miscellaneous industries sector listed in the Indonesia Stock Exchange 2014 to 2019
2. To analyse the influence of dividend policy toward tax avoidance in miscellaneous industries sector listed in the Indonesia Stock Exchange 2014 to 2019
3. To analyse the influence of profitability and dividend policy toward tax avoidance in miscellaneous industries sector listed in the Indonesia Stock Exchange 2014 to 2019

1.5 Benefit of the Research

This research tends to solve the problem of this study. Therefore, this study will gain on benefit, which is divided into:

1. Theoretical benefit

The result about the information that related to this study will benefit theoretically to:

a. For author

By analyzing the influence of profitability and dividend policy towards tax avoidance in miscellaneous industries sector that listed in Indonesia Stock Exchange, the author hopes to gain more information to understand and knowledge this study.

b. For readers

The result of this study is expected to give information and knowledge to the readers in order to understand about the influence of profitability and dividend policy towards tax avoidance in miscellaneous industries sector that listed in Indonesia Stock Exchange.

2. Practical benefit

This study provide benefits practically to:

a. For the company

This research is expected to make the company aware in calculating the tax payment without thinking of tax avoidance.

b. For other researchers

This study is expected to be used as an additional reference, information and tool for related study.

