CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxation is a legal obligation that all citizens of a country must fulfill. Taxes are a source of revenue for the government that both the public and the state can use. If tax revenues fall, the state's development process will become less important; however, the development process will become more critical if tax revenues rise. On the other hand, taxes are an expense that reduces the company's net profit. If a transaction occurs at the firm, the corporation will be subject to taxes—the greater the number of transactions in a corporation, the greater the tax burden it faces. Taxes are levied on everyone in the country, whether they are Indonesians or foreigners.

Tax is a type of government revenue that is earned from a tax placed on individuals, entities, and businesses, and it is frequently mandatory and coercive. Taxes are not immediately felt because they are used for the common good and are wide. (Latofah & Harjo, 2020).

From the state's perspective, tax is an income that can be used to fund government administration, but it is not the same as a firm (Alfaruqi et al., 2019).

Indonesia uses a self-evaluation system. A self-assessment system is a tax system that guarantees that taxpayers will be able to meet and exercise their tax obligations and entitlements. (Razif & Rasyidah, 2020). With the implementation of the self-assessment system, which necessitates taxpayer compliance, taxpayers will have a greater opportunity to sway the amount of tax that should be computed and participate in other fraudulent actions. (Walsh, 2012). As a result, taxpayers must be truthful when using the self-assessment system to avoid further taxation.

Taxes are a financial burden for firms that can diminish their profitability. Due to these conflicts of interest, taxpayers engage in tax planning, such as tax avoidance.

Tax planning is an attempt to limit or decrease the amount of tax payable to the state such that the tax paid does not exceed the amount owed. One of the tax management tactics is to comply with applicable tax regulations or legal obligations. Because it considers the legal component, tax planning cannot be done casually. Companies, on the whole, utilize the tax planning scheme or technique outlined below.

A. Tax Avoidance

   In general, tax avoidance can be defined as avoiding paying taxes on transactions that are not tax items. A corporation changing allowances from cash to in-kind is an example of tax planning in tax avoidance. Because nature is not a subject of income tax under article 21, it is not taxed but is legal.

B. Tax Saving

   Because it chooses an alternative tax object with a low rate, it efficiently reduces the tax burden.

C. Optimize Tax Credit

You can credit the withheld tax if it complies with the regulations and does not break the law.

D. Postponement of VAT Payment

Businesses can postpone tax payments, mainly when products are purchased on credit. If we utilize this method, keep in mind the time restriction for the delay in complying with tax requirements.

Tax avoidance is the authorized avoidance of taxes that are not stated in tax regulations and that taxpayers regularly violate by seeking regulatory faults to remove the tax payable. To limit the number of tax obligations that must be paid and increase the company's cash flow, the corporation engages in tax planning, including tax avoidance. Implementing tax avoidance can maximize tax savings, lower tax payments, and increase cash flow (Selviani & Widjaja, 2019).

Based on the type of industry, it is divided into two, namely upstream and downstream industries. Upstream industry is an industry whose activities only process raw materials into semi-finished materials. This upstream industry has the nature of only providing raw materials needed by other industries. In contrast, the downstream industry is an industry whose activities are processing semi-finished goods into finished goods. The resulting goods can be directly consumed or used by consumers. The basic and chemical industry sector is the upstream industrial sector. For example, the gas industry is an upstream industry for the food industry because the products produced by the gas industry can be used to cook food ingredients for the food industry.

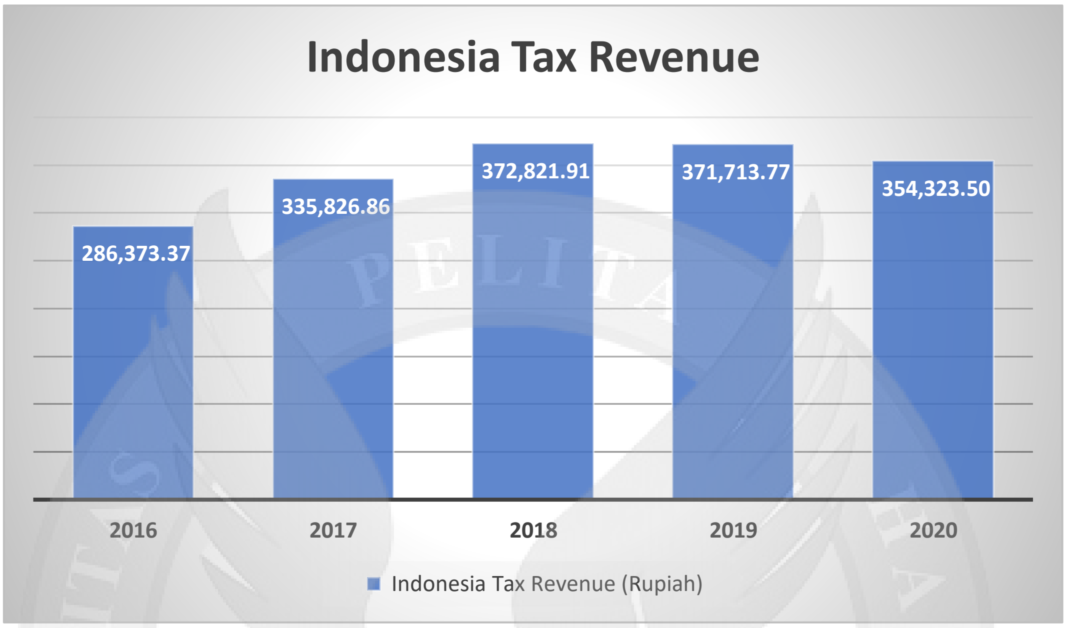

Figure 1.1 Indonesia Tax Revenue Sector Basic and Chemical Industries

Based on the table above, where data is taken from the Ministry of Finance, shows that in 2016 tax revenues in the basic and chemical industry sector reached 286,373.37 billion, or 18.6% of the total tax revenue for all sectors. In 2017, tax revenue in the basic and chemical industry sector reached 335,826.86 billion, or 22.8% of the total tax revenue for all sectors. This means an increase of 4.2% from the previous year. And in 2018, tax revenue in the basic and chemical industry sector reached 372,821.91 billion, or 23% of the total tax revenue for all sectors. This means that there is an increase of 0.2%% from the previous year.

However, there was a decline in 2019 and 2020. In 2019, the incoming tax revenue was 371,713.77 billion, or 20.8% of the total tax revenue of all sectors. There was a 2.2% decrease from the previous year. And for 2020, tax revenue for the basic and chemical industry sector is 354,323.5 billion, or 18.9% of the total tax revenue for all sectors. There is a decrease of 1.9% from 2019.

As a result of the numerous examples of tax evasion, the government anticipates that taxpayers and the general public will join in promoting the growth rate and implementation of national development to operate smoothly for the community's benefit through tax payment compliance.

In general, firms maximize their growth by avoiding taxes, which implies that if a company intends to acquire assets through tax avoidance, the organization's size has a positive impact on the amount of tax avoidance. The larger a corporation is, the more capable it is of regulating taxation through tax savings, including tax avoidance (Yulfaida & Zhulaikha, 2012).

Profitability is another element that might lead to tax avoidance. Profitability refers to a company's ability to make money (profit) over a set period. The larger a company's profit, the better its performance will be; yet, profit is a critical factor in the imposition of taxes; the higher a company's profit value, the higher the amount of tax burden that must be issued by the firm (Eksandy & Milasari, 2019)

Finally, another factor that can cause tax avoidance is Leverage. Leverage is a comparison that reflects the amount of debt used for financing by the company in carrying out its operational activities. The greater the use of debt by the company will impact the amount of interest expense that the company must issue; this can reduce pre-tax profit, which can further reduce the amount of tax paid by the company (Purnama, 2017).

After examining the components that may affect the income tax results from previous research and the table presented above, the researcher opted to investigate how Firm Size, Profitability, and Leverage will affect the company's effective tax rate. The Basic and Chemical Industries sector is chosen as the study object, with a time limit of 2016 to 2020. Through the background of the research explained above, this research title will be "**The Impact of Firm Size, Profitability, and Leverage Toward Tax Avoidance in Basic and Chemical Industries Listed on the Indonesia Stock Exchange.**"

1.2 Problem Limitation

The Problem limitation in this research is as follows:

1. The research object is in the Basic and Chemical Industries Listed on the Indonesia Stock Exchange
2. Firm Size, Profitability, and Leverage are the independent variables. Tax Avoidance is the dependent variable.
3. Firm Size is measured using Natural Logarithm of Total Assets. Profitability is measured using ROA, Leverage is measured using Debt To Equity and Tax Avoidance is measured by Effective Tax Rate.
4. The research period is in the year 2016-2020.

1.3 Problem Formulation

Based on the background that occurs above, the formulation of the problem that can be formed is as follows:

1. Does Firm Size significantly impact Tax Avoidance in Basic and Chemical Industries Listed on the Indonesia Stock Exchange?
2. Does Profitability significantly impact Tax Avoidance in Basic and Chemical Industries Listed on the Indonesia Stock Exchange?
3. Does Leverage significantly impact Tax Avoidance in Basic and Chemical Industries Listed on the Indonesia Stock Exchange?
4. Do Firm Size, Profitability, and Leverage have a significant impact simultaneously on Tax Avoidance in Basic and Chemical Industries Listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the formulation of the problem above, the objectives of this research are as follows:

1. To test whether Firm Size has a positive effect on Tax Avoidance
2. To test whether Profitability has a positive effect on Tax Avoidance
3. To test whether Leverage has a positive effect on Tax Avoidance
4. To test whether Firm Size, Profitability, dan Leverage have a positive effect on Tax Avoidance

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

a. This research can add more knowledge regarding the factors that can affect tax avoidance to the company listed in Chemical Sector on Indonesia Stock Exchange.

b. The result of this research can be a guide for further researchers who have the same research object.

1.5.2 Practical Benefit

This research is expected to gain knowledge and references for academics to conduct the same research in the future and be useful for other researchers interested in conducting research with the same theory.