CHAPTER I

INTRODUCTION

1.1   Background of Study

Taxes are the largest source of state's revenue. It is 82.5% of Indonesia's total revenue comes from tax revenues. Tax revenue in 2019 amounted to 1,545.3 trillion from the 2019 target of 1,577.6 trillion. This tax revenue figure grew 1.7% from the realization in 2018. Tax revenue in 2021 amounted to 1.277.5 trillion and it grew 19.2% from 2020 (*Kementerian Keuangan*, 2018). Tax revenue is very important for the sustainability of a country where a country will depend heavily on tax revenues in order to finance and develop the country. However, many taxpayers are trying to avoid tax because they feel burdened by it. They do not realize that this will of course also have a bad impact on the country because it is difficult for the country to become more advanced.

To deal with such behaviour of taxpayers, the government needs to monitor tax policy and the tax system so that everything is under control and in accordance with the existing truth. Tax policy is the main thing that government used to organize the tax system to reach the best results. Tax policy needs to be made fairly for both parties, namely the taxpayer and the government. The government must maximize the collection of tax funds because in the future, tax funds will be used for financing, both at the centre and in the regions. Government stipulates that taxpayers must report their tax payable in a given period. They hope that every

taxpayer is obliged to report and pay taxes correctly and honestly to the state treasury. Taxpayers in Indonesia can be divided into two, namely individual taxpayers and corporate taxpayers. For taxpayers, taxes are an embodiment of service and a role to contribute to increasing national development.

There are several factors of financial conditions that are predicted to be able to influence the company's tax avoidance. One of the determining factors in taking tax avoidance actions is liquidity. Companies that have high liquidity illustrate that the company has good cash flow so that the company will pay all its obligations including paying taxes in accordance with applicable regulations. On the other hand, companies that have low liquidity will not perform their obligations to pay taxes or do not comply with taxes. The reason is because with low liquidity, the company will maintain the company's cash flow rather than paying taxes (Krisnata & Supramono in Wijaya, 2017). Tax is the part of the company's short-term obligations. The company's ability to carry out its short-term obligations can be seen from the liquidity ratio. If the company has a high liquidity ratio, then the company is in a smooth cash flow condition.

Likewise, the amount of inventory intensity or the predicted inventory intensity can influence the tax avoidance. The amount of inventory intensity can cause additional costs to be paid by the company so it can reduce profits. The additional costs incur because of the company's investment in inventory will influence the reduction in profit which causes inventory intensity has the potential to reduce the amount of tax that should be paid by the company. Haryadi (in Artinasari, 2018), in his research reveals that inventory intensity influence the

effective tax ratio where the effective tax ratio is used as a proxy to measure tax avoidance.

The next factor that influences the tax avoidance is profitability. It is a ratio to measure the company's ability to gain profits from the sales or in term of their operational from time to time. From profitability ratio, we can know that a company's management classified as effective or not. According to Kurniasih and Sari (in Putri & Putra, 2017), profitability is a description of the company's financial performance in generating profits from asset management known as Return on Assets (ROA) which is predicted to influence the tax avoidance. ROA use the total asset to show the profit that the company received in period time. The higher the value of ROA, makes the value of the company's net profit and the profitability ratio higher. A company with higher profitability will be more likely to do tax avoidance to avoid paying taxes with bigger amount. They have bigger chance to position themselves in reducing the amount of tax liability.

In our ongoing life, taxpayers and governments have the opposite objectives. Taxes that are paid by taxpayers are costs that will reduce their net income. However, for the government, taxes are needed as a source of state financing for national development. The government wants to increase tax revenues as much as possible. The phenomenon of tax collection is an important phenomenon which makes the government more focused and must be well managed. With this tax avoidance action, the government will find it difficult to carry out development because every year the value of the tax received does not match from its realization. In the other side, taxpayers doubt that government does not use tax funds properly.

Taxpayers do not receive direct compensation from their tax payments, even though the funds originating from taxes are intended for the benefit of the state and the prosperity of the people. There are many schools, hospitals, and infrastructure requiring construction while there are no visible results from the government.

According to Frank (in Susanto, Yanti, Viriany (2018), tax avoidance can be carried out both legally (tax avoidance) and illegally (tax evasion). As a result of the misalignment of objectives, taxpayers try to manipulate data for minimize tax costs. This action is what we call as tax avoidance. Tax avoidance is an effort to avoid tax legally because it does not conflict with tax provisions because the methods and techniques they are used, will take advantages by the weaknesses in tax laws and regulations. It is true that tax avoidance legally does not violate tax laws and regulations, but tax avoidance is something that is practically unacceptable. This is because tax avoidance directly results in reduced tax revenues required by the state. With the practice of tax avoidance, carried out by taxpayers or companies, it means that it can harm the state because of lower amount of tax revenues lower than what the government expects. This will certainly lead to stagnant economic growth. Another impact that can be caused are the delay in improving community welfare, the development of public infrastructure and other facilities that have been planned by the government.

The Corruption Eradication Commission (KPK) found around 63,000 taxpayers in the palm oil industry sector had problems, related to allegations of tax avoidance and tax evasion practices by taxpayers in the sector. The 2016 Palm Oil Commodity Management System study belonging to the KPK found that the

Directorate General of Taxes did not encourage taxpayer compliance in the oil palm plantation sector, resulting in a decrease in state revenue. The KPK said that the Directorate General of Taxes knew it but had limitations in optimizing state revenues due to minimal data and information. According to the KPK, this will make tax contributions in the palm oil sector to be minimal and not in accordance with the daily circulation of money in the sector. It is known that the realization of tax revenue in the palm oil sector was only 22.2 trillion in 2015 but the circulation of money in the industry is projected to reach 1.2 trillion per day.

Based on the KPK's prediction that there are still many taxpayers in the palm oil industry sector who are involved in tax avoidance as well as tax evasion issues and the realization of tax revenue which is still very far from the calculation of tax income that should be received is deeply regretted. Knowing that the palm oil industry is an industry that is developing significantly currently and plays a very important role for Indonesia's economy. Supported by the case of a palm oil company that was proven to be fraudulent, namely PT BIP, in running their business.

Therefore, the writer interested doing research regarding the influence of several factors that are believed to influence tax avoidance activities against agricultural industries where palm oil industry is included. The writer conducts research in the form of a thesis titled: **"The Influence of Liquidity, Inventory Intensity Ratio and Return on Assets toward Tax Avoidance in Agriculture Industry Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

Due to the limitation of time and resources, the problem limitations of this research are as follows:

a. This research will focus on three independent variables that influence tax avoidance, which is liquidity, inventory intensity ratio and return on assets as independent variable.

b. This research is limited to agriculture industry which listed on the Indonesia Stock Exchange.

c. The research period is restricted to 2018-2021.

1.3 Problem Formulation

Based on the background of the study describe above, this research is conducted to analyze some factors that are influence on the tax avoidance. The problems that identified by the writer are:

a. Does liquidity has an influence on tax avoidance in agriculture industry for the period of 2018-2021 listed on the Indonesia Stock Exchange partially?

b. Does inventory intensity has an influence on tax avoidance in agriculture industry for the period of 2018-2021 listed on the Indonesia Stock Exchange partially?

c. Does return on assets has an influence on tax avoidance in agriculture industry for the period of 2018-2021 listed on the Indonesia Stock Exchange partially?

d.   Do liquidity, inventory intensity and return on assets have an influence on tax avoidance in agriculture industry for the period of 2018-2021 listed on the Indonesia Stock Exchange simultaneously?

1.4   Objective of the Research

a.   To analyse whether the liquidity has an influence on the tax avoidance.

b.   To analyse whether the inventory intensity has an influence on the tax avoidance.

c.   To analyse whether the return on assets has an influence on tax avoidance.

d.   To analyse whether the liquidity, inventory intensity and return on assets have an influence on tax avoidance.

1.5   Benefit of the Research

1.5.1   Theoretical Benefit

The results of this research are expected to have academic theoretical benefits, namely:

1.5.1.1   For Writer

To analyze whether the liquidity, inventory intensity, and return on assets has reached the optimal results. This research is expected to provide useful knowledge and information to the readers to encourage public confidence to invest in Indonesian Stock Exchange. Also, writer hopes that it can be applied in Economics Majoring in accounting.

1.5.1.2   For Reader

The results of this research can be used as additional information for readers. This research is expected to be useful in science, especially in the field of financial accounting in Indonesia.

1.5.1.3   For Investor

The results of this research can be used as information to determine the financial condition of the company. The results of this research can be used by investors to make a decision in investment.

1.5.1.4   For Academic

This research provide empricial evidence about how the liquidity, inventory intensity and return on assets can influence on the tax avoidance. Furthermore, it can also enrich the material of studies in the financial and capital markets for future research.

1.5.1.5   For Student and Society

This research can be useful for reading material to increase knowledge.

1.5.2   Practical Benefit

a.   This research is expected in giving input and suggestion for the company towards the liquidity, inventory intensity and return on assets.

b.   This research is expected in providing additional information for other researchers with the same topic.

1.6   System of Writing

System of writing means that the procedures, methods or sequences for completing a study or research which contains an introduction, objectives, and methods. The system of writing in this *skripsi* will be as follows:

Chapter I: Introduction

This chapter is the introduction of this research. The writer will present the background of the study, problem formulation, problem limitation, research focus, research objective, benefit of the research and systems of writing.

Chapter II: Theoretical Background

This chapter is the background of theory used in this research such as definition of liquidity, inventory intensity and return on assets. The writer presents theoretical background, previous research, hypothesis development, research model, and framework of thinking.

Chapter III: Research Methodology

This chapter consists of research design (quantitative), population and sample, data collection method and data analysis method.

Chapter IV: Data Analysis and Discussion

This research is analysis of data from the IDX. This chapter consists of general view of research object, data analysis and discussion.

Chapter V: Conclusion

This chapter consists conclusion in doing this research. The writer will present conclusion after conducting the research and recommendation for the company.