

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Tax avoidance is a strategy and method of tax avoidance tactics and techniques that are carried out lawfully and safely for taxpayers since they do not contradict tax regulations (Pohan, 2013). In Indonesia, tax avoidance has become common in here for legal practice of lowering one's tax bill by exploiting loopholes or employing legitimate tax planning tactics. Major strategies for tax avoidance used in Indonesia are leverage and institutional ownership, where companies that have institutional ownership play a role in tax avoidance in the presence of institutional investors that both encourage and discourage tax avoidance practices. While leverage can create conflicts of interest between taxpayers and the government.

Tax planning is the practice of structuring the taxpayer's business transactions to minimize the tax burden while remaining within the scope of tax legislation (Suandy, 2006). Meanwhile, tax evasion is reducing taxes by breaking the rules or regulations, such as submitting false information or concealing information. In comparison, tax avoidance is a strategy and approach carried out lawfully and safely for taxpayers because they do not violate Tax laws restrictions.

Based on the result of the sample data collected. The phenomenon between Leverage, Institutional Ownership, and Tax Avoidance can explain any differences in all ratios that is already calculated in the table below.

**Table 1.1 Phenomenon Data**

COMPANY NAME	YEAR	LEVERAGE	INSTITUTIONAL OWNERSHIP	TAX AVOIDANCE
		DER Total Liabilities / Shareholder Equity	KI Number of Shares owned by Institution / Number of Shares Issued	ETR Income Tax Expenses / Net Income Before Tax
PT. Adaro Energy Tbk (ADRO)	2018	0.641	0.439	0.418
	2019	0.812	0.439	0.340
	2020	0.615	0.439	0.287
	2021	0.702	0.439	0.308
	2022	0.652	0.439	0.368
PT. Baramulti Suksessarana Tbk (BSSR)	2018	0.631	0.500	0.260
	2019	0.472	0.500	0.263
	2020	0.383	0.500	0.253
	2021	0.723	0.500	0.223
	2022	0.836	0.500	0.223
PT. Golden Energy Mines Tbk (GEMS)	2018	1.220	0.670	0.258
	2019	1.179	0.670	0.335
	2020	1.329	0.670	0.246
	2021	1.621	0.625	0.232
	2022	1.023	0.625	0.226

Source: Prepared by the Writer (2023)

First, is the phenomenon between Leverage (DER) and Tax Avoidance (ETR) for the calculation ratio that has already been determined and in case, if leverage is normal the leverage (DER) is down, and tax avoidance (ETR) is up. For PT. Adaro Energy Tbk (ADRO) between 2018 and 2019, shows that the leverage ratio went up by 0.171 and the tax avoidance ratio went down by 0.078. Therefore, the leverage is not normal. While for PT. Baramulti Suksessarana Tbk (BSSR) between 2018 and 2019, shows that the leverage ratio went down by 0.159 and the tax avoidance ratio went up by 0.003. Therefore, the leverage is normal.

Lastly, the phenomenon between Institutional Ownership (KI) and Tax Avoidance (ETR) for the calculation ratio has already been determined

and in case, if institutional ownership is normal the institutional ownership (KI) is up, and tax avoidance (ETR) is up. For PT. Golden Energy Mines (GEMS) between 2020 and 2021, shows that the institutional ownership ratio went down by 0.045 and the tax avoidance ratio went down by 0.014. Therefore, institutional ownership is not normal.

There are many factors that influence the company's practice of tax avoidance. The researcher has determined two factors in this research, as follows:

1. Leverage

Another aspect used to assess tax avoidance is leverage. Leverage is a term used to describe the amount of debt utilized to cover the costs of the company's operations (Praditasari, A., and Setiawan, 2017).

Based on previous research that has been discussed and related to tax avoidance. (Espri Noviyani and Dul Muid, 2019) found that Leverage has a significant influence on tax avoidance. While, based on (Nurul Fatimah, 2018) Leverage has no significant influence on tax avoidance.

2. Institutional Ownership

Institutional ownership is the percentage of a company's shares owned by institutions such as banks, insurance companies, investment firms, or other institutions (Sugiarto, 2009).

Based on previous research that has been discussed and related to tax avoidance. (Espri Noviyani and Dul Muid, 2019) found that Institutional Ownership has a significant influence on tax avoidance.

While, based on (Nurul Fatimah, 2018) Institutional Ownership has no significant influence on tax avoidance.

So, the researcher is chosen to conduct the study under the title **“The Influence of Leverage and Institutional Ownership Toward Tax Avoidance in Energy Companies Listed on the Indonesia Stock Exchange”**.

## **1.2 Problem Limitations**

This research is limited to:

1. Companies in the energy sector registered in the Indonesia Stock Exchange in 2018-2022.
2. The research study has 2 independent variables and 1 dependent variable. The independent variables are divided into Leverage with the indicator of the debt-equity ratio and Institutional Ownership with the indicator of Institutional Ownership ratio and the dependent variable is tax avoidance.

## **1.3 Problem Formulation**

Based on the background study that has been described, the problem formulation that is being analyzed is:

1. Does the Leverage have a partial significant impact on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange?

2. Does the Institutional Ownership have a partial significant impact on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange?
3. Do the Leverage and Institutional Ownership have a simultaneously significant impact on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange?

#### **1.4 Objectives of the Research**

Based on the problem formulation that has been described, the study of research objectives is:

1. To examine whether Leverage has a partial significant impact on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange.
2. To examine whether Institutional Ownership has a partial significant impact on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange.
3. To examine whether Leverage and Institutional Ownership have a simultaneously significant impact on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange.

#### **1.5 Benefit of the Research**

This research conducts two benefits of the research.

##### **1.5.1 Theoretical Benefit**

From the author's point of view, this theoretical benefit has the goal study is learning more about the influence of Leverage and Institutional Ownership in energy sector companies listed on the Indonesia Stock Exchange.

### **1.5.2 Practical Benefit**

Practical research contains an overview of the influence of Leverage and Institutional Ownership towards tax avoidance in energy sector companies listed on the Indonesia Stock Exchange.

