CHAPTER I

INTRODUCTION

1.1 Background of the Study

As a developing nation, Indonesia is attempting to optimize the development of its people resources and infrastructure. In order to support state expenditures, the government requires money to carry out national development. Taxes are the most significant government revenue source because they serve as a budgetary function or a mechanism to allocate cash to the state treasury in the most efficient way. According to the current tax rules, taxation is utilized to fund ongoing demands for government and growth.

A sizable budget of money is desperately needed by the present Indonesian government in order to support the country's development and growth at a satisfactory rate. Additionally, the main source of state revenue is the tax sector, which includes both individual and entity taxes.

According to Law (UU) Number 28 of 2007 Article 1 Paragraph 1, tax is an obligatory payment owed by the community to the state by both individuals and entities. Tax is an obligatory payment owed by the community to the state by both individuals and entities that are, by definition, forcible, with no direct reward. The prosperity and wellbeing of the people are the only goals for which taxes are utilized by the state. With the following clarification: "enforceable" means that the tax obligation may be retrieved using force, confiscation, and hostage-taking if it is not paid. In opposition to tax payment, no reciprocal services is applied.

However, for corporations, tax is considered a cost that reduces net income. The corporation makes every effort to pay as little tax as possible. Because of this conflict of interest, the corporation seeks to avoid paying taxes.

Table 1.1: Indonesian National Revenue (Trillion Rupiah)

	Description	2017	2018	2019	2020
	National Income	**1.736**	**1.894,7**	**2.165,1**	**1.699,9**
I	Domestic Income	1.732,9	1.893,5	2.164,7	1.698,6
	Tax Income	1.472,7	1.618	1.786,4	1.198,8
	Non-tax State Income	260,2	275,4	378,3	294,1
II	Grant	3,1	1,196	0,4	1,3

Source: Ministry of Finance Republic of Indonesia (2023)

A brief look at the State Budget above reveals that Indonesia's state income is heavily dominated by, or is dependent on, tax receipts. This is confirmation that tax is Indonesia's largest source of income.

Avoiding taxes is practiced so it does not violate any formal rules. This indicates that tax avoidance is accomplished by taking advantage of legal gaps in the tax code or by participating in activities with the sole purpose of avoiding taxes. Everyone can concur that tax dodging is practically unacceptable even though it is not illegal. This is because tax avoidance directly contributes to the tax base's subsidence, which lowers the tax revenue needed by the government.

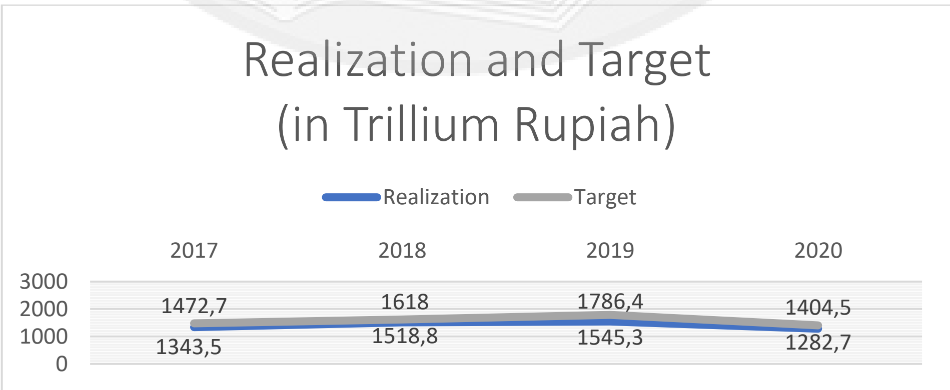

Figure 1.1 Target and Realization of Tax Revenue (in Trillion Rupiah)
Source: Data compiled by the writer (2023)

In Figure 1.1, the realization of tax revenues never fulfills its target over the 2017–2020-time frame. The ratio of percentage realization to target has consistently been around or near 80%. Even still, the tax growth rate in 2020 has dropped dramatically to -16.9%. This occurred because of the slowing economic development caused by the pandemic. The government continued to maximize the collection of money from individuals. Each year, new tax revenue objectives are set for both individuals and businesses.

Initial research indicates that PT. Adaro Energy Tbk has diverted a significant number of profits from Indonesian coal mines to its network of foreign firms, as reported to the global non-profit organization Global Witness. According to the research, Adaro engaged in this activity from 2009 to 2017 via Coaltrade Services International, located in Singapore. Given this change in profit, Adaro was able to pay 125 million US dollars less in taxes. The Indonesian government is expected to lose about US$ 14 million in revenue as a result of this change. The study found that between 2009 and 2017, Coaltrade's overall sales commissions revenue climbed from US$ 4 million to US$ 55 million (Prasongko, 2019).

Tax avoidance is a complicated and unique topic; on the one hand, it is permitted, but on the other hand, it is undesirable. Several measures have been enacted by the Indonesian government to combat this practice. One of these rules, for example, refers to transfer pricing and the use of fairness and business custom standards in transactions involving taxpayers and parties with unique of the relationships (Perdirjen No. PER-32/PJ/2011). Tax avoidance is also legal since it does not contravene official laws, even though it is harmful to the state.

According to Dewinta and Setiawan (2016) in (Asalam, 2019), profitability shows the agency's capacity to generate profits over a given time period through the amount of sales, specific assets, and share capital. Profitability may also be a sign of a stronger commitment to the future on the part of an agency. According to Chen et al. (2010), if a company's profitability value is high, the agency has the option to position itself for tax avoidance, lowering the corporate tax burden. The Return on Asset (ROA) proxy is used in this study to quantify profitability. As a result, we can draw the conclusion that an organization has a higher likelihood of engaging in tax avoidance the more profitable it is.

International Finance Corporation (IFC, 2014) in (Khomsiyah et al., 2021), defined strong corporate governance as the framework and procedures used to lead and manage the business. Organization for Economic Cooperation and Development (OECD), on the other hand, claimed that effective corporate governance, which considers the interactions between shareholders, commissioners, management, the government, and other stakeholders, is a within way of managing and overseeing the business.

Thoha & Wati (2021), liquidity can be used to assess a company's ability to satisfy cash requirements in order to pay short-term obligations and fund everyday needs as working capital. Because liquidity reflects the degree of working capital availability, there is a reasonably good correlation between liquidity and the company's profitability.), as liquidity reveals the amount of working cash available for operational needs.

Based on the explanation above, the writer has an interest in researching the impact of Profitability, Corporate Governance, and Liquidity on Tax Avoidance. The mining businesses analyzed were those listed on the Indonesia Stock Exchange between 2017 and 2020. As a result, researchers are interested in carrying out study with the title of **"The Impact of Profitability, Corporate Governance and Liquidity Toward on Tax Avoidance in Mining Companies Listed on the Indonesia Stock Exchange in period 2017-2020".**

1.2 Problem Limitation

Examining the financial statements of the mining company firm under examination, which is listed on the Indonesia Stock Exchange (IDX), is the focus of this study's research for the years 2017 to 2020. The factors X used in this study are profitability, corporate governance, and liquidity. Tax avoidance is represented by the variable Y. The Indonesia Stock Exchange (IDX) will be the subject of this study, titled "The Impact Profitability, Corporate Governance, and Liquidity on towards Tax Avoidance," from 2017 to 2020.

1.3 Problem Formulation

The problem formulation in this study is as follows:

1. Does the profitability of mining companies that are partially listed on the Indonesia Stock Exchange impact tax avoidance?
2. Does the corporate governance of mining companies that are partially listed on the Indonesia Stock Exchange impact tax avoidance?

3. Does the liquidity of mining companies that are partially listed on the Indonesia Stock Exchange impact tax avoidance?
4. Does the profitability, corporate governance, and liquidity of mining companies listed on the Indonesia Stock Exchange impact tax avoidance?

1.4 Objective of the Research

The following objectives must be achieved based on the research problems:

1. To find out whether profitability has partial significant impact toward tax avoidance in mining companies listed on the Indonesia Stock Exchange.
2. To find out whether corporate governance has partial significant impact toward tax avoidance in mining companies listed on the Indonesia Stock Exchange.
3. To find out whether liquidity has partial significant impact toward tax avoidance in mining company listed on the Indonesia Stock Exchange.
4. To find out whether profitability, corporate governance, and liquidity have partial significant tax avoidance in mining company listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This study is likely to have the following advantages or applications:

1.5.1 Theoretical Benefit

The results of the research could help the author and reader better understand how tax avoidance by mining companies that are listed on the Indonesian Stock

Exchange is impacted by profitability, corporate governance, and liquidity. Furthermore, it is expected that this research will serve as a resource and inspire new concepts in the future.

1.5.2 Practical Benefit

1. For the Company, this study could be utilized as a source for tax avoidance strategies involving profitability, corporate governance, and liquidity.
2. For the Government, this study could be utilized to provide insights for investors/ creditors, and tax management on how profitability, corporate governance, and liquidity influence companies to make decisions to carry out tax avoidance practices.