CHAPTER 1

INTRODUCTION

1.1. Background of Study

One of the key elements that connects a country, and its citizens is through tax payments. These funds are used to create changes and develop the country, such as providing adequate public facility and essential services. Aside from that, tax revenues received by any state helps to stimulate economic growth and build critical infrastructure to maintain living standards of its citizens. According to the law, published by *Badan Pengawasan Keuangan dan Pembangunan (2007)*, Article 1 Paragraph 1 states that:

> *Pajak adalah kontribusi wajib kepada negara yang terutang oleh orang pribadi atau badan yang bersifat memaksa berdasarkan Undang-Undang, dengan tidak mendapatkan imbalan secara langsung dan digunakan untuk keperluan negara bagi sebesar-besarnya kemakmuran rakyat. (p.2)*
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> This statement explains that taxes are an obligatory payment to the state that an individual or corporation must make under coercive legal circumstances. Taxes are paid without direct compensation and are used to fund public demands for the maximum prosperity of the citizens.

Table 1. 1 Actual Government Revenue Data

Sources of Revenue-Public Finance	**Actual Government Revenues (Billion Rupiah)**		
	2020	**2021**	**2022**
Tax Revenue	1,285136.32	1,547,841.10	1,924,937.50
Non Taxes Revenues	343,814.21	458,493.00	510,929.60
Grants	18,832.82	5,013.00	1,010.70
Total	1,647,783.34	2,011,347.10	2,436,877.80

Source: *Badan Pusat Statistik* (2023)

This table shows that the main source of income originates from taxes that made up to 75-85% of the total state revenue. With that, it is proven that taxes play a huge role contributing to Indonesia's development as a country. Although taxes are crucial to economic growth, Indonesia still faces difficulty in collecting 100% of taxes as not all taxpayers obey the rules.

The realization of public or taxpayer compliance in reporting Annual Tax Returns (SPT) and paying taxes throughout 2022 reached 83.2%, reported by the Director General of Taxes, Ministry of Finance, Suryo Utomo in the article published by Sadya (2023) through DataIndonesia.id. This figure is down from the realization in 2021, which amounted to 84.07%. With that, there is approximately 15% of taxpayers who failed to submit their Annual Tax Returns properly and punctually.

Despite the importance of taxes to develop a country, on the other hand, companies as one of the main taxpayers consider taxes as a burden that decreases their profits. Thus, causing them to put effort in performing tax avoidance to reduce tax payments and maximize profit. This method has been implemented by millions of individuals and firms, utilizing tax loopholes to reduce their tax expense. Research of Barid & Wulandari (2021) supports the claim, stating that there was an increase in tax avoidance practices shown during the COVID-19 pandemic as companies misused tax incentives provided by the government as a opportunity to reduce their tax expense.

A phenomenon of tax avoidance back in 2020, where The Director General of Taxes at the Ministry of Finance claimed that tax avoidance discoveries are expected to result in losses of up to Rp 68.7 trillion per year which is reported by The Tax Justice Network. Stated by Cobham et al (2020), published in Tax Justice Network, it is shown that total tax annual loss in Indonesia amount to as much as USD $4,864,783,876, which is 4.39% tax loss for every tax revenue collected. The goal is to avoid disclosing the actual profits generated in the country where the company is based. Therefore, a company that practices this technique pays less tax than supposed to (Fatimah, 2020).

According to Indonesian Minister of Finance, Sri Mulyani, in 2022, the top tax payments that contributes significantly to the state revenue includes manufacturing sector with a proportion of 28.7%, trading sector as high as 23.8%. The third place goes to finance and insurance sector with contribution of 10.6%, 8.3% from mining sector, construction and real estate of 4.1%, transportation and warehousing sector of 3.9% and in seventh place is information and communication sector with 3.6% of contribution (Hariani, 2022).

In 2020, total tax revenue received amounted to 1,069.98 trillion rupiah which made up 89.25% of the target 1,198.82 trillion rupiah. As for 2021, targeted at 1,229.58 trillion rupiah, the amount taxes paid to the state reached a value of 1,277.53 trillion rupiah, 3.9% higher than expected. In 2022, the realized tax received is valued at 1,716.76 trillion rupiah, 115.6% of the targeted amount set of 1,484.96 trillion rupiah.

With data gathered from APBN KITA published by Kementrian Keuangan Republik Indonesia, the total corporate income tax revenue received in 2020 amounted to 158.25 trillion rupiah which made up 70.48% of the target. The following year, there was an increase of 25.6% from 2020 in realized corporate income tax revenue valued at 198.55 trillion rupiah. In 2022, the realized tax received increased further by 71.72% from 2021 at a value of 340.81 trillion rupiah.

Furthermore, data collected from DataIndustri Research, ever since 2010, the Gross Domestic Product (GDP) of properties and real estate sector has been increasing every year until 2022 which means that the sector has been doing well economically and improving. On the other hand, while comparing the growth from year to year, it is to be discovered that it grew by 2.32% from 2019-2020, while in 2020-2021 there was a growth of 2.78%, and recently from 2021-2022, there was only a growth in GDP of 1.72% which indicates a decelerated growth in this sector.

In short, through the explanation above, suspicion on the properties and real estate sector paying full amount of taxes arises. This is due to the increase in overall tax realization in Indonesia throughout 2020-2022, meaning that tax received by the state exceeds the targeted amount. To support this, the GDP of this sector also rises which indicates that it is doing well economically. But on the other hand, data collected from Kementerian Keuangan RI (2023) states that the tax contribution from this sector decreases by -17.7% in 2020 due to COVID-19 pandemic, and then increases again by 2.1% in 2021 as the economy is slowly recovering. The suspicion of tax avoidance performed can be seen through the drop in contribution of tax in 2022, compared to 2021 with a decrease of 13.5% while other sector increases their tax contribution. The relationship between GDP and tax contribution in properties and real estate sector does not correlate as having more GDP should increase tax payments, but in this case, decreases instead, which may be an indication of tax avoidance.

Table 1. 2 The Phenomenon of Return on Assets, Institutional Ownership, and Firm Size towards Tax Avoidance on Property and Real Estate Companies listed in IDX

No	Company Name	Year	Return on Asset	Institutional Ownership	Firm Size	Effective Tax Rate
1.	PT Bumi Serpong Damai Tbk (BSDE)	2020	0.80	64.85	31.74	33.12
		2021	2.50	65.50	31.75	13.74
		2022	4.09	69.15	31.81	11.32
2.	PT Perdana Gapura Prima Tbk (GPRA)	2020	2.01	76.45	28.18	22.05
		2021	2.81	78.14	28.20	21.01
		2022	4.29	68.96	28.21	12.80
3.	PT Roda Vivatex Tbk (RDTX)	2020	7.95	85.51	28.72	14.47
		2021	6.19	81.02	28.78	17.40
		2022	8.00	65.40	28.85	15.66

Source: Compiled by writer (2023)

There are many factors that influence tax avoidance, namely return on assets, institutional ownership, and firm size which will be further discussed in this paper. From the phenomenon table and previous research collected, there is still uncertainty whether these factors impact tax avoidance in a negative or positive way which interest the writer to find out more.

Return on Assets of BSDE increases throughout 2020-2022, at the same time, its ETR (Effective Tax Rate) decreases, which means the proportion of tax paid to the income before tax decreases. The more return a company generates, it should have more taxes to pay as taxes are calculated based on the company's income, but in this case, the ROA and ETR has an inverse relationship. In short, the company pays less tax though its ROA increases. This is an indication of tax avoidance, which also happens in the GPRA. Similarly, for RDTX, its ROA decreases in 2021, and then increases again in 2022, while its ETR is the opposite, increases then decreases. So, all 3 companies shows that ROA has an inverse relationship with ETR, thus having a direct relationship with tax avoidance. Higher ROA results in more potential of performing tax avoidance. Return on assets is known to play a role in tax avoidance practices. From the research of Diana Sari et al. (2020), return on assets has a positive effect, whereas Sari (2019) shows that return on assets having a negative effect on tax avoidance.

As for the second variable, institutional ownership calculated for PT Bumi Serpong Damai Tbk (BSDE) shows a consistent increase from 2020-2022, and as mentioned before, its ETR decreases consistently in the same period. While comparing to GPRA and RDTX, they have the same inverse relationship between institutional ownership and ETR from 2020-2021, but the difference is then realized in the year 2022. The value of institutional ownership for both GPRA and RDTX both decreases in 2022, and its ETR also decreases in the same year which means institutional ownership now has direct relationship with ETR. Since institutional ownership refers to the number of total shares owned by institutions such as government insurance firms, bank, or other large entities, there should be less tax avoidance practice as these institutions have the role to supervise and discipline managers, preventing them from performing unethical activities for personal gain, for instance, tax planning to reduce tax. From the table provided, it shows inconsistent of relationship between institutional ownership and ETR, which should preferably be a direct relationship as more proportion of shares owned by institution will help companies to pay their taxes properly, thus increase in ETR. According to Diana Sari et al. (2020), institutional ownership has no effect on tax avoidance which differs from the findings of Darsani & Sukartha (2021), stating that there is a significant negative effect of institutional ownership on tax avoidance.

Lastly, the independent variable of firm size calculation for BSDE increases consistently throughout 2020-2022, while its ETR decreases during the same period, indicating an inverse relationship, which means there is a direct relationship between firm size and tax avoidance. This trend is similar to GPRA but different from RDTX in 2021. The firm size of RDTX increases from 2020-2021, but its ETR also increases. With the data provided, there is inconsistency of relationship between firm size and ETR. Some studies said that bigger the firm is, may lead to more tax avoidance performance as they are able to generate larger profits from its activities and using its non-current assets to run activities, they can also take advent age of depreciation in non-current assets as a deductible expense to reduce tax payments. Results of impact of firm size on tax avoidance is uncertain, some proves that is has no effect on tax avoidance by, but other states that is has a negative impact. According to Eddy et al. (2020) and Ariska et al. (2020), firm size has no effect on tax avoidance. But this result is opposed by Windaryani & Jati (2020) whose research proves that it has a negative effect on tax avoidance.

Through the research gap and phenomenon of tax avoidance in the property and real estate companies stated above, the researcher is interested to find out more with the title **“The Impact of Return on Asset, Institutional Ownership and Firm Size towards Tax Avoidance in Property & Real Estate Companies listed on the Indonesia Stock Exchange.”**

1.2. Problem Limitation

The study is limited to:

1. The object of this research is Property & Real Estate companies listed on the Indonesia Stock Exchange from the time period of 2020 to 2022.
2. The independent variables in this research are return on assets, institutional ownership, and firm size.
3. The dependent variable in this research is tax avoidance with proxy Effective Tax Rate.

1.3. Problem Formulation

1. Does return on assets have significant impact on tax avoidance in Property & Real Estate companies listed on the Indonesia Stock Exchange?
2. Does institutional ownership have significant impact on tax avoidance in Property & Real Estate companies listed on the Indonesia Stock Exchange?
3. Does firm size have significant impact on tax avoidance in Property & Real Estate companies listed on the Indonesia Stock Exchange?
4. Do return on assets, institutional ownership, and firm size have significant impact on tax avoidance in Property & Real Estate companies listed on the Indonesia Stock Exchange?

1.4. Objectives of Research

1. To identify whether return on assets has significant impact on tax avoidance.
2. To identify whether institutional ownership has significant impact on tax avoidance.
3. To identify whether firm size has significant impact on tax avoidance.
4. To identify whether return on assets, institutional ownership, and firm size have significant impact on tax avoidance.

1.5. Benefits of Research

This research is expected to provide various benefits to other parties by theoretical and practical benefits.

1.5.1. Theoretical Benefit

The theoretical benefit of this paper is to supply more advanced information on the researched topic to the writer and other readers who are interested. It is expected to be credible for the public to use as a reference reading in the future.

1.5.2. Practical Benefit

The practical benefit is to supply insights and overview on factors affecting tax avoidance to ease Property & Real Estate companies in decision making with data provided.