

CHAPTER I

INTRODUCTION

1.1 Background of Study

Taxes are one source of state revenue originating from and community participation to finance government spending and national development. According to the law, tax is a mandatory contribution to the country that is owed by any person or entity that has a coercive nature and does not receive direct compensation. Taxes are also an instrument to overcome inequality in income distribution between people with high incomes and those with low incomes. With taxes, the benefits can be felt directly or indirectly in almost all sectors such as facilities used for health, transportation, education, advice and public infrastructure. In order to meet funding needs for government spending and national development, the Directorate General of Taxes must always increase tax revenues. For the government, taxes are the most important element in terms of sources of state revenue to finance state expenditure, both development expenditure and routine expenditure.

Tax is one of the largest contributor of Indonesia's National Income in which contributes for 83,54% (Rp 1.865 trillion of Rp 2.233 trillion), but it is also one of the largest contributor of losses in Indonesia's National Income in which amounted in almost Rp 68,7 trillion.

The reason why the study uses automotive sector because this sector contributed a lot in Indonesia economy in which this sector assists the investment of Rp 99,16 trillion with the total product of nearly 2,35 million a year and have the

labor as much as 38 thousand people in Indonesia (Kemenperin, 2021). Automotive sector also contributes a lot in National growth where in the 2nd Quartal of 2023, automotive sector contributed for 1,42% from the growth of 5,71% in Indonesia's economic growth (Menko Airlangga, 2023). Which is a really big number so this sector is a really interesting sector to study. Automotive is also one of the most important factors in how a country grows. Automotive helps ease our jobs, such as now walking isn't really needed because there are cars, hence the importance and big impact of automotive in humans' live.

What differs this study from the previous study is that this study uses the years 2018-2022, where as the previous study conducted by Saputro (2021) used the years 2014-2019 as the study sample. This study also uses 3 variable compared to the previous study which uses 4 variable.

Meanwhile, for companies, taxes are a burden for the company which can reduce net profit. This difference gives rise to taxpayers with a non-compliance characteristics which has an impact on companies carrying out tax avoidance. It is said that tax avoidance is one's action which aims to reduces or minimize one's tax liabilities by arranging it in such a way specially to take advantage of loopholes in tax provisions, such as imposition of tax through transactions that are not tax objects. When viewed from the taxpayer's perspective, as long as individual or corporate taxpayers have a way to minimize taxes and there are no definite regulations regarding tax violations, then what they do is legal or legal. Meanwhile, from the government side, it is hoped that existing regulations regarding tax payments will not be misused by avoiding taxation or by minimizing company taxes

in order to gain profits. The lawful nature of tax avoidance means that the government cannot impose sanctions even when there are indications that a tax avoidance scheme will be executed by the company. There are several things that usually influence a company to avoid tax, including profitability, firm size and liquidity.

Profitability, the ability of a company to generate profits at a certain period and at a certain level of share capital, sales and assets. Profitability is the end result of a series of choices and strategies. To be able to maintain the survival of a company, it must be operating profitably. Company owners and especially company management will try to increase these profits, because they are fully aware of how important profits are for the company's future. Meanwhile, profitability may be used by the firm itself to gauge how well its management is handling the business. Profit is a crucial component of business operations as it guarantees the company's survival. The company's objectives will be met with the capacity to turn a profit while utilizing all available resources.

The business may generate significant revenues by utilizing all of these resources. After deducting other costs and the cost of products sold, profit is the remaining amount from sales. Depending on the income and assets or capital that are being compared with one another, there are several methods to evaluate a company's profitability. Profitability influences tax avoidance because companies that have large profits will have an impact on the amount of tax that must be paid, so companies will look for loopholes to minimize their taxes in order to get maximum profits. With the possibility of an increase in net profit, the tax

obligations that must be paid by the company will also increase and allow companies to carry out tax avoidance practices to minimize the tax burden borne by the company. So the higher the profitability, the higher the amount of net profit generated and the higher the incidence of tax avoidance practices.

The term "firm size" refers to the overall dimensions of the business, which may be categorized in a number of ways, such as total assets, total equity and income. A firm's size may be determined by looking at its overall assets, which are obtained by combining and organizing different resources in order to produce goods or services that can be sold. The manager's general belief that a firm with high total assets is reasonably stable and capable of producing substantial profits is the reason behind the firm size based on total assets. Compared to small firms, large firms will have a stronger influence on the public interest due to their wider range of stakeholders.

In the meantime, it will affect the amount of taxes collected and the efficiency with which regulators can carry out their duty of safeguarding society as a whole. A firm's technique of tax avoidance will depend on its size. Large firms certainly have a lot of human resources who are experts in managing their tax burden. Meanwhile, small-scale companies cannot optimally manage their tax burden because they lack experts in tax management. The more resources a large-scale firm has, the greater the tax costs that the firm can manage. Large firms are always in the government's spotlight, giving rise to a tendency for firm managers to be more compliant and consider risks in managing their taxes compared to small firms.

Liquidity is the ability of a company to fulfill its short-term obligations when they fall due or can be referred to as the ability of a person or company to fulfill obligations or debts. If a company has a high liquidity ratio, then the company is in a condition of smooth cash flow. High liquidity reflects that the company can meet its short-term obligations, whereas if liquidity is low, it reflects that the company has difficulty meeting short-term obligations. This liquidity difficulty has the potential for companies to make tax avoidance efforts because companies want to reduce tax expenses as an effort to save and maintain cash flow. High liquidity companies are less likely to use debt financing. This is due to the fact that businesses with high levels of liquidity have substantial internal funds, which means that they would finance their investment with internal funds before turning to debt financing from outside sources. Conversely, lacking liquidity will prevent a firm from meeting its tax obligations or from complying with them, since the corporation would prioritize maintaining cash flow above paying taxes.

Based on previous research conducted by Saputro, et al. (2021) under the title “Pengaruh Ukuran Perusahaan, Profitabilitas, Leverage, Likuiditas Terhadap Tax Avoidance Pada Perusahaan Sub Sektor Otomotif Yang Terdaftar Di BEI Periode 2014-2019”. The t-test results indicated that there was no relationship between tax avoidance and firm size, profitability, or liquidity. On the other hand, tax avoidance is impacted by the leverage variable. The F-test findings demonstrate that all independent factors concurrently have an impact on tax avoidance. While the leverage variable has an effect on tax avoidance. The results of the F-test show that simultaneously all independent variables have an effect on tax avoidance. The

research conducted by Anggara, et al. (2023) with the title " Pengaruh Profitabilitas, Likuiditas, Kualitas Audit, Corporate Governance dan Ukuran Perusahaan Terhadap Penghindaran Pajak", the study's findings showed that tax avoidance is positively impacted by the variable profitability, audit committee and business size. Nevertheless, tax avoidance is negatively impacted by the audit quality variable. And the variable liquidity and independent commissioners have no effect on tax avoidance. For further research, this research can be developed using other variables that have an influence on tax avoidance. Another research conducted by Zulaikha (2023) with the “Pengaruh CSR, Likuiditas, Profitabilitas, Dan Ukuran Perusahaan Terhadap Penghindaran Pajak”. The findings of this research were that Liquidity has a significant negative effect on tax avoidance. Profitability has a significant negative effect on tax avoidance. Firm size has a significant positive effect on tax avoidance. Leverage has a significant negative effect on tax avoidance.

Based on the background study above, the writer is interested to conduct research with the title: **“The Effect of Profitability, Firm Size, and Liquidity on Tax Avoidance of Automotive Companies Listed on the Indonesia Stock Exchange”**

1.2 Problem Limitation

For the problem limitation, writer will focus on variable which are profitability, firm size, liquidity and tax avoidance for the problem limitation. This paper aims to investigate on how profitability, firm size, liquidity affecting tax

avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022.

1.3 Problem Formulation

Based on the description of the background of the problem above, there are identification problem in this study can be identified:

1. Does profitability significantly has a partial influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022?
2. Does firm size significantly has a partial influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022?
3. Does liquidity significantly has a partial influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022?
4. Do profitability, firm size, and liquidity significantly have a simultaneous influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022?

1.4 Objective of the Research

The objective of the research as follow:

1. To analyze whether profitability has a significant influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022.
2. To analyze whether firm size has a significant influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022.
3. To analyze whether liquidity has a significant influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022.
4. To analyze whether profitability, firm size and liquidity have a significant influence towards tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 - 2022.

1.5 Benefit of the Research

The benefit of the researches as follow:

1. Theoretical Benefit
 - a. For Readers

The result from this study can be proof for readers to know that profitability, firm size and liquidity affecting tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 – 2022.

- b. For Writer

The result from this study provide insight and experience as well as observations in a real life situation which is very useful for the writer.

c. For Other Researches

The result from this study can be used for reference for those who are interested in studying the same problem in the future.

2. Practical Benefit

a. For Automotive Company Listed in Indonesia Stock Exchange

The researcher expects the result from this study could benefit the business to evaluate, and take the result as suggestion to know the effect of profitability, firm size, and liquidity toward tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 – 2022.

b. For Writer

The result from this study make the writer gain new experience and more knowledge about the importance of profitability, firm size and liquidity affecting tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 – 2022.

c. For Future Research

The researcher expects the result from this study could become a comparison for the future researchers who are interested of studying the same topic which is the influence of profitability, firm size and liquidity toward tax avoidance at automotive company listed in Indonesia Stock Exchange period 2018 – 2022.