

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes are a source of state revenue from contributions of taxpayers which is very important to finance state expenditure and national development. In *Undang Undang Nomor 36 tahun 2008* regarding general provisions and procedures for taxation, taxes are "compulsory contributions to countries that owed by individuals or entities that are coercive by law, with no direct reciprocation and are used for the need of the state for the prosperity of the people". The more taxpayers are responsible for paying taxes, the target of state tax revenues also increases. The benefits of taxes are for financing of central and local governments such as building infrastructure and improving the welfare of Indonesians.

According to Mardiasmo (2011), tax has two functions, the regularend and budgetair function. The regularend functions is related with government policy to regulate economic and social growth through tax policy, while the budgetair function is about state financial income used for various financing/expenses and state development in accordance with The Indonesian Budget.

Since 1983, Indonesia has changed its tax payment system from Official Assessment System to Self-Assessment System where tax subjects are given responsibility and trust to calculate and administer their taxes independently. The

government seeks policies and issues new regulations and expects taxpayers to fulfill their tax responsibilities. Implementation of self-assessment system provides chance to taxpayers to reduce tax expense they must paid.

Taxes have an important role in a country's income. The table below presents data on tax realization during the last 5 years:

Table 1. 1 Realization of 2018-2022 Tax Revenue

Year	Income Tax Target (Trillion)	Income Tax Realization (Trillion)	Percentage of Realization
2018	855.13	749.99	87.70%
2019	894.45	772.27	86.34%
2020	670.38	594.04	88.61%
2021	683.77	696.70	101.89%
2022	813.76	998.20	122.67%

Source: Ministry of Finance of the Republic of Indonesia

From the table above, tax realization did not reach the target in 2018-2020, It exceeded the target in 2021 and 2022. The realization in 2020-2022 increased from 594.04 trillion in 2020 to 998.20 trillion in 2022, which means that the government succeeded in achieving the target set.

There is a conflict of interest between the government and companies. The government targets an increase in tax revenue, while the company seeks for the decrease. One of the ways used by companies to reduce tax expenses is tax aggressiveness (Sholilah, 2019).

Tax Aggressiveness results tax ratio in Indonesia lower compared to other Asia Pacific countries. Based on Organisation for Economic Co-operation and

Development (OECD) in its report called Revenue Statistics in Asia and the Pacific 2021, Indonesia has the third lowest ratio at 10.9%, which is still far from OECD average at 34.1%. A report by the Tax Justice Network entitled “The State of Tax Justice 2020: Tax Justice in the time of Covid- 19”, conveying Indonesia estimated loss of 4.86 billion US dollars or the equivalent of Rp. 67.6 trillion per year due to tax evasion (Santoso & Hidayat, 2020).

According to Frank et al. (2009), tax aggressiveness is an activity with the aim to manipulate the amount of taxable income through tax planning activities, namely tax avoidance or tax evasion. Zuber and Sanders (2013) state that there are grey areas that have the potential tax aggressiveness. Tax aggressiveness is detrimental to state revenues because it leads to tax planning actions through illegitimate means (tax evasion). Intensity and legality have an important role in applying tax aggressiveness to minimize explicit taxes. High tax aggressiveness does not indicate hardline tax planning but there is a deliberate risk of high tax liability reduction (Martinez, 2017).

Pharmaceuticals companies is a commercial business company that focuses on research, development, health services and distribution of medicines, especially in the health sector. According to Statistica Research Department, manufacturing sector contributed around 18.34% to Indonesia’s Gross Domestic Product (GDP) and become sector with the largest contributions to the country’s economy in 2022. The pharmaceuticals sub-sector as part of the manufacturing sector recorded significant growth during the Covid-19 pandemic. In 2021, the pharmaceuticals companies record growth up to 10.18% with a total value of approximately IDR 90-

95 trillion (Winarto, 2022). There are large pharmaceuticals companies that have been involved in tax evasion cases, namely PT Kalbe Farma, Tbk. in 2017 received a Notice of Tax Underpayment Assessment (SKPKB) of IDR 527.85 billion for income tax and Value Added Tax (VAT) for the 2016 fiscal year. The issuance of SKPKB by The Directorate General of Taxes indicates that PT. Kalbe Farma, Tbk. is trying to minimize the tax paid by committing tax evasion. In this research, the writer chose pharmaceuticals companies listed on the Indonesia Stock Exchange (IDX) year 2020-2022. The following is a table of pharmaceuticals companies listed on the IDX for the 2020-2022, added with several variables presumed influencing the company's tax aggressiveness, which are profitability, leverage, and sales growth.

Table 1. 2 Profitability, Leverage, Sales Growth and Tax Aggressiveness

No	Company	Code	Year	Profitability	Leverage	Sales Growth (%)	Tax Aggressiveness
				ROA (%)	DER (%)		ETR (%)
1	PT Darya-Varia Laboratoria, Tbk.	DVLA	2020	6.94	49.80	0.92	24.29
			2021	8.24	51.07	3.89	30.72
			2022	7.07	43.14	0.85	25.71
2	PT Kalbe Farma, Tbk.	KLBF	2020	12.70	23.46	2.12	22.83
			2021	12.50	20.69	13.62	21.99
			2022	12.90	23.28	10.18	22.62
3	PT Merck, Tbk.	MERK	2020	8.27	51.78	-11.92	32.17
			2021	12.28	50.03	62.29	30.89
			2022	17.42	37.03	5.66	24.37

Source: Prepared by writer (2023)

Table 1.2 above describes the value of return on assets, debt to equity, sales growth rate and effective tax rate found in pharmaceuticals companies listed on the Indonesia Stock Exchange for the 2020-2022 period. From the table above, it shows that there are differences between profitability, leverage, and sales growth in relation to the effective tax rate.

Profitability growth can be seen by changes in the profit margin on sales. According to Surna (2022), through a high level of profitability, it means that the companies target operations to run at a low-cost level so that it can create large profits. The greater profit earned by the company will make the tax expense paid even greater. High or low profits do not determine whether a company carries out tax aggressiveness. So that companies can maximize net profit by carrying out tax planning that reduces the amount of the tax expense (Frank et al., 2009). Previous research conducted by Sanjaya et al. (2023) and Surna (2022) explains that profitability has significant influence on tax aggressiveness. In contrast to the results of research by Sumiati (2021), profitability does not have significant influence on tax aggressiveness.

The result of the calculation of the leverage ratio as a sign of how much the assets owned by the company are derived from debt of the company. To meet operating and investment needs, companies may use debt. The bigger debt indicates smaller company's taxable profit. This is because the use of debt incurs an interest burden that includes a deductible expense so that the use of an interest expense to minimize the tax expense can be categorized as tax aggressiveness. Previous research by Novitasari et al. (2021) and Sumiati et al. (2021) explains that leverage

does not have significant influence on tax aggressiveness. In contrast to the results of research by Rohmansyah and Fitriana (2020), leverage has significant influence on tax aggressiveness.

Aside from leverage and profitability, sales growth influences tax aggressiveness. Sales growth demonstrates previous investment performance and can be used to predict future growth. When sales growth increases or decreases, so does the company's revenue. The ability of a company to sustain profitability in identifying prospects is affected by sales growth. This has the potential tax aggressiveness actions taken by management. Previous research conducted by Rianto and Sunandar (2021) explains that sales growth has significant influence on tax aggressiveness. In contrast to the results of research by Sholilah (2019), sales growth does not have significant influence on tax aggressiveness.

From table 1.2, tax aggressiveness is measured by an Effective Tax Rate (ETR). The higher ETR shows less probability the company is engaged to tax aggressiveness, and vice versa (Christina & Wahyudi, 2022). According to Undang Undang Pajak Penghasilan, the corporate income tax rate in 2010-2019 is 25%, then it reduced to 22% in 2020 until today.

Based on the explanation above, the writer is interested in conducting research on tax aggressiveness in pharmaceuticals companies using the variables profitability, leverage, and sales growth. The reason for choosing the pharmaceuticals companies as a research subject is because the pharmaceuticals companies have been quite affected due to the presence of Covid-19. The existence

of Covid-19 made medical needs increase and of course affected the profit the company earned. With increase in profits, this certainly affects the company's risk to take which policy will be taken in carrying out tax obligations. Some previous studies have shown differences in results between one researcher and another. Thus, research gaps appeared on the factors that influence tax aggressiveness. These differences motivated the writer to further research. Based on the current phenomenon and existing research gaps, the writer will conduct research with the title **“The Influence of Profitability, Leverage, and Sales Growth Toward Tax Aggressiveness on Pharmaceuticals Companies Listed on the Indonesia Stock Exchange.”**

1.2 Problem Limitation

The problem limitations of this research are as follows:

1. The sample used in this research is pharmaceuticals companies that are listed on the Indonesia Stock Exchange (IDX).
2. The period used in this research is 3 years, from 2020-2022.
3. The variables used in this research are tax aggressiveness (Effective Tax Rate) as the dependent variable and profitability (Return on Asset), leverage (Debt to Equity), and sales growth as the independent variable.

1.3 Problem Formulation

There are four problem formulation in this research, namely:

1. Does profitability partially have significant influence toward tax aggressiveness in pharmaceuticals companies listed on the Indonesia Stock Exchange year 2020-2022?
2. Does leverage partially have significant influence toward tax aggressiveness in pharmaceuticals companies listed on the Indonesia Stock Exchange year 2020-2022?
3. Does sales growth partially have significant influence toward tax aggressiveness in pharmaceuticals companies listed on the Indonesia Stock Exchange year 2020-2022?
4. Do profitability, leverage, and sales growth simultaneously have significant influence toward tax aggressiveness in pharmaceuticals companies listed on the Indonesia Stock Exchange year 2020-2022?

1.4 Objectives of the Research

The problem limitations of this research are as follows:

1. To analyze if profitability partially has significant influence on tax aggressiveness in the pharmaceuticals companies listed on the Indonesia Stock Exchange (IDX) year 2020-2022.
2. To analyze if leverage partially has significant influence on tax aggressiveness in the pharmaceuticals companies listed on the Indonesia Stock Exchange (IDX) year 2020-2022.

3. To analyze if sales growth partially has significant influence tax aggressiveness in the pharmaceuticals companies listed on the Indonesia Stock Exchange (IDX) year 2020-2022.
4. To analyze if profitability, leverage, and sales growth simultaneously have significant influence on tax aggressiveness in the pharmaceuticals companies listed on the Indonesia Stock Exchange (IDX) year 2020-2022.

1.5 Benefits of the Research

Based on the research objectives, this research is expected to provide contributions or benefits for the writer and readers in both theoretical benefits and practical benefits.

1.5.1 Theoretical Benefits

For company: The research is expected to be used as input for company to increase knowledge regarding the influence of profitability, leverage, and sales growth on tax aggressiveness and understanding about tax aggressiveness conducted by entity taxpayers.

For government: The results of this research are anticipated to help regulate the tax law to optimize government tax collections.

For investor: The results of this study are anticipated to assist investors in choosing investing in pharmaceuticals companies.

1.5.2 Practical Benefits

1. To provide insights and knowledge on implementing profitability, leverage, and sales growth impact on tax aggressiveness of pharmaceuticals companies listed on the Indonesian Stock Exchange.
2. For future writers, this research is expected to provide literature material or as a comparison material for those who will conduct research related to tax aggressiveness with profitability, leverage, and sales growth as the variable.

