CHAPTER I

INTRODUCTION

1.1 Background of Study

Tax collection is one of several elements influencing Indonesia's economic growth. To this point, tax revenue has accounted for more than 75% of the state's overall revenue. The same holds across practically all nations, where taxes provide for the majority of governmental revenue. This approach is consistent with development theory; tax revenues serve both regulatory and budgetary purposes. The tax ratio of Indonesia has proven that Indonesia’s tax revenues remain relatively low compared to other countries in ASEAN. Indonesia's tax rate was 8.33% in 2020, 9.11% in 2021, and 10.4% in 2022, while most ASEAN countries contains 12% of tax ratio on average. A high tax ratio demonstrates people's substantial contribution to development through compliance with tax payments (Kemenkeu, 2023).

Tax aggressiveness is a significant concern for governments and regulators worldwide, as it reduces tax revenues and potentially distorts the fairness and integrity of the tax system. In the context of the mining industry, tax aggressiveness practices can have substantial economic and social implications, given the sector's significant contribution to a country's economy and its potential environmental and social impacts. The mining industry in Indonesia plays a crucial role in the country's economy, contributing to job creation, export revenues, and government revenues through taxes and royalties. According to the

Ministry of Finance, Sri Mulyani stated that the mining sectors in Indonesia contributes to only 8,9% of total tax revenues despite the significant growth during August 2022, which tax revenues was recorded to be 233,8% which can be seen in Figure 1.1 below. (DDTC News, 2022).

	Contributions	**Cumulative Performance**	
		Jan-Aug 2021	**Jan-Aug 2022**
Industry Processing	29.7%	12.6%	49.4%
Trade	23.7%	16.3%	66.3%
Financial & Insurance	10.9%	-2.9%	15.2%
Mining	8.9%	8.2%	233.8%
Real Estate	4.1&	-7.4%	10%
Information & Communication	3.6%	11.6%	18.2%
Transportation & Warehousing	3.6%	2.2%	25%
Services Company	2.9%	-4.6%	24.1%

Figure 1.1 Tax Revenue Growth in Various Sectors in 2022
Source: DDTC News 2023

Maintaining operational sustainability and ensuring stableprofitability are challenges often faced by businesses in various sectors. As can be seen in Figure 1.1, the manufacturing industry sector has the highest contribution to tax revenue, which is 29.7% compared to other sectors. Therefore, concerns about tax aggressiveness in the manufacturing industry sector have increased, prompting the need for research to understand the factors that influence tax aggressive behavior among mining companies listed on the Indonesia Stock Exchange (IDX) (Gunawan & Resitarini, 2019).

Liquidity, representing a company's ability to meet short-term obligations by converting assets into cash, is a key factor influencing tax aggressiveness. Companies with strong liquidity may have the flexibility to meet their tax obligations without resorting to aggressivetax planning. Conversely, companies with limited liquidity may feel greater pressureto reducetax payments, leading to more aggressive tax strategies.

To illustrate this relationship, we can examine the financial performance of a number of manufacturing companies listed on the IDX from 2019 to 2023. The following table provides an overview of how liquidity, tax aggresiveness, and external factors such as economic conditions and regulatory changes have affected the manufacturing sector during this period.

Table 1.1 Research Phenomenon

PT Name	Code	Year	Liquidity (CR)	Tax Aggressiveness (ETR)
PT Indofood Sukses Makmur Tbk	INDF	2019	1.27	3.25
		2020	1.37	2.96
		2021	1.34	2.25
		2022	1.79	2.54
		2023	1.92	2.64
PT Siantar Top Tbk	STTP	2019	2.85	2.05
		2020	2.41	1.87
		2021	4.16	1.93
		2022	4.85	1.75
		2023	6.95	1.68

Sources: Indonesia Stock Exchange
Prepared by Writer, 2024

Based on the research phenomena in Table 1.1, provides insight into the relationship between liquidity (as measured by the current ratio, CR) and tax aggressiveness (measured by the effective tax rate, ETR) for two manufacturing companies listed on theIndonesia Stock Exchange(IDX) from 2019 to 2023: PT Indofood Sukses Makmur Tbk (INDF) and PT Siantar Top Tbk (STTP). Over this period, the liquidity and tax strategies of both companies reflect significant shifts, likely influenced by external economic conditions and regulatory changes.

For PT Indofood Sukses Makmur Tbk (INDF), liquidity (CR) shows a generally upward trend, increasing from 1.27 in 2019 to 1.92 in 2023, suggesting improved short-term financial health and ability to cover liabilities. Simultaneously, the company's tax aggressiveness, as indicated by the ETR, fluctuates with a notable dip in 2021 to 2.25, before rising slightly to 2.64 by 2023. This could reflect adjustments in the company's tax strategies to align with economic fluctuations or changes in tax regulations.

PT Siantar Top Tbk (STTP), on the other hand, demonstrates a stronger increase in liquidity, with the CR rising dramatically from 2.85 in 2019 to 6.95 in 2023. This suggests significant strengthening in the company's liquidity position over time. Interestingly, the company exhibits lower tax aggressiveness over the years, with the ETR consistently decreasing from 2.05 in 2019 to 1.68 in 2023. This declining ETR could indicate more aggressive tax planning or better optimization of tax liabilities as the company becomes more financially secure.

In both case, as liquidity improves, tax aggresiveness tends to decrease, which might suggest that stronger liquidity provides companies with more resources or flexibility to optimize their tax planning. External factors, including regulatory changes and economic conditions, likely play a key role in shaping these trends. Liquidity plays a significant role in shaping a company's tax aggressiveness. Prior studies suggest that firms with higher liquidity tend to engage in less aggresive tax planning, as they possess sufficient financial flexibility to meet their tax obligations without resorting to aggressive strategies.

For example, research by Manurung, et al., (2024) found that higher liquidity, measured by the current ratio (CR), reduces the likelihood of tax aggressiveness behavior among firms. Their study, which analyzed companies listed on the Indonesia Stock Exchange (IDX), supports the notion that liquidity provides a cushion, allowing firms to comply with tax regulations more easily rather than seeking to minimize tax payments through aggressive measures. This relationship is evident in the financial performance of PT Indofood Sukses Makmur Tbk (INDF) and PT Siantar Top Tbk (STTP), where increases in liquidity were accompanied by lower effective tax rate (ETR), indicating reduced tax aggressiveness. This finding aligns with earlier research that emphasizes the mitigating effect of liquidity on tax aggressiveness practices. In addition, previous research discussing the effect of liquidity on tax aggressiveness was conducted by Herlinda and Rachmawati (2021) by combining several variables, namely profitability, leverage, and company size. The research result concluded that liquidity had a negative effect on tax aggressiveness.

This study is different from previous studies, where in this study, the amount of analysis data used is larger, and involves more additional control variables, thus providing a new dimension in the analysis of factors that influence tax aggressiveness. Next, the main contribution of this study is to strengthen the findings of Manurung et al. in the context of a fluctuating macroeconomic, especially amidst potentially changing tax policies and the impact of the economic environment on corporate strategy. By examining two large companies in the consumer goods sector, this study develops an understanding that external conditions and internal corporate strategies can influence how liquidity moderates tax aggressiveness.

Based on the phenomena described above, the researcher wants to analyze the influence of liquidity toward company value, thus write it in this research entitled “The Influence of Liquidity Toward Tax Aggressiveness”.

1.2 Problem Formulation

Based on the background that has been outlined above, the researcher formulates theproblem and seeks its solutions. Theproblem to beexamined is does liquidity has an influence on tax aggressiveness?

1.3 Objectives of The Research

This research is conducted by theresearcher with the aim to determine and analyze whether liquiditiy has an influence towards tax aggressiveness.

1.4 Benefit of The Research

The research conducted by researchers has benefits that can provide advantages to several parties, namely:

1. Theoretical Benefits:
    a. For readers:

       This research offers readers insights into the relationship between liquidity and tax aggressiveness, particularly in companies listed on the

Indonesia Stock Exchange (IDX). It helps them understand how a company's liquidity position might influence its tax planning strategies and level of tax aggressiveness.

b. For the writer:

This study enhances the writer's understanding of how liquidity impacts corporate behavior in terms of tax strategies. It also contributes to the writer's knowledge of financial analysis, particularly regarding liquidity management and its implications for taxation.

c. For other researchers:

The study provides a useful reference for future researchers investigating tax aggressiveness. It contributes valuable data on liquidity's role in shaping tax behaviors and offers a basis for expanding research on tax avoidance in different sectors or regions.

d. For governance:

This study helps explain how financial resources influence managerial behavior and decision-making. This insight helps refine models of corporate behavior and governance.

2. Practical Benefits:

a. For companies listed on the IDX:

Mining and other companies can utilize the findings of this research to better understand how their liquidity impacts their tax strategies. This knowledge may assist them in optimizing liquidity management while ensuring compliance with tax regulations, thus reducing tax-related risks.

b. For the writer:

Through this research, the writer gains practical skills in evaluating how liquidity affects tax planning. This experience sharpens the writer's ability to perform complex financial analysis, with particular focus on liquidity's strategic importance in corporate taxation.

c. For future research:

The study's results offer a framework for further investigation into the relationship between liquidity and tax aggressiveness across various industries. It serves as a valuable benchmark for future studies aiming to explore different financial factors influencing tax behavior.

d. For governance:

This study helps boards and policymakers to monitor how liquidity levels affects tax planning strategies to ensure they align with long-term goals and risk management.

1.5 Problem Limitation

For the problem limitation, writer will focus on variable which are:

1. Liquidity as independent variable while tax aggressiveness as dependent variable and profitability, leverage, company size, and company age as control variable.
2. This thesis aims to investigate on manufacturing sector companies listed in Indonesia Stock Exchange.
3. The data used in this research is only limited from 2019 to 2023.