CHAPTER I

INTRODUCTION

1.1 Background of The Study

Indonesia's State Budget (APBN) consists of three main sources: tax revenue, non-tax state revenue (PNBP), and grants. Tax revenue is the primary source for state to generate income and plays a crucial role in Indonesia's economy and development.

According to Law of Republic of Indonesia Number 28 of 2007, third amendment to Law Number 6 of 1983 concerning General Provisions and Taxation Procedures (KUP) Article 1 Paragraph 1, define a tax as a mandatory contribution from taxpayer to government, controlled by law, no direct compensation, used to fulfill the needs and expenditure of the state.

Tax revenue plays a key role in fund expenditure. But this tax revenue has an indirect relationship with tax avoidance caused by different interest between government and taxpayer. Government considers tax as revenue and expects Taxpayer to pay more tax, but not for taxpayer. Taxpayers consider tax as expenses and try to minimize it (Hamidah et al., 2023)

Tax avoidance happened as taxpayers were allowed to calculate, pay and report their tax liability according to taxation system of self-assessment. Because taxpayer allowed to calculate their own tax liability, these practices can lead to tax avoidance which technically legal, by exploiting loopholes in tax regulations. This practice might benefit for taxpayer but it weakens government taxation system and negatively impact to government revenue (Mardiasmo, 2016).
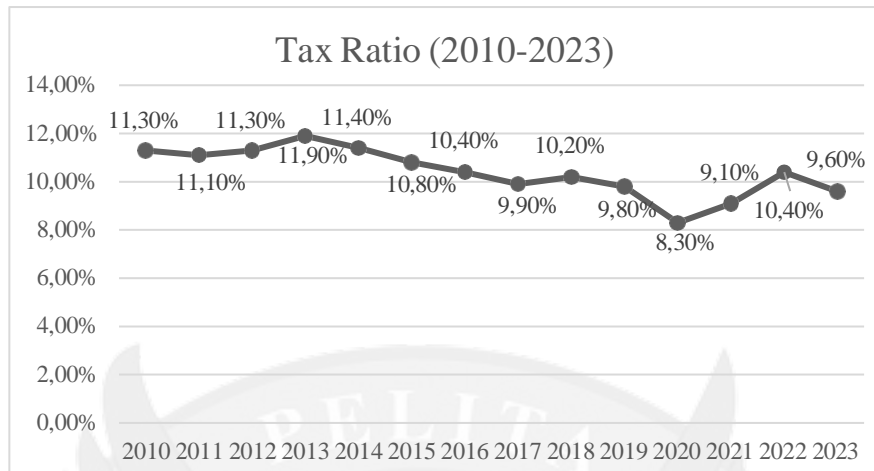
Figure 1. 1 Tax Ratio of Indonesia 2010 - 2023
Source: Prepared by the writer (2024)

According to data statistics of tax ratio above, tax avoidance in Indonesia has been a continuous challenge for government in every year, as evidenced by the gradual decrease in the state's tax ratio over the past decade. Starting in 2013, the tax ratio gradually decreased and reached its lowest point in 2020. Following in 2021-2022 tax ratio is increasing but in 2023 tax ratio gradually decrease again which raising concerns about structural challenges for government in the taxation system.
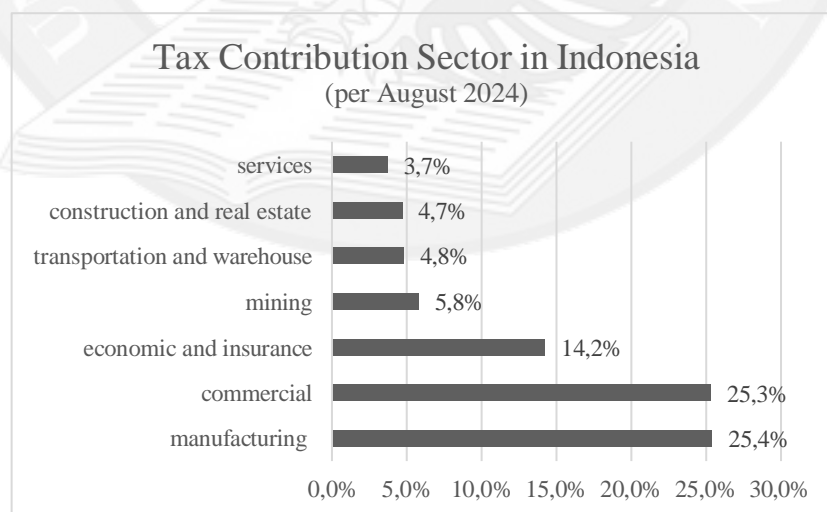
Figure 1. 2 Tax Contribution of Sector in Indonesia
Source: Prepared by the writer (2024)

Manufacture sector is the largest tax-contributing sector in Indonesia, contribute 25.4% of Indonesia's Gross Domestic Product (GDP) per August 2024, underscoring manufacture sector has important role in economy. Non-cyclical companies of manufacture sector are specifically chosen for this research because their consistent demand, making this sector is unaffected by economic fluctuations, makes this sector is ideal to provides valuable insights into their tax management behaviours.

Profitability shows how well a company can make profits from its activities. When a company is profitable, it means that the company earn more money than spending. A company with high profitability is more likely to engage in tax avoidance. This is because they want to reduce the amount of tax they need to pay, which helps them to maximize profit after tax. In other words, companies with higher profits might try to find ways to lower their tax liability by using legal methods to avoid taxes (Mahdiana & Amin, 2020).

However, this idea is contradicted in other research argue that not all companies have the same goals. They suggest that profitability alone cannot explain why a company practices tax avoidance. Different companies have different reasons for their actions. For example, some companies may focus more on avoiding tax penalties instead of trying to reduce their tax liability. This means that a company with high profitability may not always choose to engage in tax avoidance as they are more concerned about avoiding penalties or fines from tax authorities. Therefore, profitability might not be the only factor that influences a company's decision to avoid taxes (Aulia & Mahpudin, 2020).

Table 1. 1 The Phenomenon of Profitability and Tax Avoidance in Non-Cyclical Companies Listed on the Indonesia Stock Exchange in the years 2017 to 2023

Company	Year	Profitability	ETR
PT. Sumber Alfaria Trijaya Tbk (AMRT)	2017	0,012	0,192
	2018	0,030	0,196
	2019	0,047	0,195
	2020	0,042	0,216
	2021	0,072	0,194
	2022	0,095	0,185
	2023	0,102	0,186
PT. Gudang Garam Tbk (GGRM)	2017	0,117	0,257
	2018	0,112	0,256
	2019	0,138	0,249
	2020	0,098	0,209
	2021	0,062	0,231
	2022	0,031	0,238
	2023	0,058	0,224
PT. Garudafood Putra Putri Jaya Tbk (GOOD)	2017	0,105	0,247
	2018	0,101	0,270
	2019	0,086	0,249
	2020	0,037	0,279
	2021	0,073	0,221
	2022	0,071	0,226
	2023	0,081	0,232

Source: Prepared by The Writer (2024)

Based on table, PT. Sumber Alfaria Trijaya Tbk (AMRT) in 2020 to 2022 experienced an increase in profitability from 0.042 to 0.095 following a decrease in ETR from 0.216 to 0.185. This pattern indicate higher profitability motivates companies to practice tax avoidance.

While PT. Garudafood Putra Putri Jaya Tbk (GOOD) in 2019 to 2020 experienced a decrease in profitability from 0.086 to 0,037 but ETR is increase from 0,249 to 0,279. This pattern indicate that profitability is not always a key factor that causes tax avoidance.

Due to table phenomenon and research gaps of complex dynamics between profitability towards tax avoidance. Researchers conduct research under the title "**The Influence of Profitability Towards Tax Avoidance**".

1.2 **Problem Limitation**

Based on background of the research, the research formulation in this research is "does profitability significantly impact the tax avoidance of non-cyclical companies listed on the Indonesia stock exchange?"

1.3 **Objectives of The Research**

The objective of this research is to analyse influence of profitability towards tax avoidance in non-cyclical companies listed on the Indonesia Stock Exchange from 2017 to 2023.

1.4 **Objectives of The Research**

Benefit of conducting this research for next research is to provide information about the influence of profitability, leverage, capital intensity, and sales growth in non-cyclical companies listed on the Indonesia Stock Exchange on the year 2017-2023 that can be used as a reference for the next research and to get deeper understanding about tax avoidance in non-cyclical companies listed on the Indonesia Stock Exchange.

For Practical, benefit of this research is to give information for non-cyclical company management, so they can manage their tax obligations more effective and in legal way and information about effect of profitability, capital intensity, and leverage towards tax avoidance with sales growth as a moderating variable in non-cyclical companies for enhancing the reader knowledge.

1.5   Problem Limitation

Problem limitations is to narrow the scope of variables so that the explanation and understanding become more specific. The problem limitations to in this research focused on:

1. This study uses secondary data sourced from financial statement of non-cyclical companies listed on the Indonesia Stock Exchange for the period 2017-2023.

2. The dependent variable in this research is tax avoidance.

The research model is only analysing one independent variables, which is profitability. There are other variables control which is leverage, sales growth, capital intensity and firm size.