

CHAPTER I

INTRODUCTION

1.1 Background of the Study

As the biggest income contributor, tax is the most important components in a country. The tax collected will be used for financing the nation development to improve the welfare of its people. Even though tax is compulsory or not voluntary contribution, the tax payers do not get the direct benefit from paying the tax. Based on data presented by the Indonesian Ministry of Finance (2020), our tax contributes 82.5% (1,786.4 trillion Rupiah) of the total income received by Indonesia in 2019. As tax is the main fund to the country, the government expect to maximize the tax collection. So, the government need the compliance from the tax payer to pay tax according to actual condition.

Meanwhile on the companies' side, they prefer to have less expense, including the tax. Having tax is a burden which reducing their net income and they prefer to pay tax as little as possible. Therefore, they make every possible effort to minimize their taxes, such as tax avoidance and tax evasion to reduce their tax expense (Puspita and Febrianti, 2018).

Tax avoidance is a scheme with the purpose of minimizing the tax burden by utilizing the loophole in the tax regulation and provision. Tax avoidance can be considered as legal because it does not violate any taxation regulation and provisions. However, tax avoidance has an impact on the country's tax revenue. Therefore, tax avoidance is in the grey area, which is between tax compliance and

tax evasion. Whereas, tax evasion is a scheme to reduce tax payable in illegal way, which is by violating taxation regulation and provisions, such as manipulating or not reporting a portion of sales or increasing expense in a fictitious way (Lathifa, 2019).

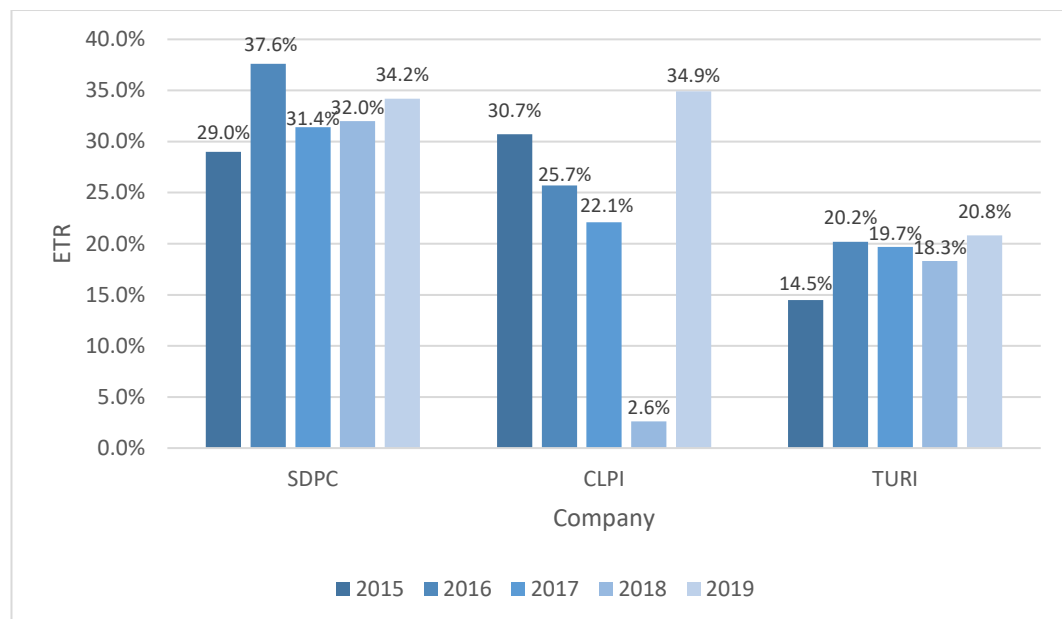


Figure 1.1 Effective Tax Rate in Some of Wholesale Companies from Year 2015-2019

Source: Prepared by Writer (2021)

Effective tax rate is the indicator that being used in this research to measure tax avoidance, where it is got from tax expense divided by income before tax. In Indonesia, mandatory tax rate for entities is 25%. The figure above shows that PT Millennium Pharmacon International Tbk (SDPC) tends to pay tax above 25%, which means effective tax rate of PT Millennium Pharmacon International Tbk (SDPC) is good.

During 2018, the effective tax rate of Colorpak Indonesia Tbk (CLPI) was the lowest, which is 2.6%. The significant cause was difference from change in bookkeeping currency for tax purpose, which later made the tax expense decrease significantly. Exchange difference from change in bookkeeping currency for tax

purpose meant that there was different between the currency exchange rate of fiscal exchange rate and the bookkeeping exchange rate (BI rate).

At PT Tunas Ridean Tbk (TURI), the effective tax rates in 2015-2019 were all below 25%. In 2015, PT Tunas Ridean Tbk (TURI) had the lowest effective tax rate, which was only 14.5%. This lowest figure in 2015 was due to company has the highest contributing income from share of net profit of the associates. According to Income Tax Article 4 paragraph (3) letter f, dividends or part of profits received or earned by a corporation as a domestic taxpayer, cooperative, state-owned company, or regional-owned business entity, from capital participation in a business entity established and domiciled in Indonesia is not object of tax. With effective tax rate below 25%, it indicates that the company tends to do tax avoidance.

Table 1.1 The Phenomena of Fixed Assets Intensity, Leverage, Sales Growth and Effective Tax Rate of Some Company in Wholesale Companies Listed at Indonesia Stock Exchange from year 2015 - 2019

Company	Year	Fixed Asset Intensity	Leverage	Sales Growth	Effective Tax Rate
PT Millennium Pharmacon International Tbk (SDPC)	2015	1.6%	371.4%	18.8%	29.0%
	2016	2.1%	411.9%	15.4%	37.6%
	2017	1.9%	341.2%	7.1%	31.4%
	2018	1.7%	413.9%	12.6%	32.0%
	2019	2.0%	422.8%	14.8%	34.2%
PT Colopak Indonesia Tbk (CLPI)	2015	21.5%	43.9%	-25.8%	30.7%
	2016	23.5%	32.4%	2.3%	25.7%
	2017	21.7%	33.9%	-8.7%	22.1%
	2018	18.3%	56.4%	31.7%	2.6%
	2019	19.1%	46.8%	4.6%	34.9%
PT Tunas Ridean Tbk (TURI)	2015	40.7%	83.3%	-7.9%	14.5%
	2016	37.4%	76.4%	22.6%	20.2%
	2017	37.3%	74.2%	3.7%	19.7%
	2018	37.5%	69.8%	3.8%	18.3%
	2019	38.0%	59.3%	-3.0%	20.8%

Source: Prepared by Writer (2021)

From the phenomena table above, we can see the inconsistency of the independent variables to effective tax rate. Fixed assets intensity at PT Colorpak Indonesia Tbk (CLPI) decreased, which was caused by higher increases in total assets. In 2018, the company had significant addition of total assets coming from trade receivables arising from local sales to third parties.

However, the reversed relation happens at PT Millennium Pharmacon International Tbk (SDPC) during 2018, where the fixed assets intensity decreased while the effective tax rate increased. The fixed assets intensity is decreased related with higher increase in total asset. The trade receivable and inventories contributed the major factor for increase in total asset. The increase in trade receivable and inventories were obtained by having more receivable to hospitals and owning more prescription medicine and medical device as inventories than previous year. The effective rate increased due to higher increase in tax expense.

The table also shows that it also has inconsistent trend between leverage with effective tax rate. At PT Tunas Ridean Tbk (TURI) during 2016, we can see reverse relationship between leverage and effective tax rate. Leverage decreased due to higher increase in total equity. The increase in total equity was caused by increase in unappropriated retained earnings. According to Kenton (2020), unappropriated retained earnings are the portion of retained earnings that have not been set aside to a specific purpose or can be said as retained earnings which its purpose is not specified.

At PT Colorpak Indonesia Tbk (CLPI), leverage and effective tax rate had direct relationship in 2016, where leverage decreased and effective tax rate also

decreased. The leverage decreased caused by the decreases in total debt and increase in the total equity. The total debts decreased because the short-term bank loan for working capital credit and overdraft decreased. At the other side, total equity increased because of the unappropriated retained earnings was higher than last year. The effective tax rate decreased because the higher increase in income before tax. The income before tax was higher but having lower tax effect as addition to tax expense, thus, the increase in income before tax was higher.

There was also inconsistency in sales growth to effective tax rate. In 2019, sales growth increase and effective tax rate also increase in PT Millennium Pharmacon International Tbk (SDPC). Even though the sales increased, but the interest on bank loans is significantly reduced the income before tax. Thus, the income before tax and the tax expense are decreased, but with higher decrease in income before tax, the effective tax rate is increase.

While at PT Tunas Ridean Tbk (TURI) in 2019, the sales growth decreases but the effective tax rate increases. In 2019, the company had lower sales, which was even lower than last two years. The effective tax rate increased due to higher increase in tax expense. The increment was higher because in 2019, the company had higher non-deductible expense that in consequence added the tax expense.

The research on tax avoidance has been done by many writers, but the results are not consistent from one to another (Nugroho et al., 2016). The practice of tax avoidance can be influenced by several factor. But in this research, the writer will focus on fixed assets intensity, leverage and sales growth to see if these factors affect tax avoidance.

Fixed assets intensity talks about the ratio of company's investment in fixed assets. Almost all fixed assets have depreciation expense. So, fixed assets can reduce the tax burden by the depreciation expense of the fixed assets each year (Kalbuana et al., 2020). According to research done by Nugroho et al., (2016), fixed assets intensity has significant effect on tax avoidance while research done by Irianto et al., (2017) shows that fixed assets intensity has positive but not significant effect on tax avoidance.

Leverage or solvency ratio focuses on the ratio that shows the amount of debt owned by a company to finance its assets. Increasing the amount of debt will cause increase in the interest expense. The interest expense will reduce the income, thus, the tax burden will also be reduced (Arnan et al., 2019). Based on research by Arnan et al., (2019), leverage influences tax avoidance. But in Puspita and Febrianti (2018)'s research, leverage has no significant effect on tax avoidance.

Sales growth indicates the growth of sales from year to year. Increment in sales shows that the company is growing and also cause the profit generated by company increase. The increment of sales means higher tax as the increment in profit (Puspita & Febrianti, 2018). Based on research done by Purwanti and Sugiyarti (2017) shows that sales growth has significant effect on tax avoidance. Meanwhile research done by Sonia and Suparmun (2019) shows that sales growth do not have significant influences tax avoidance.

According to Nugroho et al., (2016), tax avoidance is generally a legal strategy done by taking advantage of the vulnerability so it can be said that tax avoidance does not violate the tax regulations. Therefore, the problem of tax

avoidance is complex and unique as it is in grey area. From the facts above, the writer has interest to do the research with title: **“The Effect of Fixed Assets Intensity, Leverage and Sales Growth toward Tax Avoidance in Wholesale Companies Listed at Indonesia Stock Exchange”**

1.2 Problem Formulation

Based on the background of study, the problem formulations in this research are as follow:

1. Does fixed assets intensity affects the tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange?
2. Does leverage affects the tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange?
3. Does sales growth affects the tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange?
4. Does fixed assets intensity, leverage and sales growth simultaneously affect the tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange?

1.3 Research Focus

Due of the limitation of writer’s ability, time and data, the research focus of the companies studied is from Wholesale (Durable and Non-Durable Goods) companies which are subsector of Trade, Services and Investment Sector listed at Indonesia Stock Exchange, which provide complete financial statement in 2012-

2019 and also did not suffer losses within the period. With fixed assets intensity, leverage and sales growth as the focused data of the research.

1.4 Research Objective

Based on the background of study and problem formulation above, the research objectives of this research are as follow:

1. To analyze the effect of fixed assets intensity toward tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange.
2. To analyze the effect of leverage toward tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange.
3. To analyze the effect of sales growth toward tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange.
4. To analyze the effect of fixed assets intensity, leverage and sales growth simultaneously toward tax avoidance in Wholesale Companies listed at Indonesia Stock Exchange.

1.5 Benefit of The Research

The benefits from conducting this research are as follows:

1.5.1 Theoretical Benefit

Theoretical benefit to be achieved from this research is to provide an understanding of tax avoidance and the results can enrich the knowledge related to accounting and taxation especially about tax avoidance.

1.5.2 Practical Benefit

Practical benefits of this research are as follows:

1. This research is expected in giving the knowledge about the effect of fixed assets intensity, leverage and sales growth toward tax avoidance on wholesale subsector company in 2012-2019 and the company from wholesale subsector company can know, from variable that being tested, which variable that can indicate tax avoidance.
2. This research can be used by other party as reference to find out the effect of fixed assets intensity, leverage and sales growth toward tax avoidance and can be used as guidance for future researcher.

