CHAPTER I
INTRODUCTION

1.1. Background

According to Law No. 28 of 2007 concerning General Provisions and Procedures for Taxation, the tax itself is defined as a mandatory contribution to the state by a person or entity that is coercive under the law, by not getting direct rewarded and used for state purposes for the greatest prosperity of the people. Taxes significantly contribute to the state because taxes are the primary source of state revenue. Hence, taxes are significant and coercive because most state activities cannot be carried out without taxes. As a corporate taxpayer, coercive taxes require the company to pay taxes, and sanctions can be given under applicable laws if the company does not pay tax obligations. So, taxpayers, especially corporate taxpayers, carry out tax management so that the costs they spend are minimal. Taxes, considered as costs by some parties, especially corporate taxpayers, cause many companies to try to save on the cost of these taxes. A good tax obligation can get savings in the tax burden that the taxpayer will bear if it is managed by doing good Tax Management by all taxpayers, especially corporate taxpayers.

Indonesia uses a self-assessment system in its tax collection system, which means tax collection based on the authority of taxpayers to calculate and pay their taxes based on the income earned (Wijaya & Murtianingsih, 2021). In its implementation, the collection of taxes by the government, does not always get a good reception from companies that are tax subjects. Some companies use Tax Avoidance or Tax Evasion in minimizing the tax burden but there are differences in this method. Tax Avoidance is an effort to minimize the tax burden with legal actions, while Tax Evasion is an effort to minimize the tax payment of a company that is illegal. These two methods are obstacles for the government in achieving the goal of increasing state revenue from its tax sector, because tax avoidance although it is legal because it does not violate any tax provisions, this practice can have an impact on state tax revenues. So that companies can choose to use the right accounting method to lower the Effective Tax Rate (ETR). ETR is used because in tax avoidance it is not only sourced from income tax but other tax burdens that are classified as being able to be imposed on the company. ETR is the application of the effectiveness of a company in managing its tax burden by comparing the total tax burden with the total income before tax. In order not to lead to something illegal in taxation or can result in tax violations, tax management must be done properly. In addition, the use of ETR in some countries is used as one of the indicators to compare the performance of certain industries in tax management (Azura, 2020). Darmadi & Zulaikha (2013) in Wijaya *et al.* (2021) explained that companies could manage tax by maximizing tax incentives, including reducing the basis for taxation and reducing tax rates. In collecting taxes, there is a difference of interest between the tax collector and the party managing the tax. The tax collector, namely the government, hopes to get a large amount of tax, while the party, which is collecting the tax, namely the taxpayer, expects to pay the tax as small as possible. That is the reason causes companies that are corporate taxpayers to carry out tax management. Tax management can be interpreted as adequately meeting tax obligations; however, the tax payment can be lowered as much as possible to obtain profit (Prawati, 2021). Tax management can also be interpreted as legally reducing the tax burden as much as possible to get the expected profit and liquidity (Putra, 2021). Tax Management is often interpreted as tax evasion, but tax management is not tax evasion because tax management is legal to do, and there is governing law. Tax management is often considered so because of how taxpayers minimize the tax burden they have to bear. However, this is not the case because tax management not only reduces the tax burden that must be paid but must be able to increases profits after corporate tax (Nuritomo, 2018).

Azura (2020) found size, leverage, profitability, inventory intensity, fixed assets, and audit committees significantly affect Tax Management. Panda & Nanda (2020) found that ETR responds significantly to firm size, profitability, growth, asset tangibility, and non-debt tax shield. The response of ETR is different from the debt ratio, ICR, and age. A frequent problem with corporate taxes is the debate between the tax rate and the effective tax rate because the ETR measures the tax paid as a proportion of economic income. From this, many researchers who conduct research on factors that affect tax management also add indicators of effective tax rates to be studied. On the research conducted by Azura (2020), size, leverage, inventory intensity, and fixed assets do not affect tax management. Still, profitability negatively affects tax management, and the audit committee positively affects tax management. This contradicts the research conducted by Rahmati *et al.* (2020), which says profitability positively affects tax management. Meanwhile, research using ETR indicators that affect tax management shows different results. According to research by Ambarukmi & Diana (2017), size, leverage, and profitability have no significant positive effect on the ETR. Still, the capital intensity ratio and activity ratio have no significant negative effect on the ETR. Meanwhile, the research conducted by Susilo & Sari (2022), leverage affects the ETR, but profitability and capital intensity ratio no significant effect the ETR. Ardyansah *et al.* (2014) found that the size variable significantly influenced the ETR in a negative direction. Still, the leverage, profitability, and capital intensity ratio did not significantly affect the ETR. Still, on the variable, independent commissioners showed a significant influence on the ETR in a positive direction.

Therefore, based on the background described above and the results of previous research still show inconsistent results. In this study also used the latest data by examining manufacturing companies over a 5-year period from 2017-2021. Factors that affect tax avoidance can come from internal factors as well as external factors. So, this study author wants to test the factors that affect ETR by taking several factors that influence companies to pay taxes: size, leverage, profitability, and audit committee. Researchers are interested in conducting a study entitled **"ANALYSIS FACTORS INFLUENTING EFFECTIVE TAX RATE (ETR) (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange in 2017-2021)."**

1.2. Research Questions

According to the background information provided above, the following issues with this research exist:

1. Does the company size have a significant effect on ETR?
2. Does the leverage have a significant effect on ETR?
3. Does the profitability have a significant effect on ETR?
4. Does the audit committee have a significant effect on ETR?

4.1. Research Objectives

The research objectives are as follows:

1. To know and analyze whether the firm size significantly affects ETR.
2. To know and analyze whether the leverage has a significant effect on ETR.
3. To know and analyze whether the profitability significantly affects ETR.
4. To know and analyze whether the audit committee significantly affects ETR.

4.1. Research Contribution

1.4.1. Theoretical Contribution

This research is expected to make theoretical contributions in three ways; first, for academics, this research is expected to contribute to the development of literature and be used as reference material in knowing the factors influent ETR. Second, it is hoped that it can be used as reference material for those who will research this topic. Third, for the author as a means to add insight, knowledge especially regarding factors influent ETR that can be useful for writers in the future.

1.4.2. Practical Contribution

This research is expected to make a practical contribution in dual respects; firstly, the results of this study are expected to be helpful for the Tax Service Office as input and consideration in understanding the influence of size, leverage, profitability, and audit committee on ETR on Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX). Second, for this research company, it is hoped that it can help companies be more effective in carrying out tax management, especially the factors influent ETR and the risks that will be faced in the future.

CHAPTER II
LITERATURE REVIEW

2.1. Theoretical Framework

2.1.1. Agency Theory

Agency theory is a theory that states the existence of a relationship between the authorized party (principal) and the party receiving the authority (agent) (Ardyansah & Zulaikha, 2014). According to Nugroho (2019), agency theory is a theory that describes the relationship between the principal as the owner and the agent as the company's management. The relationship between the principal and the agent is based on a contract, where the principal chooses the agent to give authority in making decisions and carrying out his duties for the principal's benefit.

Noviatna (2021) in Tavarel & Anggraeni (2021) explained that agency theory describes the conflict between the government as a tax authority (principal) and company management (agent). This is because there are differences in interests where the government as a regulator wants the company to be able to pay as much tax as possible as a source of state income, while the company's management as an agent as much as possible tries to optimize the company's profits and has a low tax burden. This difference in interests motivates agents to carry out tax management.

2.1.2. Tax

A tax is a mandatory contribution to the state-owned by a private person or entity of a coercive nature under the Act, by not getting a direct remuneration and being used for state purposes for the greatest prosperity of the people (Direktorat Jenderal Pajak, n.d.). According to Law No. 28 of 2007 concerning General Provisions and Procedures for Taxation, the tax itself is defined as a mandatory contribution to the state by a person or entity that is coercive under the law, by not getting direct rewarded and used for state purposes for the greatest prosperity of the people. According to Prof. Dr. Rochmat Soemitro, SH explaining tax is a contribution to the State treasury under the statute (which can be imposed) by not