

# CHAPTER I

## INTRODUCTION

### A. Background

One of state revenue that must be improved by government is revenue from tax sector. This can be seen by composition of state tax revenue that are listed in The Regional Government Budget. At this time, on the regional government budget, state tax revenue has the most percentage of total state revenue as a whole. So, taxes are very important source of tax revenue in Indonesia. According to BPS (2017), state tax revenues in 2014 as much as 1,146,865.80 billion of total state revenues that has Rp 1,545,456.30 billion. In 2015, total state revenues is Rp 1,496,047.33 billion and Rp 1,240,418.86 billion of them is tax revenues. State tax revenues in 2016 as much as Rp 1,539,166.20 billion of total state revenues that has Rp 1,784,249.90 billion.

State revenue that must be improved by the government must be fully supported by society. This has been explained also in Surah Taubah verse 29 of the Qur'an concerning the obligation to pay taxes which is:

فَاتِلُوا الَّذِينَ لَا يُؤْمِنُونَ بِاللَّهِ وَلَا بِالْيَوْمِ الْآخِرِ وَلَا يُحَرِّمُونَ مَا حَرَّمَ اللَّهُ وَرَسُولُهُ وَلَا يَدِينُونَ دِينَ الْحَقِّ مِنَ الَّذِينَ أُوتُوا الْكِتَابَ حَتَّى يُعْطُوا الْجِزْيَةَ عَنْ يَدٍ وَهُمْ صَاغِرُونَ

“Fight those who do not believe in Allah or in the Last Day and who do not consider unlawful what Allah and His Messenger have made unlawful and who do not adopt the religion of truth from those who were given the Scripture - [fight] until they give the jizyah willingly while they are humbled.”

This verse teaches Muslims and non-Muslims to obediently pay the jizyah (tax).

Although tax revenue has increased continuously during 2014 until 2016, but state revenue from tax sectors has not been maximized. It can be seen from almost every kind of state tax revenue is lower than government target. The state tax revenue is not maximum caused by the difference in perception of taxes by tax payers and government. According to Sari (2014), tax is a source of income for the country, while tax for companies are the expense that will reduce net income. Because that difference, it give them a conflict of interest between tax payers and government in practice. According to Suandy (2008), company is seeking to pay taxes as small as possible because paying taxes would reduce the economic capabilities of company. That's why many companies looking for ways to minimize tax paid.

In minimizing tax expense, company can perform various ways, include doing it by the book or break the rules. According to Winata (2014), there are two examples of many tax resistance carried out by the taxpayer, i.e., tax evasion and tax avoidance. Tax evasion is an act of unlawful company to avoid the tax. In other words, tax evasion is an intentional action to not report any obligations or eliminating part of the transaction in order to make the tax rates low. While tax avoidance is an action to minimize tax that is still not out of the applicable law. This is due to the imperfections regulation in tax laws that can be used by taxpayer.

One of factors that determine the occurrence of tax avoidance is financial derivatives. This is caused by tax rules on derivative transactions in Indonesia still very weak and often debated (Oktavia and Martani, 2013). The obscurity of tax regulatory on derivatives transactions can also be used by company to perform tax avoidance (Darussalam and Septriadi, 2009). According to Darussalam and Karyadi (2012), problems due to poor tax regulations over derivatives transactions is the case of tax inspection. The tax authorities consider the losses from speculative derivatives as a deductible expense, but there are not any clear tax rules about it. As a result, that cause affair between tax authorities with taxpayers. Research that examine relationship between the use of financial derivatives and tax avoidance has been done by Oktavia and Martani (2013), Donhoe (2012), and Musyarofah (2016). The results show that financial derivatives has a significant effect toward tax avoidance.

Beside financial derivatives, another factor that can influence tax avoidance is Corporate Social Responsibility (CSR) disclosure. In company, tax regarded as an expense which will reduce net income. Some of CSR activities spending items such as waste treatment expense, internship expense, scholarships, training expense, and contributions in order for national disaster relief, and others can be charged as deductible expense to reduce gross income (Femitasari, 2014). According to Rahmawati et al., (2016), tax imposed on companies are inseparable from the role of corporate social responsibility and corporate governance. Thus, companies which perform tax

avoidance is not considered socially responsible. According to Suharto (2008), CSR legislation in Indonesia have not been followed by rules in more details. As a result many CSR programs that overlap, same activity in same area, as well as activities performed over and over again for several years.

Research that supports CSR disclosure activities has negatively affects toward tax avoidance are Hoi et al., (2013) and Pradipta and Supriyadi (2015). While research conducted by Fetmisari (2014) and Rahmawati et al., (2016) stated that CSR has a significant positively affect toward tax avoidance.

Other factor that also serve as means of tax avoidance is political connections. Purwoto (2011) stated that Indonesia State and President Suharto has been popular in the early development of political literature connections. Company which has political connection is company in certain ways has ties in politics or trying to be close with politicians or government (Purwoto, 2011). According to Kim and Zhang (2013), company who has political connections will get protection from the Government, have easy access to obtain capital loan, the risk of low tax inspection, that make the company more aggressive to do tax planning that cause in opacity of financial transparency.

Research that supports company with political connections has a significant effect toward tax avoidance are Mulyani et al., (2014), Butje and Tjondro (2014), Kim and Zhang (2013) and Christensen et al., (2014). While research conducted by Nugroho (2011), Fatharani (2012), and Marfu'ah

(2015) stated that political connections has not significant effect toward tax avoidance.

Based on explanation above, this research conduct a study entitled **"The Influence of Derivative Transactions, Corporate Social Responsibility Disclosure and Political Connections toward Tax Avoidance"**. This research replicate Oktavia and Martani (2013) research with the title "The Level of Disclosure and Use of Financial Derivatives in The Activity of Tax Avoidance". The difference of this study is the addition of two variables, that are corporate social responsibility disclosure and political connections as the independent variable. This research replicate Rahmawati et al (2016) research in addition corporate social responsibility disclosure variable as a reference. Beside that, this research replicate Mulyani et al (2014) in addition political connections variable as a reference.

In addition, the difference of this study is using samples of manufacturing companies listed on the Indonesia Stock Exchange in 2014-2016 while on previous research conducted on the non-financial companies period in 2009-2012. The writer use manufacturing companies as samples because type of company conducts business activities thoroughly start from purchase of raw materials, process of raw materials into finished goods or semi-finished goods until the reselling process. So in all business activities mostly related to the taxation aspects. Beside that, manufacturing companies are the largest contributor to tax revenues than other sectors, there are 316.49 trillion in 2012 and 333.73 trillion in 2013 (Darussalam, 2013). The writer

also use period in 2014-2016 to make research results more actual than before.

## **B. Research Scope**

Based on research background that has been described before, this study focuses on derivative transactions, corporate social responsibility disclosure, and political connections as independent variables and tax avoidance as dependent variables. The writer's main focus is on manufacture companies which are listed in Indonesia Stock Exchange in 2014 until 2016.

## **C. Research Question**

Based on research background that has been described before, the research questions as follows:

1. Does the financial derivatives has an effect toward tax avoidance?
2. Does the corporate social responsibility disclosure has an effect toward tax avoidance?
3. Does the political connection has an effect toward tax avoidance?

## **D. Objectives of the Study**

In accordance with the research question, this research aims to find empirical evidence as follows:

1. To examine the influence of financial derivatives toward tax avoidance.
2. To examine the influence of corporate social responsibility disclosures toward tax avoidance.
3. To examine the influence of political connections toward tax avoidance.

## **E. Significance of the Study**

Based on the background and the research questions, the benefits of this research are:

### **1. Theoretical Contribution**

The expected benefits of the research to theoretical contributions are:

- a. For academics and researchers, this study can be used as empirical evidence and input of science literature in the research of accounting and taxation, in particular can be reference to further research relating to tax avoidance.
- b. For science development, this research can give an idea about the attitude of company toward the obligation to pay tax;
- c. For authors, this study can add the knowledge about tax rules in company.

### **2. Practical Contribution**

The expected benefits of the research to the practical contributions are:

- a. For governments, the study expected that the Government, in particular the Directorate General of Taxes can examine the current policy by making the clear tax rules in Indonesia. So, it can minimize company opportunity to do tax avoidance.
- b. For the company, this research can be an additional consideration of the management to do tax avoidance without breaking the tax laws. So, it can be more efficient in the issue of tax company in future.