CHAPTER 1

INTRODUCTION

This chapter will explain about the research background, research motivation in conducting the research, the differences with previous researches, research objective, research contribution, then ended with the research systematic.

1.1 Research Background

Many companies had build in Indonesia and some of them are the members of Indonesia Stock Exchange listed company. When an enterprise or company had been listed on the Stock Exchange, the concept of corporate governance (CG) is a demand that must be faced by the companies. Corporate governance is a concept proposed in order to improve performance of the company through supervising or monitoring the performance of management and guarantee the management accountability to stakeholders based on the regulations frame. The concept of corporate governance is proposed in order to achieve the management to be more transparent for all users of financial statements. When this concept applied, the expected economic growth will increasing continuously along with the better management transparency of the company and also will benefit many parties.

Corporate governance systems also provide effective protection for shareholders and creditors so they will believe to have a return on their investment. The corporate governance also help to creates a conducive environment for the creation of an efficient and sustainable growth in the corporate sector. Corporate governance can be defined as an arrangement of rules that determine the relationship between shareholders, managers, creditors, government, employees, and internal and external stakeholders in accordance with the rights and responsibilities (Forum for Corporate Governance in Indonesia, 2003).

It can be conclude that company had qualification to measure its corporate governance value, must be run the company with the best possible management and the company should be placed in the middle of the community, state, and nation as an example for other companies. This study will imposed independent commissioner, audit committee, institutional ownership, managerial ownership, and audit quality as a component of corporate governance. Corporate governance had been regulated in Indonesia Stock Exchange (IDX) Regulation Kep-305/BEJ/07-2004 which requires that corporate governance is implemented on company.

After mentioning the effective corporate tax rate in corporate governance explanation, there some important things about tax. The country economic development cannot be separated by the progress of various indicators, one of those is tax. The role of taxes had a very critical state in economic development. The size of tax in a country is determined by the level of people income in that country. Therefore, the government's policy in this tax is very important, because it can affect the growth rate of the state itself. Including tax payments paid by the company. Tax payments by the company also had an important role in the economy of a country because of the productivity in generating profits that will be used as a tax. However, the thing that cannot be avoided is the tendency to pay a minimum tax or the avoidance of spending money for tax purposes.

Manufacturing company is the largest one side of the tax payer. The manufacturing company had production to generate income. These incomes will affect the tax receiving of the government. In doing the tax reporting, the companies usually or must to think to minimize their tax payable because they had to maximize their saving for the continuity of the company. When a company decided to choose their way to decreasing their taxable income, they had doing tax avoidance. Although literally nothing that violated the law, but tax avoidance is something which in practice is unacceptable in fiscus‟s (tax inspector) perception. Their argument is tax avoidance directly affected the erosion of the tax base, which resulted in reduced tax revenue required by the state. From the standpoint of tax regulation, the omission of tax avoidance practices can result in injustice and reduced the efficiency of the tax system. Even these arguments exist, but still company must be considered for their allocating cost in production to continue the running of Indonesian Economy and still not break the tax law.

Some of tax news about making avoidance efforts of global companies also occurs in various countries in the world. Even in the EU's own special estimated tax evasion financial harm EU member 1 trillion euro, or Rp12.000

trillion in 2012. In America, at least there are a quarter of the number of companies have done that with the tax avoidance tax paid on average 20% when tax that should be paid by the company approaching 30% (Dyreng, et al., 2010:1163). Especially in Indonesia, the former Finance Minister Agus Martowardojo before his release said, there are thousands of multinational companies that do not perform its obligations to the state. Agus Marto mentioned almost 4,000 companies do not pay taxes for seven years in 2013 (source: pajak.go.id). The fiscus of taxes also know and realize there is a personally tendency of the taxpayer, especially in company or business form to minimize the amount of tax due, to perform both legal (tax avoidance) and illegal (tax evasion). This is the homework for fiscus to make it difference between the tax avoidance and tax evasion. Whether these accepted or not accepted because the weakness of the tax avoidance is when it is doing aggressively.

Karayan and Swenson (2007:7) explained that in order to measure how well a company is managing its tax by looking at the effective rate. Effective tax rate is the ratio between real tax that we paid by commercial profit before tax (Lanis R. and Richardson, 2011:52). Existence value effective tax rate (ETR) is a form of calculation of the tax base rate calculated in a company, the existence of effective tax rate (ETR) into a special attention in many studies because it can summarize the cumulative effect of various tax incentives and changes in the corporate tax rate (Liansheng et al., 2007:1).

Back to the corporate governance, in providing good corporate governance, the element of the good corporate governance decision must be effect the decision of the company in determining methods will be using in financial report. The corporate governance will be consist of independent commissioner, committee audit, managerial ownership, institutional ownership, and audit quality this based on Indonesia Stock Exchange (IDX) Regulation Kep-305/BEJ/07-2004. The result of previous research found that corporate governance characteristic was not significantly effect the Effective Tax Rate (Hanum and Zulaikha, 2013). Meanwhile, the result from Annisa and Kurniasih (2012) showed that corporate governance had significance influence to tax avoidance. From these information, the researcher want to know about the effect of corporate governance for tax avoidance in Indonesia manufacture sector on Indonesia Stock Exchange (IDX) listed from 2011 until 2013. The used year of 2011 until 2013 is the latest year that can reflect the current condition in Indonesia companies. The researcher use the data from Indonesia Stock Exchange (IDX) to get the valid data from annual audited report.

1.2 Research Problems

Based on research background, there is a problem discussed in this research is:

1. Does the corporate governance have effect to corporate tax avoidance on Indonesia manufacture sector from 2011 until 2013?

1.3 Research Objectives

The objectives of this research is to investigate whether the corporate governance has effect to corporate tax avoidance on Indonesia manufacture sector from 2011 until 2013 or not.

1.4 Research Contributions

This research is expected to generate useful things, in terms of theory for the writer related with the problem researched. The contributions of this research are as follow:

1. Empirical Contribution
   a. Applied the existing theory and give new insight about the corporate governance have effect on corporate tax avoidance on Indonesia in manufacture sector from 2011 until 2013.
   b. These research findings are expected to become reference in conducting future research.
2. In Practice Contribution

   These findings are expected to give some suggestions for management in evaluating corporate tax avoidance.

1.5 Research Systematic

This research consist of five chapters which each chapter will be related each others. The first chapter will explain about the background that motivate researcher to conduct the research. This chapter first explains about the regulation for tax incentives and the tax avoidance phenomenon. Continued with the corporate governance and the content of corporate governance. This chapter also delivers about the inconsistency research results of corporate governance characteristics and tax avoidance that becomes the motivation of this research. Chapter one also consist of research problems, research objective, research contributions, and research systematic.

Chapter two consists of theories related to corporate governance and tax avoidance. Agency theory used as a base to explain relationship between corporate governance and tax avoidance. In addition, chapter two delivers previous research, conceptual framework of research, and construction research hypotheses. Chapter three consists of research approach, which is quantitative, followed with variables used and their operational definition, type and source of data, method used to collect data, population and sample, and ended with data analysis techniques.

Chapter four explained the description of research object, followed with descriptive statistic to depict characteristic of observations. Finally this chapter will show the result of analysis model, followed with hypotheses testing and then the discussion of result. Chapter five will delivers conclusion of this research, followed with suggestions for future research.