CHAPTER I

INTRODUCTION

1.1 Background of the Study

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic development is a critical component that drives economic growth. It creates jobs, facilitates an improved quality of life and increases the wealth of the country. Higher economic growth leads to extra tax income for government spending, in which the government can use to develop the economy. With the support from tax sector revenue, the implementation and development in various sectors of the government will improve, which in the end is used for the society welfare. In building a strong economy, Indonesia certainly needs substantial funds. Indonesia gets the funds from *Anggaran Pendapatan dan Belanja Negara* (APBN) revenues, the biggest component comes from taxes. Based on Ministry of Finance data of 2018 national income, state revenues reached Rp 1,942.3 trillion, grew by 16.6% from 2017. The biggest contribution is tax revenue which reached Rp 1,521.4 trillion, up 13.2% compared to 2017. This realization is 94% of the 2018 State Budget target of Rp 1,628 trillion. The amount of tax contribution in APBN revenues shows that taxes are the backbone of the country (Kemenkeu, 2019).

Therefore, citizens are expected to play an active role in contributing to the increase in state revenues according to their abilities. In practice, the imposition of tax has not provided maximum results due to the practice of tax management. As

Indonesia applies Self-Assessment System, taxpayers are given full authority over their tax obligations. However, as tax acts as the burden of taxpayer, naturally a taxpayer will try to reduce the tax payable to minimum by applying various tax plans. There are many companies in Indonesia avoiding tpayment of tax. This can be proven from the realization of tax revenues in the APBN, which did not reach the target and even experienced a decreasing before 2018. Based on a survey conducted by International Monetary Fund (IMF), researchers Ernesto Crivelli, Ruud De Mooij, and Michael Keen in 2016 before re-analyzed by Cobham and Jansky in 2018 with the help of higher-quality data from the International Center for Tax and Development on companies in 135 countries, Indonesia is ranked 78th with a loss of around US$ 6.48 billion (0.75% of GDP) due to companies avoiding taxes. Tax management practices by companies in Indonesia have impact on reducing the achievement of tax revenue. The company utilizes loopholes in tax regulations as one of the legal actions in tax management to reduce the tax burden owed (Pohan, 2018). Tax management must be done well, so as not to lead to violations of the taxation law or tax evasion.

The object of this research is manufacturing companies in the industrial sector of consumer goods. As consumer goods industry is one of the mainstay manufacturing sectors that contribute greatly to national economic growth and to tax revenue. The national manufacturing industry sustains the national economy in 2018, with a growth of 4.25%, and a contribution of 19.82% to the gross domestic product (GDP). The industrial sector is still the biggest contribution to the Indonesian economy. Based on data from the Central Bureau of Statistics

Indonesia for GDP, the industrial sector in 2018 reached Rp 2,947.3 trillion of the national GDP of Rp 14,837 trillion. This can be reflected in the results of the performance and the movement of stock prices that have been consistent and positive, both in increasing productivity, investment, exports and employment. The food industry itself contributed up to IDR56.60 trillion in 2018 while the food and beverage industry grew by 7.91% (Badan Pusat Statistik, 2019).

Table 1.1 Capital Intensity, Inventory Intensity, Ownership Structure and Tax Management in Year 2016-2018

Company Name	Year	Capital Intensity	Inventory Intensity	Ownership Structure	ETR
Wilmar Cahaya Indonesia Tbk. (CEKA)	2016	34.65%	750.25%	92.01%	12.64%
	2017	32.71%	817.72%	92.01%	24.98%
	2018	32.21%	897.02%	92.01%	24.92%
Chitose Internasional Tbk. (CINT)	2016	121.96%	292.10%	69.65%	26.81%
	2017	127.44%	292.65%	67.84%	22.63%
	2018	132.67%	231.39%	71.90%	38.64%
Indofood Sukses Makmur Tbk. (INDF)	2016	123.28%	587.95%	98.46%	34.29%
	2017	125.95%	552.13%	98.20%	32.89%
	2018	131.53%	496.18%	97.98%	33.37%

Source: Prepared by the Writer (2019)

The table above shows the fluctuation of tax management of several companies during 2016 to 2018. Tax management is measured with the effective tax rate (ETR) while ownership structure is determined by using institutional ownership. The declining of ETR percentage shows that the companies have tried to do tax management. The percentage of effective tax rate of PT. Wilmar Cahaya Indonesia, Tbk. from year 2016 to 2017 decreased from 24.98% to 24.92% which contradictary with ownership structure which the percentage stays the same. Meanwhile, at PT. Chitose International, Tbk. the effective tax rate decreased from 26.81% to 22.63% from year 2016 to 2017 which is contradictary with the capital intensity, which increased from 121.96% to 127.44%. The percentage of effective tax rate of PT. Indofood Sukses Makmur, Tbk. from year 2017 to 2018 increased from 32.89% to 33.37% which is contradictary with the inventory intensity which decreased from 552.13% to 496.18%. This is one of the reason for the writer to analyze whether the variables give impact on tax management.

Based on research by Rosdiana (2018), capital intensity has negative significant impact on tax management while institutional ownership has negative not significant impact. However, according to Putri & Lautania (2016), capital intensity and inventory intensity have negative significant effect toward effective tax rate while ownership structure has no impact. This is the opposite of Dwiyanti and Jati (2019) research where capital intensity and inventory intensity have positive significant impact on tax management. In the results of previous studies, there are still inconsistencies that make researcher interested in raising the topic of tax management with these variables. Based on the above background, the researcher would like to take "The Impact of Capital Intensity, Inventory Intensity and Ownership Structure toward Tax Management in Consumer Goods Companies Listed at Indonesia Stock Exchange” as the applied research project title.

1.2 Problem Limitation

The writer makes problem limitation as follows:

1. The research objects are Consumer Goods Companies listed at Indonesia Stock Exchange.

2. The independent variables on this research are capital intensity, inventory intensity and ownership structure and the dependent variable is tax management. The ownership structure of the research focuses only on institutional ownership.
3. The research data is the annual report from year 2016 to 2018.

1.3 Problem Formulation

Based on the background study above, the writer will make the problem formulation as follow:

1. Does capital intensity partially have significant effect towards tax management in consumer goods companies listed at Indonesia Stock Exchange?
2. Does inventory intensity partially have significant effect towards tax management in consumer goods companies listed at Indonesia Stock Exchange?
3. Does ownership structure partially have significant effect towards tax management in consumer goods companies listed at Indonesia Stock Exchange?
4. Do capital intensity, inventory intensity and ownership structure simultaneously have significant effect toward tax management in consumer goods companies listed at Indonesia Stock Exchange?

1.4 Objective of the Research

The writer attempt to conduct the research for the purpose as follows:

1. To analyze whether capital intensity has significant effect towards tax management in consumer good companies listed at Indonesia Stock Exchange.
2. To analyze whether inventory intensity has significant effect towards tax management in consumer goods companies listed at Indonesia Stock Exchange.
3. To analyze whether ownership structure has significant effect towards tax management in consumer companies goods listed at Indonesia Stock Exchange.
4. To analyze whether capital intensity, inventory intensity and ownership structure simultaneously have significant effect toward tax management in consumer goods companies listed at Indonesia Stock Exchange.

1.5 Benefit of the Research

Based on the objectives and problems of the research, the benefit of the research can be described as follows:

1.5.1 Theoretical Benefit

The results of this study are expected to increase the insight and knowledge regarding tax management, improve previous researches regarding the factors that influence tax management, provide useful readings and information on tax management and can be a source of reference and development material for further research.

1.5.2 Practical Benefit

1. This research can be a means to give suggestions and recommendation for companies in doing tax management according to the law. To assess whether tax management applied is effective and efficient in company's tax payment, so that it can obtain expected profits and liquidity.
2. This research is expected to provide information to investor about the factors that have significant effect on tax management in consumer goods companies listed in Indonesia Stock Exchange so that it can be used as one of the considerations in decisions making.