CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is included as one of the world's developing countries, with one of the world's largest populations, thus Indonesia has lots of unlimited potential, one of those is to meet growth targets. To meet this targets, Indonesian government demand quite a large amount of money, to manage and stabilize the implementation of this development, the tax imposed plays an important role here. According to Octaviana et al. (2018), Indonesia is continuing its strong development in numerous industries as a developing country. The goal of development is to increase the economic and social well-being of society. As a result, the public is encouraged to participate in such development. Paying taxes is one of the ways to do so. Taxes are imposed on individuals or organizations unwillingly to fund government activities by a government entity, whether local, regional, or national. In economics, taxes are levied on whoever bears the cost of the tax, whether it is the taxing entity, such as a business, or the end users of the business's products. (Kagan 2020)

Taxes are the country's most primary source of income, with tax income gained from all individuals who are liable to pay taxes in each country. The revenue earned can then be utilized to construct infrastructure in the country, as well as to pay off the country's debts to surrounding countries. (Rahmawati et al., 2018).

The bigger the amount of tax imposed, the smaller the amount of profit that one company get, so sometimes they will try to avoid the taxes as much as possible, whether is that illegal or not. If the process is done in a legal sense and using the limitations in the tax law itself could be considered as doing tax evasion or usually known as tax avoidance. Large corporations with bigger profits have the potential to place themselves in tax planning, and it could lessen their tax payment obligation. (Prakosa, 2014) in (Prapitasari, 2019).

According to Maharani and Suardana (2014) in Rahmawati et al. (2018), Tax evasion (avoidance) is a lawful approach to avoid paying taxes without violating the constitution. Because one side is authorized, but its presence is not wanted, tax evasion can be classified as a complex and unique problem.

According to Rahmawati et al. (2018), Enterprises who have or achieve a high degree of profitability or valuable Return on Assets (ROA) will almost likely have a higher tax burden, which may prompt an entity to engage in tax evasion to decrease the burden.

Sales Growth is another aspect who may have an impact on tax avoidance strategies. Year-over-year sales increase is an indicator of economic demand and industry competitiveness. When a company's sales expand, the profits it earns grow, which has an impact on the tax burden it pays. (Turyatini, 2017)

Probability of most companies in adopting tax avoidance behavior might arise from the percentages of their return on assets, sales growth, and company size. Normally, the bigger the company size, the bigger the probability of the company to do the tax avoidance. Based on the perspective of the shareholders, it is best for one company to do things that could result in paying less tax, which one of the options is to do tax planning, and of course company needs to follow the regulations made by the Indonesian government. Eventually, companies that were still financed by debt will try to deliver more income to pay off their debts as soon as possible. These factors could be used as an urge for one corporate to maximize the act of tax avoidance to deliver more gain which will benefit the corporate as well.

This research is being carried out on consumer goods companies listed on Indonesia Stock Exchange. According to Investopedia (2020), the consumer goods sector is a stock and company category that deals with commodities purchased by direct consumers and households rather than manufacturers and industries. These businesses create and sell things that are designed for the purchasers' personal use and delight. Food, packaged goods, apparel, beverages, autos, and electrified vehicles are all examples of consumer goods products. Those sectors are the most needed by consumers be it daily or even on annual basis.

So, in accordance with the background of study that have been compiled above, author is interested in conducting a research at the consumer goods companies which was listed on Indonesia Stock Exchange and hence will write it into a thesis entitled" The Effect of Return on Assets, Sales Growth and Company Size toward Tax Avoidance at Consumer Goods Companies listed on Indonesia Stock Exchange".

1.2 Problem Limitation

The author declares her problem limitations of the research which are:

1. The research objects are consumer goods companies listed on Indonesia Stock Exchange.
2. The independent variables of this research are return on assets, sales growth, and company size while the dependent variable is tax avoidance.
3. The research data period is from the year 2015 until 2019.

1.3 Problem Formulation

To raise the issues discussed in this study, the author makes the formulation of the problem as follows:

1. Does return on assets partially have significant effect towards tax avoidance at consumer goods companies listed on Indonesia Stock Exchange?
2. Does sales growth partially have significant effect towards tax avoidance at consumer goods companies listed on Indonesia Stock Exchange?
3. Does company size partially have significant effect towards tax avoidance at consumer goods companies listed on Indonesia Stock Exchange?
4. Do return on assets, sales growth, and company size simultaneously have significant effect towards tax avoidance at consumer goods companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

In accordance with the formulation of the problem, the objectives of doing this research are:

1. To know and determine whether is there any significant effect between the return on assets and tax avoidance.
2. To know and determine whether is there any significant effect between the sales growth and tax avoidance.
3. To know and determine whether is there any significant effect between the company size and tax avoidance.
4. To know and determine whether is there any significant effect between the return on assets, sales growth, and company size toward tax avoidance.

1.5 Benefit of the Research

This research is expected to provide benefits for various parties related to the research topic, including:

1.5.1 Theoretical Benefit

Through this research, the author hopes that it could provide further information, guidelines, and regulations regarding The Effect of Return on Assets, Sales Growth and Company Size toward Tax Avoidance at Consumer Goods Companies listed on Indonesia Stock Exchange. Moreover, this research may be useful for those who wants to conduct a similar study research as this research could be used as a reference.

1.5.2 Practical Benefit

1. For Investor

   Through this research, the practical benefit that investor could possibly get is to facilitate investors in decision making to determine which or what kind of companies that is worth to be invested based on their data provided in this research.

2. For the Company

   As a reference to provide information for companies about tax avoidance, so that the related companies could pay more attention to the information reported and reevaluate its value.

3. For Government

   The result of this study is also expected to be an input for Indonesian Government in the process of finding out which companies was involved in tax avoidance and could be used as a reference to make regulations that will minimize the illegal tax avoidance cases.