

CHAPTER I

INTRODUCTION

1.1 Background of Study

Tax is mandatory for individuals or entities. They owe to the country to contribute to the country's needs. Tax is also the largest source of revenue for the country compared to other income. In 2020, it is recorded that the tax revenue for the country is Rp1.865,7 T and the country's overall revenue is Rp2.233,2 T (kemenkeu.go.id). This indicates that most of the country's revenue comes from tax. Taxation is considered an expense for us individuals and entities, and many individuals or entities look for ways to minimize their tax expense as low as they could. Tax avoidance is one of the ways to minimize tax expense. Tax avoidance is a legal approach to minimize the amount of income tax that individuals or entities need to pay, and with lower income tax, tax expense automatically decreases. Tax avoidance not only decreases tax expense, but tax evasion also can be minimized. Many taxpayers do not know how to avoid tax properly; hence, they do tax evasion instead of tax avoidance, which by law, is illegal. Because in order to do avoid tax legally, there are many regulations to understand and steps to take. This is why taxpayers sometimes fall into tax evasion, because of the minimum knowledge they know about tax avoidance.

The company's characteristics are factors that affect the probability of tax avoidance. Characteristics of a company are the characteristics or qualities inherent in a corporate entity that can be viewed from various aspects, including the form of

business or market, the level of competitiveness, the level of profitability, the size of the company, investment decisions, and others. The larger the company's size, the more they can control tax by saving tax, including tax avoidance (Surbakti, 2012). Influencing factors of tax avoidance include leverage, profitability and corporate social responsibility.

According to Kasmir (2015) in Kimsen, Kismanah, and Masitoh (2018), the Leverage is a tool of determining to see how much of company's assets are funded by debt. This indicates how much debt pressure the organization faces as compared with its cash. In general, it is said that if the company is dissolved (liquidated), the leverage ratio is used to assess a company's ability to pay both of its short and long-term obligations. The higher the debt used by the company, it has the potential to lower the amount of profit before tax that the company would pay.

Profitability is a significant factor in enforcing corporate income tax, as it is a metric that represents the corporate finances; the higher the profitability, the better the company's efficiency. Profitable businesses are unable to avoid paying taxes so they may monitor their revenue and tax payments (Wahyuni, Fahada, & Atmaja, 2017). The higher the profit of a company, the greater the amount of tax that they should pay.

CSR is a self-regulatory business model that enables a corporation to be socially accountable to itself, its stakeholders, and the general public. Companies will be aware of their effect on all parts of society, including environment, economic, social, employment. The higher the CSR's disclosure of a company,

company would less likely to avoid tax as they would be 'socially irresponsible', which is contrary to the topic discussed.

According to Putri and Putra (2017), both leverage and profitability have negative and significant effect towards tax avoidance; meanwhile, Wahyuni, Fahada, and Atmaja (2017) stated leverage has significant and positive effect on tax avoidance, while profitability does not significantly affects tax avoidance. The research was done by Dharma and Noviari (2017), Corporate Social Responsibility negatively affects Tax Avoidance. Meanwhile, according to Rahmawati, Endang, and Agusti (2016), Corporate Social Responsibility has a significant positive effect towards Tax Avoidance.

These different results drive me to take on this research further. Therefore, this study's title is **“The Influence of Leverage, Profitability and Social Corporate Responsibility towards Tax Avoidance in Consumer Goods Industry (Food and Beverages) Listed on Indonesian Stock Exchange.”**

1.2 Problem Limitation

Problem limitation of this research, which will be studied are financial statements and annual reports in Consumer Goods Industry (Food and Beverages) listed on the Indonesia Stock Exchange from year 2015-2019. The independent variables are leverage, profitability and corporate social responsibility. The dependent variable is tax avoidance.

1.3 Problem Formulation

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

1. Does leverage significantly influence Tax Avoidance in Consumer Goods Industry (Food and Beverages) listed on Indonesia Stock Exchange?
2. Does profitability significantly influence Tax Avoidance in Consumer Goods Industry (Food and Beverages) listed on Indonesia Stock Exchange?
3. Does corporate social responsibility significantly influence Tax Avoidance in Consumer Goods Industry (Food and Beverages) listed on Indonesia Stock Exchange?
4. Do profitability, leverage and corporate social responsibility significantly influence Tax Avoidance in Consumer Goods Industry (Food and Beverages) listed on Indonesia Stock Exchange?

1.4 Objective of the Research

Following the formulation of the problem, this study aims to find empirical evidence on:

1. To evaluate the influence of leverage towards tax avoidance in consumer goods industry (food and beverages) listed on Indonesia Stock Exchange
2. To evaluate the influence of profitability towards tax avoidance in consumer goods industry (food and beverages) listed on Indonesia Stock Exchange

3. To evaluate the influence of corporate social responsibility towards tax avoidance in consumer goods industry (food and beverages) listed on Indonesia Stock Exchange

4. To evaluate the influence of leverage, profitability and corporate social responsibility towards tax avoidance in consumer goods industry (food and beverages) listed on Indonesia Stock Exchange

1.5 Benefit of the Research

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

1.5.1 Theoretical Benefit

1. For Author

This research is expected to analyze the factors affecting tax avoidance which are in this research: leverage, profitability, and corporate governance.

2. For Readers

Theoretically, this research is expected to provide information and knowledge in taxation field specially on tax avoidance and what leverage, profitability and good corporate governance have to do with tax avoidance, whether they have a positive or negative effect.

1.5.2 Practical Benefit

This study aims to provide information to companies on factors affecting tax avoidance. And which has a significant effect or insignificant towards tax avoidance.

