CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is the largest source of income for Indonesia, which is used to encourage the development of national facilities such as security and defense, infrastructure development, and environmental sustainability funding. For a company, taxes are costs or expenses that will reduce net income so that taxes will reduce the share of profits that should be distributed to management, owners of capital, or used to increase company investment. The company needs to minimize the tax burden, the amount of tax depends on the amount of income, the greater of income the greater of tax payable (Rozi, 2017).

According to Law Number 28 of 2007 concerning General Provisions and Tax Procedures Article 1 Paragraph 1, Taxes are obligatory payments to the state owed by individuals or organizations that are coercive depending on the policy, with no immediate remuneration and used for the state’s purposes to maximize citizens’ welfare.

Tax is the most important source of state funding and contributing the greatest rate of the State Budged (APBN) contrasted with other sources of funding.

Table 1.1 Tax Revenue Realization

Year	Amount (billion Rupiah)	Increase percentage
2015	1,240,418.86	8.16%
2016	1,284,970.10	3.59%
2017	1,343,529.80	4.56%
2018	1,518,789.80	13.04%
2019	1,643,083.90	8.18%

Source: Prepared by the writer (2020)

Based on table 1.1. above, tax revenue continues to increase every year. Although tax revenue realization has increased but in achieving the annual State Budget (APBN) target, it has never been reached. One of the reasons is the lack of awareness of taxpayers.

Table 1.2 Annual State Budget Target

Year	State Budget Target (trillion Rupiah)	Realization (trillion Rupiah)	Achievement percentage
2015	1,489.3	1,240.4	83.3%
2016	1,539.2	1,285.0	83.5%
2017	1,472.7	1,345.5	91.2%
2018	1,618.1	1,518.8	93.9%
2019	1,786.4	1,643.1	92.0%

Source: Prepared by the writer (2020)

From the point of view of the government, taxpayers are expected to carry out taxation obligations as much as could be expected in order to raise state funding from the tax sector, if taxpayers pay less than they should, the state funding from the tax sector will decline, but from entrepreneurs or taxpayers, one of the reasons that reduce revenue is tax, if charged is higher than the actual that should be paid taxpayer will suffer losses since one of the aims of entrepreneurs is to optimize the wellbeing of stakeholders or investors by improving business value from achieving optimum profit.

Therefore in carrying out taxation obligations, it is necessary to have good tax management.

There are three stages or steps that companies will take to minimize taxes (Cahyono et al., 2016):

1. Companies try to avoid taxes both legally and illegally
2. Reducing tax burden to a minimum both legally and illegally
3. If the two previous steps cannot be done, then the taxpayer will pay the tax.

This is the strategy in doing tax planning, not a few companies who do tax planning in order to minimize taxes that should be paid by the company. This activity can create risks for companies, including fines and a bad reputation. Tax evasion is described as tax avoidance that crossed the maximum or violates existing legal provisions.

Tax avoidance is the manipulation ‘tax affairs’ that still remain in the frame of tax provisions (lawful) (Wijayanti & Merkusiawati, 2017).

Tax avoidance is an excuse to reduce tax liability by not breaking current laws (Mardiasmo, 2017). Tax avoidance is mostly done by companies because tax avoidance is a strategy to minimize taxes but still comply with the provisions of tax regulations such as utilizing exclusions and deductions that are permitted or deferred taxes that are not controlled in the applicable tax laws, typically as a result of policies adopted by the company’s CEO. Tax avoidance presents complicated and unique problems because the one hand, tax avoidance is permitted, while on the other hand, tax avoidance is not wanted (Verawati, 2019).

Several related studies have been conducted provided the evidence by Dewinta and Setiawan (2016) showed a positive effect between firm size, Return On Asset (ROA), and sales growth toward tax avoidance. This means that the higher firm size, Return On Assets (ROA), and sales growth will result in increased tax avoidance. Leverage has no significant effect toward tax avoidance. This means that the higher leverage will not affect the increase in tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange in the period of 2011 to 2014.

The second previous study is conducted by Permata (2018) showed firm size, Return on Asset (ROA), leverage, and sales growth has no significant effect toward tax avoidance. This indicates that the government was successful in implementing the Tax Amnesty Program which has the effect of the company not do tax avoidance for basic and chemical industry sectors listed on the Indonesia Stock Exchange in the period 2012 to 2016.

The third previous study is conducted by Verawati (2019) showed a significant negative effect between Return on Asset (ROA) and sales growth toward tax avoidance, while leverage and firm size has no significant effect toward tax avoidance for manufacturing companies listed on the Indonesia Stock Exchange in the period of 2015 to 2017.

Because of the inconsistent result of the previous research, the author wants to do research for the consumer goods industry sector with the same variables of firm size, Return On Asset, sales growth, and leverage, and the author add some different variables that are good corporate governance which includes independent commissary proportion, institutional ownership and audit quality that may effect tax avoidance with the title **"The Effect of Firm Size, Return on Asset, Leverage, Sales Growth and Good Corporate Governance toward Tax Avoidance in Consumer Goods Industry Sector Listed on Indonesia Stock Exchange."**

1.2 Problem Limitation

The limitation of this studies is:

1. Variables in this study are firm size, Return on Asset, sales growth, leverage, independent commissary proportion, institutional ownership, and audit quality.
2. Consumer goods industry sector that listed on Indonesia Stock Exchange from 2015 to 2019 with specific criteria.

1.3 Problem Formulation

The problems formulations that have been made are as follow:

1. Does firm size partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
2. Does return on asset partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
3. Does leverage partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
4. Does sales growth partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
5. Does independent commissary proportion partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
6. Does institutional ownership partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
7. Does audit quality partially has a significant effect toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?
8. Do firm size, return on asset, leverage, sales growth, independent commissary proportion, institutional ownership, audit quality

simultaneously have significant effects toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange?

1.4 Objective of the Research

The research objectives are as follow:

1. To analyze the effect of firm size toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange partially.
2. To analyze the effect of return on asset toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange partially.
3. To analyze the effect of leverage toward tax avoidance in the consumer goods industry sector listed on the Indonesia Stock Exchange partially.
4. To analyze the effect of sales growth toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange partially.
5. To analyze the effect of independent commissary proportion toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange partially.
6. To analyze the effect of institutional ownership toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange partially.
7. To analyze the effect of audit quality toward tax avoidance in consumer goods industry sector listed on Indonesia Stock Exchange partially.

8. To analyze the effect of firm size, return on asset, leverage, sales growth, independent commissary proportion, institutional ownership, and audit quality toward tax avoidance in the consumer goods industry sector listed on Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

Benefits that can be obtained from this research are:

1.5.1 Theoretical Benefit

This research is expected to be helpful for other people, especially the ones that want to have more information for tax avoidance in the consumer goods industry sector.

1.5.2 Practical Benefit

Practically, this research study will benefit:

1. Government

   This research is expected to be able to provide input to regulators in making tax regulations and policies so that the potential for state revenue from the tax sector can be maximized

2. Community

   This research is expected to provide one of the indicators to assess the company and provide confidence in having the company as an investor or customer

3. Academic or researchers

   This research is expected to be used as a source or literature related to the problem of tax avoidance and supports previous research

1.6 Systems of Writing

This research study comprises five chapters, with each chapter relating to the other. The systematic outline of writing in this research study is as follows:

Chapter I: Introduction

In this chapter, there are background, problem limitation, problem formulation, the objective of the research, benefit of the research, and systems of writing.

Chapter II: Literature Review and Hypothesis Development

This chapter briefly describes the theoretical background include the discussion of understanding the theory, tax avoidance, and the variables. This chapter also includes hypothesis development, research modal, and framework of thinking of the previous research.

Chapter III: Research Methodology

In this chapter, there are research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.

Chapter IV: Data Analysis and Discussion

In this chapter, the result of the research is presented in the form of consumer goods industry sector financial performance.

Chapter V: Conclusion

This chapter will conclude the problem formulation based on the analyses that have been done and recommendations.