CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nowadays, the competition in the market seems to get more stringent and each company is trying to survive. The high tax revenue realization appears to stimulate to be in line with the increase in national economic growth. This relationship gives positive direction between economy and tax revenue. The state revenues need to carry out the state routine tasks and national development to achieve prosperity and welfare of citizens, especially for Indonesia.

Table 1.1 Indonesia's State Revenues for Year 2016-2020 (Billion Rupiah)

Source of Revenue	**2016**	**2017**	**2018**	**2019**	**2020**
Tax Revenues	1,284,970.10	1,343,529.80	1,518,789.80	1,643,083.90	1,865,702.80
1. Domestic Tax	1,249,499.50	1,304,316.30	1,472,908.00	1,603,293.90	1,823,100.20
2. International Trade Tax	35,470.70	39,213.60	45,881.80	39,790.00	42,602.60
Non-Tax Revenues	261,976.30	311,216.30	409,320.20	386,333.90	366,995.10
Grants	8,987.70	11,629.80	15,564.90	1,340.00	498.70
Total Revenues	**1,555,934.20**	**1,666,375.90**	**1,943,674.90**	**2,030,757.80**	**2,233,196.70**

Source: Badan Pusat Statistik 2016-2020
Prepared by writer (2021)

According to the data from *Badan Pusat Statistik* (2021), the source of state revenues consists of the tax revenue, non-tax revenue and grants. Based on the Table 1.1, state revenues are mostly dominated by tax revenue. Indonesia's tax revenues show the highest increase during the year 2019 to 2020 which by

13.55%. From the table above, the amount of domestic taxes increase for every year. Besides that, international trade taxes has increased by 10.55% from the year 2016 to 2017. But from the year 2018 to 2019, it has decreased by 13.27%. However, the amount for the non-tax revenues and grants gained a fluctuation. It can be seen that non tax revenue and grants shown a significant decrease from year 2018 to 2020.

Generally, most of taxpayers including individual or entity indicate tax is a burden which can add more expenses in running a business. From this phenomenon, the company will try to think how to make tax savings become lawfull and sensible. According to Zain (2007) in Broto (2017), there are two statements about taxpayers. First, taxpayers always try to pay the tax owed at the smallest amount, as long as it is possible by the provisions of tax legislation. Second, taxpayers tend to smuggle taxes (tax evasion), an effort to avoid tax owed illegally, as long as the taxpayers have a convincing reason that the consequences of their actions will not be punished.

Tax avoidance can be incurred on the companies who want to maximize profits. Tax avoidance is not a violation tax laws but it is an effort done by the business taxpayers to minimize the tax in such a way that is made possible based on existing regulation. According to Josua as a staff of the Directorate General of Taxes (2020), he stated that the existence of loopholes in the tax law cause taxpayers to carry out tax avoidance practices.

There are many factors that may affect tax avoidance practices, among of the factors are firm size, profitability and sales growth. Basically, the size of company is divided into three groups which are large, medium and small companies. Large firms tend to be more capable in generating income which will increase the possibility of company in doing tax avoidance. According to Kasim and Saad (2019), firm size has a significant influence on tax avoidance.

Profitability is the main goal to maintain the survival of the company. Profitability is a description of the company's financial performance in generating income from asset management and the indicator to present the company's financial performance is known as Return on Assets (ROA). ROA is a part of profitability ratio. Profitability ratio is an assessment of performance management in managing company’s wealth. Due to tax determined by how much profit a company earns, therefore when the firm’s profit increases, it is likely for managers to commit tax avoidance. Based on the research conducted by Sonia and Suparmun (2019), profitability has a significant influence on tax avoidance.

Firm’s growth is the impact on the flow of company funds from operational changes that caused by the increase in business volume. Annual percentage of changes in growth is an indicator of the level of profitability and success of the company. When a firm is experiencing growth, the firm was capable to improve its investment and able to obtain large profit which causes high tax burden, so the company tends to do the tax avoidance practices. According to Kim and Im (2017), sales growth can give significant influence on tax avoidance.

Consumer goods company is a manufacturing company that basically supply important needs for the community. This industry consists of production activities that manage economic resources to provide goods and services to the community and satisfy people daily needs. However, the state of the business world changes dynamically along with changes that occur in the surrounding environment. But still, these five subsectors of consumer goods listed at Indonesia Stock Exchange that involves cosmetics and household goods, food and beverage, houseware, pharmaceuticals and tobacco manufacturers industry can be categorized as a fairly stable industry and capable to withstand in the times of crisis or intense competition. The company's success can be determined through the accuracy of the company in processing economic resources, in taking advantage of opportunities and able to identify individual necessity as an effort to support goods or services included in the decision of purchasing process.

Table 1.2 Firm Size, Profitability, Sales Growth and Tax Avoidance in 2017-2019

Company	Year	Firm Size (Ln Total Asset)	Profitability (ROA)	Sales Growth	Tax Avoidance (CETR)
PT Gudang Garam Tbk (GGRM)	2017	31.832	0.116	0.092	25.29%
	2018	31.867	0.113	0.149	27.65%
	2019	31.996	0.138	0.155	22.12%
PT Indofood Sukses Makmur Tbk (INDF)	2017	32.113	0.058	0.053	45.07%
	2018	32.201	0.051	0.046	46.47%
	2019	32.197	0.061	0.044	26.99%

Source: Prepared by writer (2021)

From the Table 1.2 above, the percentage of tax avoidance in PT Gudang Garam Tbk (GGRM) and PT Indofood Sukses Makmur Tbk (INDF) for the year 2017 to 2019 have shown inconsistent results. PT Indofood Sukses Makmur Tbk (INDF) likely paid the tax above mandatory rate of 25% during the observation period. Meanwhile, PT Gudang Garam Tbk (GGRM) tend to pay taxes close to 25%. For the year 2019, PT Gudang Garam Tbk (GGRM) paid the tax below the mandatory rate in which it can be identified through the company’s tax avoidance practices, as the percentage of Cash Effective Tax Rate (CETR) declined to 22.12%.

Thus, phenomena gap also can be seen from year 2018 to 2019. When Return on Asset (ROA) of both companies increased, CETR went down by 5.53% for PT Gudang Garam Tbk (GGRM) and and 19.48% for PT Indofood Sukses Makmur Tbk (INDF). Furthermore, from PT Indofood Sukses Makmur Tbk (INDF) financial statement in year 2018 to 2019, it was shown the increase in return on asset resulted from the increase by 18.96% in net income and 0.35% for the decrease in total assets. In this terms, the company’s profit also supported from PT Indofood CBP Sukses Makmur Tbk (ICBP) operations, as the subsidiary of PT Indofood Sukses Makmur Tbk (INDF). The fluctuation of ROA showed the companies attempt to minimize the tax payment. This means that lower tax payment reflected by the declining percentage of CETR which indicates the company to conduct tax avoidance.

However, firms with greater size could manage and obtain better resource of funding, which makes it easier to expand the financial market compared to the smaller firms. PT Gudang Garam Tbk (GGRM) and PT Indofood Sukses Makmur Tbk (INDF) are considered as large companies in terms of the total assets. Besides that, as PT Gudang Garam Tbk (GGRM) firm size increased from 2018 to 2019, this company show a decrease in CETR. The larger size of the company would affect the amount of company productivity to generate more profit. According to Kasim and Saad (2019), large firms provide more chance and better opportunities for the company to engage in proper tax management to pay lesser of tax payment or to avoid high income tax.

For PT Gudang Garam Tbk (GGRM), the sales growth amount keep increasing from 2017 to 2019, while for PT Indofood Sukses Makmur Tbk (INDF), it shows a significant decrease during the observation periods. From examining PT Gudang Garam Tbk (GGRM) financial statement, the writer discovered that the increase in revenue dominated from the domestic sales of machine-made clove cigarettes, hand-rolled clove cigarettes, klobot (corn silk) clove cigarettes and paperboard. When the level of sales increases, the company can create more profits. High profits give impact to the higher cost of taxes that must be paid to the government. Therefore, sales growth will indicate the company to do tax avoidance. From the Table 1.2, firm size, ROA and sales growth showed different percentage which to be increase and decrease, while tax avoidance percentage also keep changing. It defined that size, ROA and sales growth had affected tax avoidance practices.

Based on background of study that has been described above, the writer interested to make research and continued to discuss more in depth in a *skripsi* with the title: **"The Influence of Firm Size, Profitability and Sales Growth on Tax Avoidance in Consumer Goods Companies Listed at Indonesia Stock Exchange."**

1.2 Problem Limitation

In this research, the writer makes the problem limitation which can be formulated as follows:

1. The research object is consumer goods companies listed at Indonesia Stock Exchange.
2. The independent variables of this research are firm size, profitability, sales growth and the dependent variable is tax avoidance.
3. The time period of the research is 3 years, started from year 2017-2019.

1.3 Problem Formulation

Every large or small company will always face various problems that must be overcome in order to achieve the goals and objectives of the company. In this research, the problem formulations are as follows:

1. Does firm size partially have a significant influence on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange?
2. Does profitability partially have a significant influence on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange?
3. Does sales growth partially have a significant influence on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange?
4. Do firm size, profitability and sales growth simultaneously have a significant influence on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange?

1.4 Objective of the Research

The objectives of doing this research are:

1. To analyze and examine the significant influence of firm size on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange partially.
2. To analyze and examine the significant influence of profitability on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange partially.
3. To analyze and examine the significant influence of sales growth on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange partially.
4. To analyze and examine the significant influence of firm size, profitability and sales growth on tax avoidance in consumer goods companies listed at Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

This research is expected to provide benefits in terms of related or unrelated parties. The benefits of doing this research are:

1.5.1 Theoretical Benefit

1. For the researchers, this research is expected to enhance the researchers knowledge and to develop the understanding in terms of tax and accounting theory, particularly in connection with the influence of firm size, profitability and sales growth toward tax avoidance.

2. For the reader, this research will provide information about tax avoidance practices and can be used as the material of literature study or reference for the future research.

1.5.2 Practical Benefit

1. For the company, this research gives contribution of thought, recommendation and evaluation materials in considering some factors that influence the tax avoidance behavior.
2. For the investor, this research is expected to give useful consideration and information in making the appropriate investment decisions.