CHAPTER I

INTRODUCTION

1.1 Background of the Study

A company is a place to process products distributed to consumers. A company is generally built by one or more parties to make profits. On the other hand, whether it is a government agency or privately owned business, a company has to contribute to the state through taxes required to be paid based on the income.

In order to run a business, a company needs capital. A company is able to manage assets to generate profits through the capital owned. Thus, to generate a marketable product, a company requires resources that can only be handled if it already has capital. The resources are raw materials, labor, and many others involved.

Obtaining the capital itself, the company can outsmart it internally and externally. Internal capital can be obtained from the owner's wealth and profits obtained from business activities. Therefore, internal capital is not very binding since it can be used without any requirement and does not have to be returned. However, when it comes to expansion for a company, the funds needed will be raised, and the company will need external capital. To obtain capital from parties outside the company is clearly not as simple as it seems. It is more difficult and bound to pay back time. Usually, the company seeks a loan or acquires it from shareholders—externally. That is the reason that later on, a company will register itself in the Indonesia Stock Exchange (IDX).

Every company will experience the same situation as stated above, including the consumer goods sector chosen by the author as the research’s target. There is also a reason why the author chooses the consumer goods sector. This is due to the consumer goods sector being a sector under the manufacturing sector, which is the key sector in Indonesia. Reporting from website address Kemenperin.go.id, tax revenue from the manufacturing sector grew 17.1 percent throughout 2017. In 2017, the manufacturing industry became the largest tax contributor, with an amount exceeding 31% of the total tax received by Indonesia.

The consumer goods sector is a sector that is closely related to other business fields since every part of a manufacturing company carries out comprehensive business activities, starting from purchasing raw materials to becoming finished goods. This sector is one of the factors driving Indonesia's economic growth. Besides, it is also the sector closest to the citizens’ daily basic needs. The consumer goods sector consists of 47 companies listed on the IDX in 2017, 50 companies in 2018, and 55 in 2019. In addition, the consumer goods sector is one of the sectors that experience rapid development in Indonesia, which means that it continuously increases the state’s revenue through tax payments. It is proven that from 2017 to 2019, the manufacturing sector was the largest tax contributor for three years in a row (31.8% in 2017; 19.86% in 2018; 29.4% in 2019).

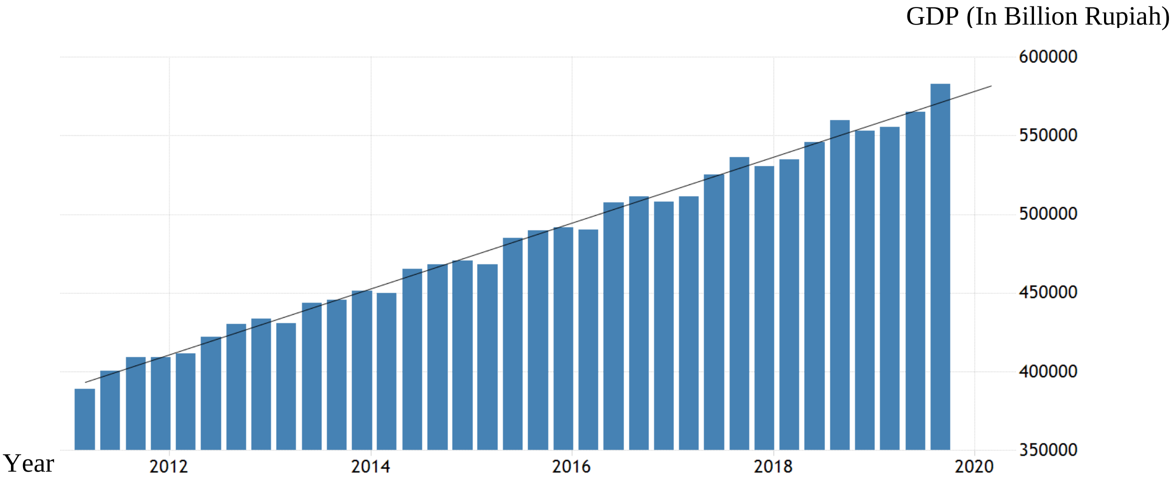

Figure 1.1 Gross Domestic Product (GDP) from Manufacturing Sector for The Year 2012-2019 (In Billion Rupiah)
Source: Tradingeconomics.com (2021)

The graph above shows the total GDP of the manufacturing sector in Indonesia from one year to another. It can be seen from the graph that is continuously sloping up, which proves the existence of revenue growth that keeps on increasing each year.

Becoming a sector that continues to grow means to be a business that keeps doing expansion. Therefore, it is clear that the funds needed by companies to manage needs are also increasing. It is crucial for a company to understand several factors that could possibly attract or detract from the interest of shareholders who are known as investors. If a company is performing well, it is guaranteed that more investors could be attracted to invest. This can be proceeded by having good parameters since it could help with the monitoring process to improve the company’s performance. In this research, the parameters discussed are tax accounting, according to the author's study faculty. Good taxation is also one of the attractions for the company itself. Nonetheless, there are several companies from selected sectors—consumer goods—were proven to have attempted tax avoidance to increase their profits.

Tax avoidance is an individual/a company effort to reduce the amount of tax that must be paid. Tax avoidance is a legal tax avoidance effort that does not violate tax regulations to minimize the tax burden by exploiting the weakness of tax provisions (Puspita & Febrianti, 2018).

There are many factors that can be considered in order to measure the amount of tax that a company avoids. However, in this research, the author has determined three factors to be studied, namely as follows:

1. Sales Growth

   Sales growth describes the company's sales achievement in the past, where sales growth is used to predict the company's achievement. The more funds a company has, the more diverse the assets owned by the company, indicating that sales growth generates large profits (Zhafiira & Andayani, 2020). The author wants to know whether an increase or decrease in a company's sales growth has an effect on tax avoidance or not at all.

2. Profitability

   Profitability is a measurement of the company's ability to earn profits as well as the company's management effectiveness by the financial ratio (Hakim & Naelufar, 2020). The author wants to know whether the ability or lack of profit on the sustainability of the company has a relationship with tax avoidance efforts.

3. Firm Size

Company size is a measure of the company size in terms of certain aspects (Zhafiira & Andayani, 2020). The author wants to know whether the size of a company has an influence on the amount of tax avoidance.

Based on the information provided above, the author decided to conduct a research entitled **"The Influence of Sales Growth, Profitability, and Firm Size on Tax Avoidance in Consumer Goods Companies Listed at Indonesia Stock Exchange"**.

1.2 Problem Limitation

Research can be done widely in practice. Due to the researcher's limit, there will be limitations that restrict the research findings and to match the hypothesis submitted. These limitations become the material to be concerned by the other researcher in the future.

The following are limitations in this study:

1) The research focuses on four variables chosen, which are tax avoidance as the dependent variable; sales growth, profitability, and firm size as the independent variables.
2) The research focuses on the companies of the consumer goods sector that are listed on the Indonesia Stock Exchange.
3) The data that will be used by the researcher is only within the period of the year 2017 to 2019.

1.3 Problem Formulation

Based on the background of the problems described above, this research will examine sales growth, profitability, and firm size towards tax avoidance on consumer goods companies listed at the Indonesia Stock Exchange during the period of 2017 to 2019.

The problems in this study are formulated as below:

1) Does the company's sales growth have an influence on tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?
2) Does the company's profitability have an influence on tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?
3) Does the firm size have an influence on tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?
4) Do the company's sales growth, profitability, and firm size have a simultaneous influence on the tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the series of formulations from the problem above, the objectives of this study are as follows:

1) To analyze whether the sales growth influences tax avoidance in consumer goods companies listed at Indonesia Stock Exchange;
2) To analyze whether the profitability influences tax avoidance in consumer goods companies listed at Indonesia Stock Exchange;

3) To analyze whether the firm size influences tax avoidance in consumer goods companies listed at Indonesia Stock Exchange;
4) To analyze whether the sales growth, profitability, and firm size have a simultaneous influence on the tax avoidance in consumer goods companies listed at Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research is expected to be used as a guide in tax concepts that have a direct relationship to economic development. It could be used as the literature and resources in generating new ideas by further research on sales growth, profitability, and firm size towards tax avoidance in the future. In addition, the readers could gain more insight from this paper.

1.5.2 Practical Benefit

1. For Consumer Goods Companies

   The consumers goods companies listed at Indonesia Stock Exchange may refer to factors that are highly influential or have no effect on tax avoidance.

2. For investor

   Provides the result if there is any of the sales growth, profitability, and firm size affect on tax avoidance for investors to review, in order to help the investors decide whether to invest or not in the consumers goods companies by understanding the risks of tax and avoid not tax-conforming businesses.

3. For Academics

   Provides wider insight of tax, in particular on tax avoidance with the sales growth, profitability, and firm size as the impactor factors for studies and to become a reference for further research.