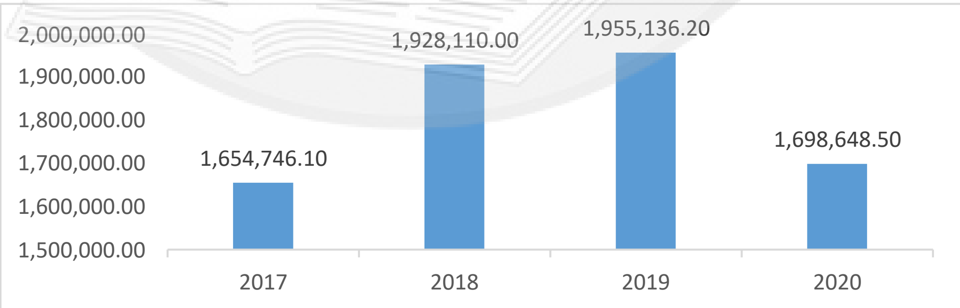
CHAPTER I

INTRODUCTION

1.1 Background of the study

Taxes are the most important source of governmental revenue, and they are used to the greatest extent possible for the general public's benefit. The tax is meant to fund government operations that serve the public good. Because taxes are a significant source of revenue, the government's approach to tax collection must be founded on fairness and provide taxpayers with legal clarity. As a taxpayer, the corporation is required to pay taxes, the amount of which is computed based on its net income. The larger the tax paid by the corporation, the greater the state revenue. Taxes, on the other hand, are a burden that reduces net profit for businesses. The government's objective is to increase revenue from the tax sector, which is in contrast to the company's goal as a taxpayer, which is to reduce the tax burden in order to generate a profit in order to benefit the owner and maintain the company's survival.

Table 1.1 Development of State Revenue



Source : *Badan Pusat Statistik* (2021)

In the last few years, the prevalence of tax aggressiveness has become a hot issue, where several companies have been found that have been exposed to the media. According to Donny Indradi, S.E.,S.H.,M.M.Ak,CA and Indra Iman Sumantri, S.E.,M.M. (2020) Coca-Cola Company has tax evasion case in 2018. This case began with an underpayment notice in September 2015 amounting to US$3.3 billion for the period 2007 to 2009, but on April 10, 2019, the case numbered Coca-Cola Co. v. Commissioner, T.C., No. 31183-15, the IRS believes Coca Cola's taxes omitted. According to the paper, subsidiaries situated overseas that get licenses from the parent company for trademarks, formulas, and other intangible commodities - which are then referred to as supply points - are only entitled to a profit level similar to ordinary commercial activities.

Indonesia has had a self-assessment system in place since 1968. Since the beginning of 1984, the self-assessment system has been fully operational, primarily for the collection of Income Tax. Self-assessment is a tax collection method in which taxpayers are given the authority, trust, and responsibility to calculate, calculate, pay, and report the amount of tax payable that must be paid in compliance with the terms of the applicable tax legislation. The self-assessment system is implemented to instill maximum trust in the community in order to raise awareness and the community's role in paying taxes. As a result, the general people must be well-versed in tax calculation techniques and all tax compliance rules. Because all operations to fulfill tax responsibilities are carried out by taxpayers themselves, the self-assessment system places a tremendous load on taxpayers. Taxpayers must fill out the Annual Tax Return (*Surat Pemberitahuan/SPT)* with all essential information, calculate the tax base, calculate the amount of tax payable, and deposit the amount of tax owed.

Tax aggressiveness can be interpreted as an action to reduce the tax liability of the company. However, not all businesses that engage in tax planning are deemed tax aggressive. Typically, corporations as corporate taxpayers exploit flaws in the laws and regulations controlling Indonesia's taxation system and mechanism. These flaws are utilized to provide regulatory tolerance between legal and criminal tax planning or calculation activities. However, this aggressive tax strategy is fraught with danger. These risks might range from threats of sanctions or fines to the risk of stock price declines and the company's reputation. Furthermore, if this action is discovered and determined to be in violation of the regulations and laws, the corporation will face strong and severe fines. Furthermore, the company will be impacted by the declining stock price because the company's image is not favorable in the eyes of investors. This method is typically undertaken out by businesses that make tiny earnings, resulting in small taxes that must be paid. The government would suffer losses as a result of aggressive tax evasion because it diminishes state revenue from the tax sector. So, there are various factors that can affect tax aggressiveness, including Corporate Social Responsibility (CSR), Debt to Equity Ratio (DER) and Profitability Ratio (ROA).

According to Lanis and Richardson (2012) in Indah Budianti, Mohhammad Rafki Nazar and Kurnia (2018), Corporate Social Responsibility (CSR) is closely related to tax aggressiveness. "Companies that do a lot of CSR will do little or no tax aggressiveness activities". If the company does CSR, it means that the company is helping the country in improving the welfare of the community and carrying out sustainable development that benefits everyone. According to Sagala (2015), companies that are increasingly concerned about the importance of CSR will be increasingly aware of the importance of taxes for society and the country where taxes make a major contribution to state revenue. Corporate Social Responsibility is the concept that firms have different responsibility to all interested parties such as consumers, employees, shareholders, communities, and the environment in all operational elements including economic, social, and environmental aspects. The integrated factor of Corporate Social Responsibility with Debt-to-Equity Ratio is shown by the strength of the firm from the profit by the usage of the debts in the investment by the firm. the funding source needs to be known if it is loan from the bank.

Second factor is Debt-to-equity ratio, which is one of the leverage or solvency ratios. The solvency ratio is a ratio used to measure a company's capacity to pay its debts if it goes bankrupt. This ratio, commonly known as the leverage ratio, is used to examine the company's borrowing restrictions. The government has a greater desire to harness all of the state's potential as a source of income to support public expenditures. Taxation is one of the most important sources of revenue for the state. Taxes in the corporation have a significant impact on the company's long-term viability. Taxes are an important phenomenon that is constantly evolving; consequently, taxes must be managed effectively. If every taxpayer meets their tax duties, the economic sector's revenues will rise. Taxes limit the amount of net profit earned by the company, allowing it to pay as little as feasible. Because of the existence of differing points of view between corporations and company management, when a company has a high tax burden, management will prefer to urge it to be overcome in many ways, one of which is by manipulating corporate profits.

The Profitability Ratio is the third factor to consider. Profitability is the company's standard for managing assets in order to profit in the current fiscal year. Return On Assets (ROA) is a metric that measures a company's ability to generate profit by dividing profit after tax by total assets. Low ROA describes a company's profits that fall or, which is most likely caused by a declining market, which has an impact on company resources and profits, whereas high ROA describes a company's ability to manage company resources well to generate high profits. According to Hadi and Mangoting (2014), tax aggressiveness is proxied by effective tax rates (ETR). The difference between book profit and corporate fiscal profit can be described by the effective tax rate (ETR) (Frank et al, 2009). If the ETR value or Effective Tax Rate is high, the tax aggressiveness is reduced. It has a low level of tax aggressiveness (Midiastuty et al, 2017). Companies with large profits face a high tax burden, so conducting a company ETR may be a tax-saving strategy. This is supported by Devi and Dewi's (2019) observations that companies with high levels of profitability are expected to be more proactive in their tax obligations.

The consumer goods industry is one of the industrial fields that is constantly expanding. This is due to the fact that the consumer goods industry is required to meet basic needs and ensure the survival of all people in all parts of the world. The consumer goods industry in Indonesia is also showing signs of improvement in the capital market, as evidenced by the growing number of consumer goods companies that have gone public (Handi Haryanto Lim, Cardinal, Ratna Juwita, 2015).

In general, companies prefer to use internal sources because they are less expensive than external sources. If internal sources are insufficient, external sources are used. It is possible to obtain external funding from a bank or the market. Loans from banks are easy to obtain, but the cost of capital is higher than market funding, and market funding is difficult to obtain or takes a long time. As a result, the company opts for stock market funding. Public listed companies in the consumer goods industry sector, like those in other industrial sectors that offer shares on the IDX, take advantage of external funding by offering shares on the IDX. The types of activities available on the IDX are listed in the table below.

Table 1.2 10 Companies With The Largest Market Capitalization in Indonesia Stock Exchange In Year 2020

No.	Listed Stocks	Number of listed Shares	Market Capitalization	
			IDR (million)	%
1.	BBCA	24,408,459,900	826,226,368	11.85%
2.	BBRI	122,112,351,900	509,208,507	7.31%
3.	TLKM	99,062,216,600	327,895,937	4.70%
4.	BMRI	46,199,999,998	292,215,000	4.19%
5.	UNVR	38,150,000,000	280,402,500	4.02%
6.	ASII	40,483,553,140	243,913,408	3.50%
7.	HMSP	116,318,076,900	175,058,706	2.51%
8.	TPIA	17,833,520,260	161,839,196	2.32%
9.	BBNI	18,462,169,693	114,003,899	1.64%
10.	ICBP	11,661,908,000	111,662,769	1.60%

Source: Indonesia Stock Exchange (2020)

Prepared by the Writer (2021)

The three issuers are PT Unilever Indonesia Tbk (UNVR), which is fifth with a market capitalization of IDR 280 trillion, PT HM Sampoerna Tbk (HMSP), which is seventh with a market capitalization of IDR 175 trillion, and PT Indofood CBP Sukses Makmur Tbk (ICBP), which is tenth with a market capitalization of IDR 111 trillion. As can be seen, the consumer goods sector has some companies ranked among the top ten in terms of market capitalization.

Research on tax aggressiveness has been widely studied by various parties with different variables and has different empirical evidence. Suroiyah and Siti Khairani (2018) examined the relationship between CSR and tax aggressiveness with not significant results that CSR has the effect of reducing the level of corporate tax aggressiveness. While Riza Aulia Fitri and Agus Munandar (2018) examined the relationship between CSR and tax aggressiveness. CSR has a significant impact on tax aggressiveness because CSR makes it clear that the company is pursuing an aggressive tax strategy and that there is no corporate tax avoidance. CSR has a negative and significant impact on tax aggressiveness.

Desi Natalya (2018) conducted research showing that Capital Intensity significantly affects Tax Aggressiveness while leverage has no significant effect on Tax Aggressiveness and Profitability has a significant effect on Tax Aggressiveness. Suroiyah and Siti Khairani (2016) stated that Corporate Social Responsibility (CSR) has a significant impact on tax aggressiveness while firm size also has significant impact on tax aggressiveness and Profitability is influential against tax aggressiveness. Leverage is influential against tax aggressiveness and Liquidity effect to tax aggressiveness. Therefore, the writer is interested in doing research using the title **“The Impact of Corporate Social Responsibility, Debtto Equity Ratio and Profitability Ratio Toward Tax Aggressiveness in Consumer Goods Companies Listed on Indonesia Stocks Exchange”**.

1.2 Problem Limitation

Because of the auditor’s time constraints and to avoid the discussion of the problem not being widespread and more focused, only part of the problems that have been identified have been examined, namely :

1. The dependent variable used in this study is Tax Aggressiveness (Effective Tax Rate/ETR) while the independent variable of this study consists of Corporate Social Responsibility (CSR), Debt to Equity Ratio (DER), and Profitability Ratio (Return on Assets/ROA).
2. Companies in this research are consumer goods companies listed on Indonesia Stock Exchange.
3. This research was conducted using financial statement from 2017-2020.

1.3 Problem Formulation

Based on the background of the problem above, the problem can be formulated as follows :

1. Does Corporate Social Responsibility have significant impact towards Tax Aggressiveness in Consumer Goods Companies listed on Indonesia Stock Exchange?
2. Does Debt to Equity Ratio have significant impact towards Tax Aggressiveness in Consumer Goods Companies listed on Indonesia Stock Exchange?

3. Does Profitability Ratio have significant impact towards Tax Aggressiveness in Consumer Goods Companies listed on Indonesia Stock Exchange?
4. Do Corporate Social Responsibility, Debt to Equity Ratio, and Profitability Ratio simultaneously have significant impact toward Tax Aggressiveness in Consumer Goods Companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

The objectives of this research are :

1. To find out whether Corporate Social Responsibility have significant impact towards Tax Aggressiveness or not in Consumer Goods Companieslisted on Indonesia Stock Exchange.
2. To find out whether Debt to Equity Ratio have significant impact towards Tax Aggressiveness or not in Consumer Goods Companies listed on Indonesia Stock Exchange.
3. To find out whether Profitability Ratio have significant impact towards Tax Aggressiveness or not in Consumer Goods Companies listed on Indonesia Stock Exchange.
4. To find out whether Corporate Social Responsibility, Effective Tax Rates, and Profitability Ratio simultaneously have significant impact toward Tax Aggressiveness or not in Consumer Goods Companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

It is hoped that the results of this research can provide theoretical benefits for the development and progress of accounting taxation, especially regarding the Impact of Corporate Social Responsibility, Debt to Equity Ratio, Profitability Ratios Toward Tax Aggressiveness in Consumer Goods Companies Listed on IDX and can also be used as a reference. additional for those who are interested in the same field.

1.5.2 Practical Benefit

1. For the author

   This research is useful to increase knowledge, especially the Impact of Corporate Social Responsibility, Debt to Equity Ratio, Profitability Ratio toward Tax Aggressiveness in order to carry out obligations to fulfill tax aggressiveness reporting.

2. For the government

   It is hoped that this research can provide practical benefits for the government so that it can carry out its duties and obligations well in the field of tax aggressiveness.

3. For the community

   This research is useful to increase knowledge and understanding of the Impact of Corporate Social Responsibility, Debt to Equity Ratio, Profitability Ratio toward Tax Aggressiveness