

CHAPTER I

INTRODUCTION

1.1 Background of Study

The republic of Indonesia is one of the countries in which has a number of a fairly large of the total population, abundant natural wealth and a strategic position where in the area of Indonesia has become a world trade traffic area. In this situation is very attractive for the companies to established their business in Indonesia, both of domestic and foreign companies. The existence of the companies is an advantage for Indonesia because it can increment of the state revenue, particularly from the tax sector (Kanji, 2019). Taxes in Indonesia are an important source of income in support the state revenue budget. State revenues have an important role in managing government's wheels in order to address the community's requirements. Taxation remains the first contributor to the realization of state revenue each year. It can be said that taxes are the backbone of state revenue. Meanwhile, the tax for company it's a burden that can reduce net income.

According to Palupi (2019), that the wider the scope of the company's establishment, the more negotiations and complications will be. In this way, companies can find loopholes in each of their transactions, and can take tax avoidance measures. A large amount of stable profits will more easily encourage companies to avoid taxes, so companies are more likely to apply "tax avoidance" in every transaction.

In its development, manufacturing industry activities have made a good contribution to the country's economic growth, including in tax revenues. One of the industrial sectors that shows its influence, namely the food and beverage sector. This sector has a level of the large income gross domestic product that compared to other sectors. With a large GDP rate, shows that the company can generate large profits. Companies with large profits will have a large tax burden as well, thus enabling the company to do tax evasion.

The economy of a country can be said to be good if the income and the State Revenue and Expenditure Budget can be met domestic needs with activities the economy is stable and with low inflation rate. With the State Revenue and Expenditure Budget, incoming and outgoing funds are issued and planned according to state needs. In addition to relying on revenues from natural resources, the government also relies on revenues from taxes (Purwanti & Sugiyarti, 2017). The target of the tax revenues increased in every year and too with the realization. On this case, the government is trying to achieve the target tax revenues, such as the abolition of tax administration sanctions, namely: interest rates, reductions in the final rate of asset revaluation, and tax amnesty (Ramadhani & Nisa, 2019).

The company as mandatory tax recognizes that tax is a burden that will deduct company profits. Company will try to make a profit big by doing efficiency costs and minimize taxes paid. The company will try as much as possible for reduce the tax burden so that profits obtained by large companies. Government as recipient tax revenue actually wants high tax revenue

government and development programs country can be implemented properly. This difference of interest that cause companies to try to reduce the payment amount taxes and avoid paying taxes both legally and illegally (Tene et al., 2017).

One of the factors that cause blockage in tax revenue is tax avoidance is a legal method of evading taxes that doesn't breach tax regulation. Tax avoidance is executed by the company because the company want big profits. This method has a risk for the company, namely fines and the reputation is bad of the corporate managing. On tax rate may be quantified by looking at the effective tax rate.

In this tax avoidance it can said that so as not to conflict with the tax law rules because in this tax avoidance practice is to considered to take advantage of loopholes in the tax law that can affect country revenues of the tax sector. Tax avoidance either of the government's obstacles in its efforts to optimizing tax revenue. This tax avoidance is done legally, if the taxpayer tries to alleviate the tax load by abiding by the law. Efforts made to ease the tax burden are legal and do not violate existing regulations. While tax avoidance is illegal, taxpayers try to ease their tax burden by violating laws and regulations (tax evasion), such actions will be subject to penalties (Mardiasmo, 2016). Thus, the problem of tax avoidance is a very complicated and one-of-a-kind situation. One of the hands it is permitted, yet tax avoidance is not permitted. Tax payer try to pay taxes as little as possible because paying taxes it means reducing the company economic capacity. The government tries to increase tax revenue to meet the welfare of

the people, while psychologically, taxpayers will try to reduce the amount of tax payment to be able to achieve the desired income or profit target.

Based on this phenomenon of tax avoidance above, the issue of the tax avoidance it's a complicated and the problem are unique because in one side tax avoidance doesn't breaking the law or legal but beside that the government does not want tax avoidance because it can result in a decrease in state revenue. This is the reason the writer is interested in researching tax avoidance. Numerous variables effect a company in carrying out its tax obligations, among other is profitability, firm size and sales growth.

Table 1.1 Profitability, Firm Size, Sales Growth and Tax Avoidance

Company	Year	Profitability	Firm Size	Sales Growth	Tax Avoidance
PT. Indofood CBP Sukses Makmur, Tbk	2016	0,1256421	17,1794196	0,085850066	0,27217556
	2017	0,1120565	17,269285	0,033091212	0,319479211
	2018	0,1355591	17,3526118	0,078828491	0,277348167
	2019	0,1384687	17,4715908	0,101092205	0,279272666
	2020	0,0716159	18,4559352	0,102711197	0,255062058
PT. Mayora Indah, Tbk	2016	0,1074625	30,189985	0,23829499	2,476086494
	2017	0,1093437	30,3334455	0,134426127	0,254211298
	2018	0,1000718	30,4984487	0,155842785	0,260924853
	2019	0,1071233	30,5774538	0,040145672	0,245912587
	2020	0,1060887	30,6155661	0,021967933	0,218236107
PT. Nippon Indosari Corporindo, Tbk	2016	0,095826	28,7024817	0,159769594	0,242651289
	2017	0,0296879	29,1482503	0,012221156	0,272812466
	2018	0,0289433	29,1112179	0,110571903	0,319707198
	2019	0,0505157	29,1747644	0,20620531	0,318584382
	2020	0,0378715	29,124412	0,037454879	0,051464651

Source: Prepared by Writer (2021)

Based in the phenomenon table above the ETR has an increasing and sometimes decreasing value. We can see that the return on asset of PT. IndofoodCBP Sukses Makmur, Tbk from 2016 to 2020 have the ROA every year

experienced a decrease and increase in the total assets of the corporate. While the total asset of PT. Mayora Indah Tbk there was a decline in 2018, the following year turned more stable until 2020. However, PT. Nippon Indosari Corporindo Tbk decreased from 2016 to 2020.

The firm size of PT. Indofood CBP Sukses Makmur, Tbk experienced an increase from 2016 to 2019, and in 2020 experienced a good increase. While of PT. Mayora Indah Tbk has a stable firm size from year to year. On the other side, PT. Nippon Indosari Corporindo Tbk has slightly growing on their financial from 2016 to 2017 and the firm has been stabilized throughout the year from 2017 to 2020.

The sales growth of PT. Indofood CBP Sukses Makmur, Tbk has increase from year to year. While the sales growth at PT. Mayora Indah, Tbk in year 2016 until 2019 has increase, but in 2020 the sales growth has decrease. Then PT. Nippon Indosari Corpindo, the sales growth has decrease from year 2016 to 2017, and has increase from year 2017 until 2019, but in 2020 the sales growth is decrease again.

The effective tax rate at PT. Indofood CBP Sukses Makmur, Tbk in every is increase and sometimes are decrease. While PT. Mayora Indah Tbk and PT. Nippon Indosari Corpindo Tbk, the tax rate from 2016 to 2020 there was a decrease.

Research on the profitability that effect tax avoidance conducted by E.D.P. Sari & Marsono (2020) concludes that profitability has a significant effect toward tax avoidance, unlike perform research by Anggraeni & Oktaviani

(2021) where profitability had no significant effect toward tax avoidance. It's possible to classify a company's financial performance more correctly by looking at its Return on Assets (ROA), which is a measure of a company's financial performance. An increased the ROA it means that the performance of the company is useful in assets owned is able to generate a high level of net profit so the tax imposed will be high and the company most certainly doesn't want to pay such a tax payment, thus the company is looking for actions that can minimize paying taxes or indicate the company is a tax avoidance.

Research on the sales growth that effect tax avoidance conducted by S.M.Purwanti & L.Sugiyarti (2017) concludes that sales growth has significant effect towards tax avoidance, unlike perform research by Swingly & Sukharta (2015) where sales growth has a significant effect on tax avoidance. The greater the company's sales growth rate, the more likely the profit generated by the company will be large. Sales growth is necessary for working capital management. This research use sales growth measurement since it is capable of describing a company's good or bad degree of the sales growth. The company's can forecast the amount of profit it will earn based on the rate of the sales growth. Increased sales growth typically results in a large profit for the company, and as a result the company will frequently engage in tax avoidance.

The firm size on tax avoidance that researched conducted by Barli (2018) declare that firm size has no significant effect on tax avoidance, contrary to research conducted by Anggraeni & Oktaviani (2012) which states that firm size has a significant effect on tax avoidance. The firm size with the more

asset it has, the greater the turnover and the greater the invested capital of funds in the company being managed so as to improve company performance, but not necessarily increase tax avoidance activities by the company. The firm size will affect the capital structure based on the fact that the larger a company has a high sales growth rate so that the company will be more daring to issue new shares and the tendency to use the loan amount is also getting bigger will tend to practice tax avoidance.

Based on the phenomenon and inconsistent result from previous research. The writer will conduct the research with title **“The Impact of Profitability, Sales Growth and Firm Size toward Tax Avoidance of Food and Beverage Companies Listed on Indonesia Stock Exchange”**.

1.2 Problem Limitation

In avoiding deviation from the topic, the writer set some problem limitation as below:

1. The object research focused on food and beverage companies that listed on Indonesia Stock Exchange.
2. The dependent variable is tax avoidance which is calculated by utilizing the effective tax rate, while the independent variable of this research is profitability using return on assets, firm size and sales growth.
3. This research data of the period is from year 2018-2020

1.3 Problem Formulation

The research is formulated as follows in light of the aforementioned considerations:

1. Does profitability have significant impact towards tax avoidance of food and beverage companies listed on Indonesia Stock Exchange?
2. Does sales growth have significant impact towards tax avoidance of food and beverage companies listed on Indonesia Stock Exchange?
3. Does firm size have significant impact towards tax avoidance of food and beverage companies listed on Indonesia Stock Exchange?
4. Do profitability, sales growth and firm size simultaneously have significant impact toward tax avoidance of food and beverage companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

The objectives of this research are as follows, based on the problem description mentioned previously:

1. To find out whether profitability has significant impact towards tax avoidance.
2. To find out whether sales growth has significant impact towards tax avoidance.
3. To find out whether firm size has significant impact towards tax avoidance.
4. To find out whether profitability, sales growth and firm size has significant impact towards tax avoidance.

1.5 Benefit of Research

This researcher is expected in this research can provide not only theoretical but useful for various parties in accordance with the research's objective, the following uses are made of this research:

1.5.1 Theoretical Benefit

The Theoretical, the writer expect that this research can be used as the literature material for theoretical and references for other academic who wants to do further research on tax avoidance. The writer also hopes that this research's results can increase knowledge and insight about the impact of profitability, firm size and sales growth toward tax avoidance.

1.5.2 Practical Benefit

Practically, the writer expects that this research can be used as follows:

1. For Scholar

It is expected that this research can supply information and serve as a reference in conducting research related to tax avoidance for other students.

2. For Investor

The research of the results should provide useful information as well as illustrations regarding the condition of the companies and also can be taken as inputs for consideration in investment-related decision making.

3. For the Government

In this research, it is anticipated that there will be an input for the directorate general of taxes to know what factors influence a company to take tax avoidance actions.

4. For the Author

The purpose of this research is to provide additional insight, information and suggestions for the development and application of knowledge that has been gained during the lecture period.

5. For Further Research

The results of this study should be reference research on the effect of profitability, sales growth, and firm size on tax avoidance.

