CHAPTER I

INTRODUCTION

1.1 Background of the Study

A firm is a place where production takes place, where all employees work and have their respective abilities in each department, and where all the factorsof production are gathered. A firm also refers to an economic organization that produces goods and services. However, not all firms are listed in the government, there are some firms that are not listed in government. There is a business entity for a firm that has registered with the government.

The essential purpose of a firm is to generate profits by suppressing the firm's costs to a minimum. In addition, the firm must generate profit. It also haslong-term goals, such as giving the company's owners prosperity and maximizing firm value. Other purposes of a company are to provide jobs and maintain the continuity of the company.

Money or goods that can be used as the basis for a job or business are called capital. A factory and its machinery, a patent, financial assets of an individual or business are called an example of capital. Capital is anything that provides value or benefit to its owner.

There are two sources of capital, such as:

1. External Sources.

External sources of capital are sources of capital obtained from outside the company or funds obtained from creditors or shareholders. Examples of external sources are accounts payable. (Ismail, 2020)

2. Internal Sources.

   Internal sources of capital are capital obtained from the wealth of a person or company, which is usually obtained from sales. This internal capital will be difficult to develop the business because of its limited nature and will find it difficult to experience a significant increase. Examples of internal sources are buildings, vehicles, machines, and shares. (Ismail, 2020)

In general, the company prefers to use internal sources because internal sources' cost is minor than external sources. External sources are taken if internal sources are not sufficient. An example of external sources can be obtainedfrom bank or market funding. Loans from banks are easy to obtain, but the cost of capital is higher than market funding, but funding from the market is hard to get or takes a very long time. So, the company chooses to fund in the form of the stock market. Like other industrial sectors that offer shares on the IDX, IPOs in the consumer goods industry sector it is also taking advantage of external funding throughoffering shares on the IDX. The following table shows the types of activities that are offered on the IDX.

Table 1.1 10 Biggest Market Capitalization in Indonesia Stock Exchange (IDX) In Year 2020

No.	Listed Stocks	Numb. of listed Shares	Market Capitalization	
			m. IDR	%
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: IDX (2020)
Prepared by the writer (2021)

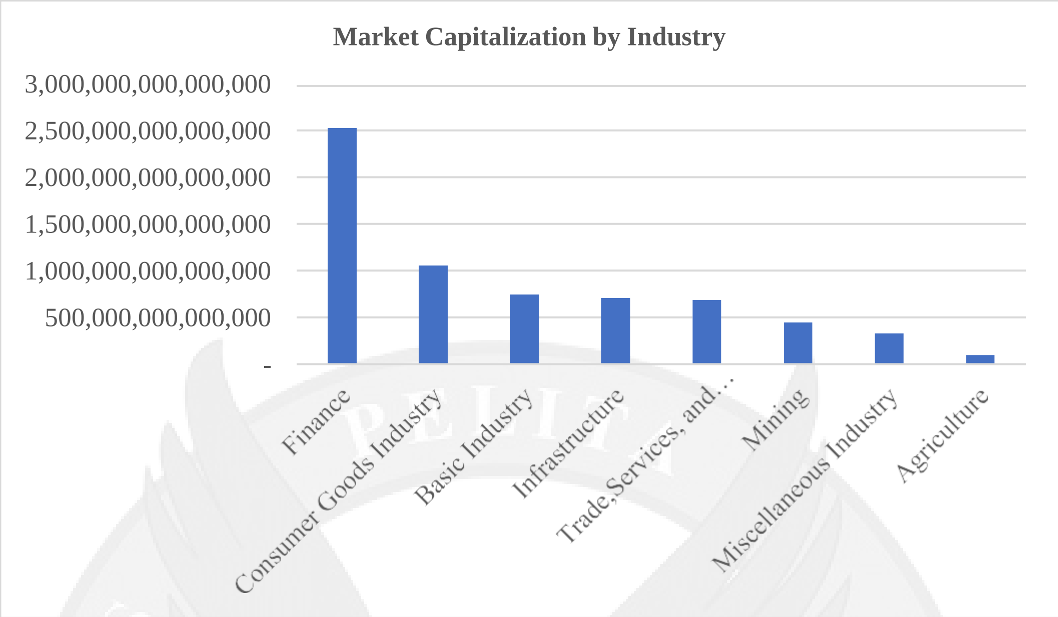
Based on Table 1.1, The market capitalization of IHSG is Rp 6,970 trillion. It is noted that there are three issuers of consumer goods that are residents of the top 10 listed companies with the largest market capitalization.

The three issuers are PT Unilever Indonesia (UNVR), ranked fifth place with the amount of market capitalization of IDR 280 trillion, PT HM Sampoerna Tbk (HMSP) in seventh place with a market capitalization of IDR 175 trillion, and PT Indofood (ICBP) ranked in tenth place with the amount of market capitalization of IDR 111 trillion. It can be concluded that the consumer goods sector has some companies listed in the top 10 biggest market capitalization.

A consumer goods industry or sector has so many companies that have gone public and are listed on the Indonesia Stock Exchange (IDX). The reason for this research is that consumer goods are a basic element and salesfrom this sector are stable for human existence. Also, the issuer's stock still has a potential increase. It will become an option. The manufacturing sector is expected to continue to grow solidly along with the increase in population and purchasing power as a result of good economic growth. A consumer goods industry in Indonesia itself consists of five sub-sectors: the sub-sector, food and beverage, cigarette sub-sector, pharmaceutical sub-sector, cosmetic sub-sector and household goods, and household appliances sub-sector. Indonesia is a country that is rich in natural resources. The investment that investors put in the consumer goods industry is financing because that is quite good in Indonesia.

Table 1.2 Total Market Capitalization by Industry in Indonesia Stock Exchange (IDX) In Year 2020

No.	Industries	Market Capitalization
		b. IDR
1.	Finance	2,528,669 b
2.	Consumer Goods Industry	1,056,643 b
3.	Basic Industry and Chemicals	740,626 b
4.	Infrastructure, Utilities and Transportation	707,244 b
5.	Trade, Services and Investment	684,546 b
6.	Mining	445,014 b
7.	Miscellaneous Industry	329,465 b
8.	Agriculture	95,957 b



Based on Table 1.2 consumer goods sector is a sector that takes on the seco[nd] position on the highest market capitalization and tends to increase. This condition attracts investors to buy this stock. Based on the information stated previously,the writer used this sector to do research. The consumer goods sector will be used in this study because this sector experiences an increasing average index movement. The above conditions will certainly attract investors for transactions.

So, based on the condition above, the writer focused on research regarding financial performance that affects the stock prices in the consumer goods sector. Thereare many parameters that investors use to assess the condition of stocks, some of which are Firm Size, Liquidity, Profitability, Capital Intensity, and Tax Avoidance.

Firm Size is a measurement grouped by how big the company is that can describe the company's operations and revenues.

According to Manurung et al., (2020), if the liquidity of a company is low, it will have the possibility of not fulfilling its short-term obligations, not complying with tax regulations and abuse tax avoidance. So, liquidity is a measure of a company's or firm's ability to fulfill short-term obligations to current liability as reflected in its current assets relative. Liquidity can also calculate the impact of a company's inability to comply with short-term obligations.

If the higher the company's profitability, the profit will be higher than the company or firm will earn, which increases the company's tax burden. The positive relationship of return on assets and tax avoidance is because the company tends to pay the lowest possible tax. The miscellaneous industry is a kind of industry that tends to have huge assets.

Previous research conducted by Rizki Muzakki (2016) found that the intensity of fixed assets has an effect on effective tax rates (ETR). This means that capital intensity has an effect on tax avoidance. The higher the amount of company's capital intensity, the tax avoidance that happens in that company is higher also.

The analysis above concluded that tax is the obligation of citizens to comply with the rules for the government to pay taxes for the welfare of all citizens. The duty or compliance with the community is based on ethical, legal norms.Taxes are the primary source of income for the country, with tax revenues earned from all persons liable to pay taxes in a country. So, the usefulness of paying tax ishelpful. There are sanctions if the taxpayer does not pay taxes, or it can be said thatpaying taxes is coercive. If they violate it, there is a threat of administrative sanctions and even criminal law.

Tax avoidance is an action or effort to reduce or decrease the tax payable borne by the taxpayer. This can be said not to violate the law but is contrary to the purpose of the regulation of tax laws.

What causes tax avoidance to appear in Indonesia is that this country adheres to a self-assessment system, which means that the taxpayer itself calculates, processes, and reports the tax independently. At first, Indonesia adopted an official assessment system; however, as the times progressed, a self-assessment system began to be implemented with the purpose is to increase public awareness in paying taxes. However, it actually provides an opportunity for taxpayers to do management tax. The realization of tax revenue is failed to meet their targets. The table below is shown the realization of tax revenue from 2018-2020.

Year	**2018**	**2019**	**2020**
Revenue	1.31 T	1.33 T	1.07 T
Percentage	92%	84%	89%

Source: Prepared by Writer (2021)

Total state income tax revenue this year is the hardest hit due to the impact of Covid-19. Total tax revenue in 2020 was recorded at only IDR 1,070 trillion. The realization of this tax revenue only reached 89.3 percent of the targetset in Presidential Regulation (Perpres) No. 72/2020 of IDR 1,198.8 trillion.

In line with the background study as above, the writer has an interest in conducting research on the Indonesia Stock Exchange (IDX) in Miscellaneous Industry and is therefore writing it in the thesis **"The Effect of Firm Size, Liquidity, Return on Assets and Capital Intensity on Tax Avoidance in Consumer Goods Industry listed in Indonesia Stock Exchange."**

1.2 Problem Limitation

Based on the background of the study about the problem above, this research has problem limitations, namely:

1. The variables used by the writer in this study are Tax Avoidance, Firm Size, Liquidity, Return on Assets, and Capital Intensity.
2. The writer takes the object of this study focused on manufacturing company listed in Indonesia Stock Exchange on sub-sector of consumer goods industry.
3. The years of research are from 2017 to 2020.

1.3 Problem Formulation

The problem formulations of the study consist of:

1. Does firm size has an effect on tax avoidance?
2. Does liquidity has an effect on tax avoidance?
3. Does return on assets has an effect on tax avoidance?
4. Does capital intensity has an effect on tax avoidance?
5. Do firm size, liquidity, return on assets, and capital intensity have simultaneously effect on tax avoidance?

1.4 Objective of the Research

Based on the formulation that the writer mention of the problems above, the objectives of the research are as follows:

1. To find out whether firm size has an effect or not on tax avoidance.
2. To find out whether liquidity has an effect or not on tax avoidance.
3. To find out whether the return on assets has an effect or not on tax avoidance.

4. To find out whether capital intensity affects tax avoidance or not.
5. To find out whether firm size, liquidity, return on assets, and capital intensity have a simultaneous effect or not on tax avoidance.

1.5 Benefit of the Research

This research or study is likely to benefit various or other parties interested in the research topic. These can be divided into two kinds of benefit or categories, which are:

1.5.1 Theoretical Benefit

This research is projected to give benefit to education both directly and indirectly, based on the research objectives to be met. Theoretically, the results of this study are expected to be helpful, namely: the writer's hopes that it could provide further information regarding the effect of firm size, liquidity, return on assets, capital intensity on tax avoidance at consumer goods industry that can find in the IDX and as a reference for further research related to tax avoidance.

1.5.2 Practical Benefit

1. For investors

   This research will help investors in the decision-making process to identify which or what kind of companies are worth investing in based on the data supplied for the research. The practical benefit is that investorscan make it easier to invest.

2. For the company

   To inform enterprises of tax avoidance so that the associated enterprises could pay greater attention to the reported information.