

CHAPTER I

INTRODUCTION

1.1 Background of Study

Tax as the main source of income has a role in supporting the allocation component of the State Budget (*APBN*) and has a great dominance and a very important role for the development continuity of a country. The posture of the State Budget in 2018, tax receipts are targeted at Rp. 1,618.1 trillion from the total State Budget of Rp. 1,894.7 trillion (www.kemenkeu.go.id/apbn2018).

The issue related to tax avoidance lately is quite interesting to review because there are still things that deserve to be adjusted related to procedures and tax rules. The management tends to take advantage of the gaps in the provisions taxation by practicing tax avoidance without crossing the corridor boundary law.

Companies need tax avoidance in order to minimize their tax and increase their profit. Tax avoidance is seen as a good approach for businesses seeking to minimize legally owing taxes since it can decrease the tax burden by using loopholes in relevant tax regulations. Of course, it requires a qualified individual in tax advisors to aid businesses in minimizing their tax burden without breaking the law. Because of the difficulties of tax avoidance, the majority of taxpayers choose to engage in tax evasion. However, the practice of tax avoidance can certainly be detrimental to the revenue that should be received by the state. But the practices of tax avoidance in the wrong way can effect the companies.

However, this risk is usually judged not to be comparable to what the company earns, namely the low amount of tax owed that affects the amount of profit of the company.

In Indonesia, another tax avoidance case involving a high-end company that is Coca-Cola company group, namely PT Coca-Cola Indonesia (CCI). PT CCI allegedly circumvented taxes causing a shortfall in tax payments that worth Rp.49,24 billion. Now the case is in the appeal stage in the Tax Tribunal. PT Coca-Cola Indonesia (CCI) appealed because it felt they had paid taxes in accordance with the provisions. These cases occurred for the tax years 2002, 2003, 2004, and 2006.

The results of the search of the Directorate General of Taxation (DJP), the Ministry of Finance found, there was a large swelling of costs in that year. The large cost burden causes the taxable income to decrease, so that tax deposit also decreases. The cost expenses were among others for advertising from the period 2002-2006 with a total of Rp. 566,84 billion. It's for advertising finished beverage products of Coca-Cola brand.

As a result, there is a decrease in taxable income. According to DJP, CCI's total taxable income in that period was Rp. 603,48 billion. While the calculation of CCI, taxable income is only Rp.492,59 billion. With that difference, DJP calculates the income tax shortfall (*PPh*) of CCI of Rp. 49,24 billion. For DJP, this cost burden is very suspicious and leads to transfer pricing practices in order to minimize taxes. Transfer pricing is a transaction of goods and services between

several divisions in a group of businesses at an unreasonable price, so that the tax burden is reduced (<https://money.kompas.com/>).

Profitability also become the one of the metrics used to assess a company's success. A company's profitability indicates its capacity to generate a profit over a specific time period. Profitability is measured by a number of measures, one of profitability which is return on assets (ROA). Return on assets (ROA) is an indicator that represents a company's financial success. In ROA, the higher the return on assets value that a company can attain, the better the company's financial performance.

Beside transfer pricing and profitability, liquidity is one of the factors that can affect tax avoidance. Companies with high liquidity will have good financial circumstances, allowing them to fulfill all of their commitments, including tax requirements but the companies with low liquidity would prefer to maintain cash flows rather than pay tax loads in order to protect the company's finances.

This research is done in consumer goods companies listed on Indonesia Stock Exchange, and this some phenomena of transfer pricing, profitability, and liquidity in the consumer goods companies listed in Indonesia Stock Exchange as the table shown below:

Table 1.1
The Phenomena of Transfer Pricing, Profitability and Liquidity toward Tax Avoidance in Consumer Goods Companies Listed on Indonesia Stock Exchange from 2017-2020

| Companies | Year | Transfer Pricing | Return on Assets | Current Ratio | Effective Tax Rate |
|-----------|------|------------------|------------------|---------------|--------------------|
| UNVR | 2017 | 0,08 | 0,37 | 0,63 | 0,25 |
| | 2018 | 0,10 | 0,46 | 0,74 | 0,25 |
| | 2019 | 0,08 | 0,36 | 0,73 | 0,25 |
| | 2020 | 0,06 | 0,34 | 0,66 | 0,22 |
| ICBP | 2017 | 0,72 | 0,11 | 2,42 | 0,31 |
| | 2018 | 0,72 | 0,13 | 1,95 | 0,27 |
| | 2019 | 0,73 | 0,13 | 2,53 | 0,27 |
| | 2020 | 0,57 | 0,07 | 2,25 | 0,25 |
| INDF | 2017 | 0,21 | 0,05 | 1,50 | 0,32 |
| | 2018 | 0,20 | 0,05 | 1,06 | 0,33 |
| | 2019 | 0,25 | 0,06 | 1,27 | 0,32 |
| | 2020 | 0,23 | 0,05 | 1,37 | 0,29 |

Source: Prepared by writer (2021)

In PT Unilever Indonesia Tbk, the inconsistently can be shown from the table. The transfer pricing is decreasing from 2019 that is 0,08 to 2020 that is 0,06. Meanwhile, tax avoidance also decreasing from 2019 that is 0,25 to 2020 that is 0,22. Based on the requirement. If transfer pricing decrease, tax avoidance must also decrease. Also for the profitability, same as transfer pricing, the decreasing in 2019 that is 0,36 to 2020 that is 0,34 that fulfill the requirement with the tax avoidance decreasing from 2019 that is 0,25 to 2020 that is 0,22. For the liquidity also happens in 2019 and 2020, while the current ratio in 2019 is 0,73 decreasing to 0,66 in 2020 and also for the tax avoidance decreasing from 0,25 in 2019 to 0,22 in 2020.

Second example is PT Indofood CBP Sukses Makmur Tbk, it can be seen that the value of transfer pricing that is 0,57 in 2020 is decreasing from 0,73 in 2019, while the value in tax avoidance that is 0,25 in 2020 is decreasing from 0,27 in 2019. In profitability, as can see in 2017 that is 0,11 is decreasing from 0,13 in

2018 while in tax avoidance, 2018 that is 0,22 also lower than 2017 that is 0,25. And for liquidity is 2,53 in 2019 decreasing to 2,25 in 2020 affected the tax avoidance in 2019 that is 0,27 decreasing to 0,25 in 2020.

PT. Indofood Sukses Makmur Tbk also show the inconsistencies on their transfer pricing, profitability, and liquidity in the year 2017 to 2020. As can see, transfer pricing in 2020 that is 0,23 is decreasing from 0,25 in 2019, as in tax avoidance, 0,29 in 2020 is also decreasing from 0,32 in 2019. In the case of profitability, the writer takes 2018 and 2019 for the example, profitability in 2018 that is 0,05 is increasing to 2019 that is 0,06. Reversely to tax avoidance, in 2018 that is 0,33 decreasing to 0,32 in 2019. For the liquidity in 2019 that is 1,27 is increasing from 1,06 in 2018, reversely happen in tax avoidance, 0,33 in 2018 is increasing from 0,29 in 2019.

This research is done to prove whether these independent variables which are transfer pricing, profitability, and liquidity effects tax avoidance. The writer decided to do a research entitled **“The Effect of Transfer Pricing, Profitability and Liquidity Toward Tax Avoidance in Consumer Goods Companies Listed on Indonesia Stock Exchange”**.

1.2. Problem Limitation

Problem limitation of this study will be three variables which are transfer pricing (X_1), return on asset as indicator of profitability (X_2), and current ratio as indicator of liquidity (X_3) toward the dependent variable, which is effective tax rate as indicator of tax avoidance (Y) and the data to be used is limited to the

financial statement of Consumer Goods Companies listed in Indonesia Stock Exchange 2017-2020. Problem limitation aims to get a clear boundary and to avoid any distorted results due to broad problems.

1.3. Problem Formulation

Based on the background of the problem that has been described, the problems are as follows:

1. Does transfer pricing has a partial significant effect toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?
2. Does profitability has a partial significant effect toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?
3. Does liquidity has a partial significant effect toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange?
4. Do transfer pricing, profitability, and liquidity have simultaneous significant effect toward tax avoidance in consumer goods companies listed in Indonesia Stock Exchange?

1.4. Objective of the Research

Based on the above problem formulation, the objectives of this study are as follows:

1. The partial significant effect of transfer pricing toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange

2. The partial significant effect of profitability toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange
3. The partial significant effect of liquidity toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange
4. The simultaneous significant effect of transfer pricing, profitability, and liquidity toward tax avoidance in consumer goods companies listed on Indonesia Stock Exchange

1.5. Benefit of the Research

The benefit of the research can be separated into two kinds of benefit, which are:

1.5.1. Theoretical Benefit

This research is expected to understand and as a guide in developing economics, especially in tax accounting. Furthermore, this research is expected to be used as literature to generate new ideas and concept for future research in the areas of transfer pricing, profitability, and liquidity on tax avoidance.

1.5.2. Practical Benefit

Based on the research objective, the research is expected to generate practical benefits as follows:

1. For author

The research is expected to be useful for author in adding knowledge about transfer pricing, profitability, and liquidity towards tax avoidance.

2. For reader

The research is expected to be used as reference with empirical evidence that guide further research, to add understanding about transfer pricing, profitability, and liquidity towards tax avoidance.

3. For company

This research help the consumer goods companies in solving the problems that will be faced related to transfer pricing, profitability, and liquidity towards tax avoidance.

