CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxation is a representation of state responsibilities and taxpayer participation in carrying out tax obligations directly and collectively for state finance and national growth (Manurung, 2020). Therefore, it means that tax is a compulsory payment that is compelling. Exploring tax revenue sources is one approach for a nation to achieve development and financial independence. As a result, the government is concerned about the tax system and is working hard to reform it in order to earn more revenue (Waluyo, 2011, cited in Indriyani, 2017).

In general, taxes are the most critical source of state revenue for meeting state expenses, including regular and construction spending. Tax revenue can be used by the state for infrastructure growth, education, and health development, as well as the construction of public facilities in the construction spending. As a result, the higher the tax revenue, the more public facilities, and infrastructure are installed, and the government represents the nation to the public with increasingly high-quality services. It is appropriate for the general population to consider the significance of taxation to the state and to be mindful of the need to pay taxes (Susanti, 2018).

State revenue from tax revenue can be seen in table 1.1

Table 1. 1 State Revenue

Revenue Sources	2016 (in Billion / IDR)	2017 (in Billion/IDR)	2018 (in Billion/IDR)	2019 (in Billion/IDR)	2020 (in Billion/IDR)	2021 (in Billion/IDR)
Tax Revenue	1,285	1,343	1,519	1,546	1,285	1,376
Non - Tax Revenue	262	311	409	409	344	357
Grant	9	12	15	5	19	3
Total Revenue	1,556	1,666	1, 943	1,960	1,648	1,736

Source: Badan Pusat Statistik, prepared by writer (2022)

The table above shows that year by year, tax revenue keeps increasing, and the largest income of the state comes from taxes. In 2016, 82.6 percent of state revenue was come from tax, while in 2017, it was 80.6 percent, 78.1 percent in 2018, 78.8 percent in 2019, 77.9 percent in 2020, and 79.2 percent in 2021.

There are a lot of taxpayers who believe that taxes are a burden that will decrease their revenue, and as a result, they want the tax to be as low as possible. According to agency theory, there is a conflict of interest between the government and taxpayers, which causes an issue, namely tax avoidance practices by taxpayers in order to reduce their tax burden. The company is one of the major contributors to a country's tax revenue, but it turns out that many businesses see tax as an expense factor in their financial statements that can decrease their net profits (Putri, 2017).

To control taxes, tax planning is needed. Tax planning is the process of minimizing the tax burden on taxpayer transactions while remaining within the framework of tax regulations. (Suandy, 2006, cited in Kristanto, 2020). There are two popular terms in tax planning which are tax evasion and tax avoidance (Suandy, 2006, cited in Kristanto, 2020). Tax evasion is the unlawful concealment of profits, such as under-reporting of real earnings or a high rate of deduction (Honggo & Marlinah, 2019). Tax avoidance is a legal and discreet way for taxpayers to minimize their tax debt, but it comes with threats such as fines and a terrible public image (Dewanti & Sujana, 2019).

The government continues to improve its tax revenue strategies. The companies also continue to reduce the taxes paid. Non-cyclical companies also do many strategies to reduce taxes. Non–cyclical consumer goods companies include companies that manufacture or distribute goods and services that are typically sold to consumers, but for goods that are anti-cyclical or primary, so that demand for these goods and services is unaffected by economic growth such as food and staples retailing, food and beverages, tobacco, and non – durable household products(Indonesia Stock Exchange, n.d.). Non–cyclical consumer goods companies have a big contribution to the country's income.

There are some factors that impact tax avoidance. Firm size is one of the determinant factors in taking tax avoidance action. Firm size is a measure that shows the size of a company, which can be seen from the stock market value, market capitalization, total assets, et cetera (Widjaja, 2009, cited in Honggo & Marlinah, 2019). Large total assets clearly show that the firms have had excellent prospects over a relatively long period of time, and it also reflects the firm's relatively more stable and profitable condition. The more complex the transaction, the larger the firm. Transaction complexity enables businesses to take advantage of existing tax loopholes in order to avoid paying taxes (Barli, 2018).

Another determinant factor in taking tax avoidance action is firm age. Firm age is an indicator that shows that as time passes, businesses can become less productive. When a firm is undergoing aging, it can decrease operational costs and tax costs as a result of the firm's experience and learning, as well as other factors. On the basis of past experience, a firm with a longer term of operations would also be more expert in handling its tax management. Firms with a longer operating record have more experience in tax management and therefore have a higher tendency to participate in more tax avoidance practices (Titisari & Mahanani, 2017).

Moreover, another determinant factor in taking tax avoidance action is return on assets. Return on assets is the ratio used to calculate the net profit generated by the use of assets. The increasing value of return on assets demonstrates the company's ability to increase profits (Irawati et al., 2021). Return on assets is an analytical technique that is frequently used to examine the performance of a company's overall operations. The higher the return on assets, the higher the company’s profit and the better the company manages the assets (Faizah & Adhivinna, 2017).

Table 1. 2 The Phenomena of Firm Size, Firm Age, and Return on Assets toward Tax Avoidance in Non – Cyclical Consumer Goods Companies

Companies	Year	Firm Size	Firm Age	Return on Assets	Tax Avoidance
RANC	2018	27.5301	6	0.0553	0.2134
	2019	27.5823	7	0.0582	0.1635
	2020	27.9080	8	0.0576	0.0884
LSIP	2018	16.1218	22	0.0328	0.4869
	2019	16.1404	23	0.2447	0.1341
	2020	16.2064	24	0.0637	0.0848
AMRT	2018	16.9141	9	0.0301	0.2286
	2019	16.9932	10	0.4747	0.1703
	2020	17.0752	11	0.0419	0.1875

Source: Prepared by Writer (2022)

According to Table 1.2, RANC, LSIP, and AMRT size is increasing year by year, but the CETR is decreasing. It clearly shows that large assets will tend to encourage companies to practice tax avoidance. Companies with a longer operating record have more experience in tax management and therefore have a higher tendency to participate in more tax avoidance practices. It can be seen on the table, the older the company, the CETR is also decreasing. Moreover, the return on assets of RANC, LSIP, and AMRT in 2019 is increasing from 2018, but the CETR is decreasing. When return on assets is increasing, and the CETR is decreasing, it is because tax avoidance activity is increasing. The higher the return on assets, the higher the company's profitability. High-profit companies will be able to use precise tax planning to reduce tax payments.

Based on this, the author conducted research entitled **"The Impact of Firm Size, Firm Age, and Return on Assets toward Tax Avoidance in Non – Cyclical Consumer Goods Companies Listed on Indonesia Stock Exchange"**.

1.2 Problem Limitation

In this research, the problem limitations are as follows:

1. Non–cyclical consumer goods companies are listed on Indonesia Stock Exchange.
2. Research is limited to firm size, firm age, return on assets, and tax avoidance correlation.
3. Research duration.

1.3 Problem Formulation

1. Does firm size have a significant impact toward tax avoidance?
2. Does firm age have a significant impact toward tax avoidance?
3. Does return on assets have a significant impact toward tax avoidance?
4. Do firm size, firm age, and return on assets have a significant impact toward tax avoidance?

1.4 Objective Research

According to the formulation of the problem, the objectives research are as follows:

1. To analyze the impact of firm size toward tax avoidance.
2. To analyze the impact of firm age toward tax avoidance.
3. To analyze the impact of return on assets toward tax avoidance.
4. To analyze the impact of firm size, firm age, and return on assets toward tax avoidance.

1.5 Benefit of Research

The following are the predicted theoretical and practical applications of this research:

1.5.1 Theoretical Benefit

Theoretically, this research is expected to be able to add new knowledge on the impact of firm size, firm age, and return on assets toward tax avoidance. Moreover, this research is expected to guide future researchers working on similar topics.

1.5.2 Practical Benefit

1. For Academics

This research is expected to add insight and knowledge to academics about how firm size, firm age, and return on assets impact tax avoidance and become study material or reference in further research in an effort to add knowledge, information, and insight, especially about taxation.

2. For Companies

It may raise awareness that tax avoidance activities by the company will result in a decrease in the country's revenue. Hence, it is hoped that the company will be wiser in making tax planning decisions that are not harmful to the state and will be required to pay taxes in accordance with general tax provisions and tax procedures.

3. For Investors

It will provide information on how company management takes tax-related policies, therefore, helping potential investors in considering investment decisions.

4. For the Directorate General of Tax

It can provide information and means of input and evaluation to tax policy makers must pay attention to these factors which can affect tax avoidance practices carried out by companies in order to provide tax planning large impacts and risks to the state.