CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes are mandated obligations to the state-owned by individuals or entities that are incurred based on law, without obtaining significant benefits. Taxation is not only a responsibility but also a right of every individual to participate in government funding and development.

In Indonesia, in the context of people's highest prosperity, taxes are utilized to fund governmental necessities. Commonly, it is used for the salaries of civil servants, salaries of the army, the payment of the state's liabilities, and the state's development. Taxes are also used by the government as a state policy setting or which is usually called fiscal policy.

The component of state revenue realization is contracting due to the slowing economy and the usage of fiscal incentives, tax revenue has decreased in comparison to the previous year. Indonesian Finance Minister, Sri Mulyani Indrawati, revealed that tax revenues until the end of August 2021 had reached Rp 741.3 trillion. This nominal is equal to 60.3% of the target of the 2021 State Budget Act of Rp 1,229.6 trillion. The tax increased by 9.5% compared to the same period of last year.

Tax revenue is Rp 676.9 trillion, or 56.5% of this year's tax revenue goal, according to Presidential Decree 72 of 2020, therefore tax revenue at the end of August is down 15.6%. At the end of the year, tax revenues only hit Rp 1,070.0 trillion, or 89.3% of the 2020 APBN goal, which was revised to Rp 1,198.8 trillion by Presidential Decree 72/2020. In comparison to the year 2019, tax revenue was down by 19.7% (Kurniati, 2021).

But even so, the government's attempts to maximize the tax sector's effectiveness are not easy because the company considers paying taxes as a burden that reduces profit after tax. Almost everyone in whatever country, either individually or in entities, is trying to regulate the amount of taxes that must be paid.

The Deputy Minister of Finance (Wamenkeu) explained that currently, Indonesia's tax ratio is at 8.4%. This condition is not a healthy tax ratio condition to be able to make the country strong. To make the country strong, the APBN must be healthy and have good revenues, and then it can be spent on expenditures needed by the state (Kemenkeu, 2021)

Compare to that, the Ministry of Finance (Kemenkeu) estimates a tax ratio of 7.9% of GDP in 2020. She stated that this number has been declining since 2018. The explanation for this is that two years ago, the tax ratio was at 10.24%. However, the number fell to 9.76% in 2019. On the other hand, the government seems to be more optimistic about it. The tax ratio is estimated to be 8.18% based on figures from the APBN for 2021. The state revenue and expenditure budget (APBN) had a deficit of Rp 764.9 trillion until October 2020, according to the Ministry of Finance (Prakoso, 2020).

Corporate should do strategic tax planning to minimize the tax expenses. In tax planning, several strategies are commonly used by the corporate; one of them is Tax Avoidance. The company's method of avoiding taxation is by engaging in transactions that are not taxed, for example, the company made changes to employee benefits, which were previously in the form of money to be in actual goods and not in the form of money. In this way, it is not included in income tax article 21.

Tax avoidance is a lawful and safe way for taxpayers to reduce their tax burden without violating and conflicting with the taxation legislation by using methods and strategies that take advantage of existing gaps or shortcomings in taxation legislation (Pohan, 2016).

Suryo Utomo, Director General of Taxes at the Ministry of Finance (Kemenkeu), explained the implications of Tax Avoidance, which are expected to cost the state Rp 68.7 trillion a year. According to the Tax Justice Network entitled The State of Tax Justice 2020: Tax Justice in the Era of Covid-19, the US $4.78 billion, or Rp 67.6 trillion, is the result of corporate Tax Avoidance in Indonesia. Individual taxpayers have the remaining US $78.83 million (roughly Rp 1.1 trillion) (Hidayat, 2020).

One of the Coca-Cola Company's subsidiaries, PT. Coca-Cola Indonesia is involved. PT. CCI is accused of avoiding taxes, resulting in Rp 49.24 billion tax underpayments. This case occurred in the fiscal years of 2002, 2003, 2004, and 2006. According to the results of the investigation by the Ministry of Finance's Directorate General of Taxes (DGT), there was a significant rise in losses during that year. Large costs result in lower net revenue, so it lowers the tax payments. Advertisements worth Rp566.84 billion were counted in the expenditures from the year 2014 to 2018.

According to the DGT, the expected CCI taxable revenue at the time amounted to Rp 603.48 billion. In the meantime, according to the CCI, the taxable income is just Rp 492.59 billion. The DGT estimated the CCI's underpayment of income tax (PPh) is supposed to be Rp 49.24 billion based on this difference. This cost burden is highly suspect to DGT, and it leads to Tax Avoidance by transfer pricing. A transaction of products and services between multiple divisions of a corporate community at an inflated price to minimize the tax burden is known as transfer pricing. Meanwhile, tax evasion is the opposite of Tax Avoidance, which is illegal behavior because it violates applicable laws or regulations (Kompas, 2014).

Corporate Governance can affect the way a company fulfills its tax obligations. In 1998, while Indonesia was in the midst of a continuous recession, concerns about corporate governance began to surface. Many individuals believe that Indonesia's long improvement process is related to the country's poor corporate governance. Both the government and investors have begun to pay close attention to Corporate Governance practices since then.

Corporate governance is based on five essential principles. The first one is fairness. It requires treating stakeholders fairly and equally in accordance with agreements and relevant laws and regulations. The second is transparency, which refers to transparency in the decision-making procedure as well as in the presentation of data and related facts about the company. Third, accountability entails a clear understanding of the roles, processes, systems, and duties of company organs in order to efficiently manage the company. The fourth is responsibility, which refers to the company's administration adhering to the values of a good business as well as existing laws and regulations. The fifth is independence, which is described as a situation in which the business is properly run with no potential conflicts or force from management that violates existing laws and regulations as well as strong corporate standards (Winata, 2014).

Corporate Governance ensures that all company stakeholders are held accountable. One form of responsibility that a company can do is Corporate Social Responsibility (CSR). CSR refers to a company's commitment to operate ethically, contribute to economic growth, and enhance the living condition of its workers and society. Companies in Indonesia can choose whether or not to engage in CSR.

However, for several companies operating in Indonesia, CSR is a mandatory thing. CSR is a company’s effort to gain legitimacy from the community through intensive social activities that are expected by the community. Lack of tax payments will damage the company's reputation. In the end, the shortage of tax payments will be detrimental to society. This means that Tax Avoidance is a socially irresponsible and non-legitimate action (Dyan Maraya & Yendrawati, 2016).

Capital Structure refers to the mix of debt and equity being used to finance a company's activities and operations. From a managerial point of view, equity is a more costly, long-term source of financing with greater financial flexibility. Debt, on the other side, is a less costly, relatively fixed financial supply that legally commits a company to foreseeable cash outflows and the need for refinancing at an uncertain cost in the future (Marpaung et al., 2020).

Several researchers examined the effects of Corporate Governance implementation, corporate social responsibility disclosure, and Capital Structure on Tax Avoidance has been conducted. According to Winata (2014) and Rahmawati et al. (2016), institutional ownership is stated to have no effect on Tax Avoidance. According to research results from Wijayanti et al. (2016) and Rahmawati et al. (2016), corporate social responsibility is stated to have no effect on Tax Avoidance. According to Nurastryana (2021) proved that Capital Structure has no effect on Tax Avoidance.

Based on the results of previous research, this is what encourages writers to be interested in re-examining the consistency of the results of previous research. From this, the research title proposed by the writer is "**The Influence of Corporate Governance Implementation, Corporate Social Responsibility Disclosure, and**

Capital Structure on Tax Avoidance in Food and Beverage Companies on the Indonesian Stock Exchange".

1.2 Problem Limitation

Based on the description above and to avoid the problem spreading, this research is limited to the problem of the influence of the Corporate Governance (X_1) implementation, corporate social responsibility (X_2) disclosure, and Capital Structure (X_3) on Tax Avoidance (Y).

1. The influence of Corporate Governance Implementation on Tax Avoidance.

   Transparency, accountability, responsibility, independence, and fairness are the five principles required by the GCG concept. Audit quality, the proportion of independent board of commissioners, institutional ownership, and managerial ownership are the corporate governance variables used. The writer will do further research on whether Corporate Governance implementation influences Tax Avoidance.

2. The influence of Corporate Social Responsibility Disclosure on Tax Avoidance.

   The presence of CSR in the company is a strategic approach for increasing the company's ultimate target and creating long-term wealth, as the company is responsible to its shareholders and other stakeholders. Companies that do so will be having a reputation that will boost marketing and how it will maximize profits in the long term. The writer will do further research on whether corporate social responsibility disclosure influences Tax Avoidance.

3. The influence of Capital Structure on Tax Avoidance.

   If the actual (realized) debt is below the target, the debt must be increased. Company shares must be sold if the debt ratio has exceeded the target. If there is a shortage of funding from own capital in a company, an estimate of funding must be made. The writer will do further research on whether Capital Structure influences Tax Avoidance.

1.3 Problem Formulation

Based on the problem limitation above, the problem formulations are:

1. Does Corporate Governance have a significant impact on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange?
2. Does the Corporate Social Responsibilities has a significant impact on Tax Avoidance on food and beverage companies on the Indonesian Stock Exchange?
3. Does the Capital Structure has a significant impact on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange?
4. Do the Corporate Governance, corporate social responsibility, and Capital Structure have a significant impact on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange?

1.4 Objective of the Research

Research carried out certainly has several objectives. The objectives of this research are:

1. To determine whether there is an influence of Corporate Governance implementation on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange.
2. To determine whether there is an influence of corporate social responsibility disclosure on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange.
3. To determine whether there is an influence of Capital Structure on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange.
4. To determine whether there is an influence of Corporate Governance implementation, corporate social responsibility disclosure, and Capital Structure on Tax Avoidance in food and beverage companies on the Indonesian Stock Exchange.

1.5 Benefit of the Research

The research benefits expected from this research are as follows:

1.5.1 Theoretical Benefit

Theoretically, the writer hopes that the result of this research will lead to a greater understanding of the Influence of the Corporate Governance Implementation, Corporate Social Responsibility Disclosure, and Capital Structure on Tax Avoidance in Food and Beverage Companies on the Indonesian Stock Exchange. The writer also hopes that the results of this research will be helpful to people who wish to do more research on tax avoidance by using it as a source of references and literature for theoretical studies.

1.5.2 Practical Benefit

The expected research benefits for practical contributions are as follows:

1. For the company: So that the company can improve performance and further improve compliance with applicable regulations, especially in taxation.
2. For the government: It may be used as additional information about practices carried out by the company in tax avoidance practices.
3. For the investors: This research will assist investors in determining whether tax avoidance has a substantial effect and make them more cautious about entrusting their money to the companies that engage in tax avoidance.