

CHAPTER I

INTRODUCTION

1.1 Background of Study

Almost every country in this world has the same goal, which is to create justice and improve the welfare of its citizens. The Indonesian government is consistently pursuing growth in various fields to improve the welfare of citizens. The state needs a large source of income to develop in the center and region. One of the largest incomes of a country is taxes. Tax revenue is an important component to sustain a country's economy (Desy and Suparna, 2021).

Based on the data collected from the APBN year 2016 to 2020, it was determined that, in comparison to non-tax revenue and grants, tax always contributes for the largest source of overall state revenue in Indonesia.

Table 1.1 The structure of Indonesia State Revenue for Year 2016-2020

APBN (Billion Rupiah)	2016	2017	2018	2019	2020
State Revenue	1,546,946.60	1,654,746.10	1,928,110.00	1,955,136.20	1,628,950.53
Tax Revenue	1,284,970.10	1,343,529.80	1,518,789.80	1,546,141.90	1,285,136.32
Non-Tax Revenue	261,976.30	311,216.30	409,320.20	408,994.30	343,814.21
Grants	8,987.70	11,629.80	15,564.90	5,497.30	18,832.82

Source: Badan Pusat Statistik 2016-2020, prepared by writer (2022)

According to Table 1.1, it shows that the source of state revenue in Indonesia are the tax revenue, non-tax revenue and grants. Based on the Table 1.1,

taxes are still the main source of state revenue year 2016 to 2020. From the table above, the amount of tax revenue keep increase during 2016 to 2019. Indonesia's tax revenue showed the highest increased in 2017 to 2018 at 13.04 percent. However, from the year 2019 to 2020, tax revenue decreased by 16.88 percent.

In general, most taxpayers whether individuals or entity consider tax to be a burden that increases operational expenses. The company will try to find ways to make legal and reasonable tax savings. Companies can implement tax planning so that the taxes paid by the company become efficient. According to Pohan (2013, p.14), there are three ways that taxpayers can do to reduce their tax burden. The first is tax avoidance, which is taking advantage of the weaknesses contained in tax laws and regulations. The second is tax evasion, which is taxpayers breaks the law in order to reduce their tax burden. The third is tax saving, which is carried out legally by the taxpayer and do not conflict with tax provisions.

Tax avoidance is a method of avoiding taxes that is carried out lawfully and safely for taxpayers while remaining compliant with the applicable tax legislation by exploiting loopholes in the law and tax regulations. Companies engage tax avoidance to reduce taxes and maximize their profits. Tax avoidance is viewed as a useful strategy for companies looking to decrease their legally owing taxes by using loopholes in the appropriate tax legislation. However, tax avoidance might result in a significant loss for the state since it affects state budget revenues. As a result, tax avoidance may be defined as a legal action that is detrimental to the government. According to the Tax Justice Network report (2020), Indonesia is

estimated to suffer losses up to US\$ 4.86 billion per year or Rp. 68.7 trillion due to tax avoidance.

The phenomenon of tax avoidance on consumer sector is from British American Tobacco or BAT. BAT is a tobacco company that has avoided paying taxes in Indonesia through PT. Bentoel Internasional Investama Tbk. During this case, BAT has transferred a portion of its profits to a foreign country in two ways. First, intra-company loans from the Netherlands were used to refinance bank debt and pay for machinery and equipment. Second, by repayment England for royalties, fees, and services. As a result, the government might lose US\$14 million per year (Prima, 2019). The government definitely wished that the taxation provision not be used by taxpayers for the purpose of tax avoidance, since this would affect state revenue. Based on this phenomenon, although tax avoidance has advantages for taxpayers and legal under the tax law, the practice will reduce state revenues due to decreased tax collection. As a result, it is essential to do research on tax avoidance. Based on several previous research, there are several factors that can influence the occurrence of tax avoidance practices including profitability, sales growth and firm age.

Profitability is a ratio that can define the company ability to earn profits from all available sources. Endiana (2016) define profitability is a measure of the firm management performance in managing the firm wealth which is indicated by the profit generated by the firm. Profitability consists of several ratios, one of the profitability ratios is Return on assets. Return on assets describes management ability to make a profit. Since taxes are calculated based on the company's income,

managers are more likely to do tax avoidance when there is growth in company profits. Based on the research conducted by Yustriantheand and Fatniasih (2021), profitability has significant positive effect towards tax avoidance.

Generally, sales growth can be described as a rise in the sales from the previous year to the current year. Increased sales growth will allow the company to generate high profits, which will result in an increase in the company's tax burden, so companies will tend to look for ways to reduce or minimize taxes. This allows companies to practice tax avoidance (Yustriantheand and Fatniasih, 2021). Based on the research conducted by Pangaribuan (2021), sales growth has a significant effect towards tax avoidance.

The firm age described how long the company has been operating and capable of competing in the commercial sector. By knowing the company age, it will be known history of the company can survive. The longer the age of the company means the experience of the company will be wider with the resources it has, so that tax management in the company will be better and tend to do tax avoidance (Suryani and Mariani, 2019). According to Dewinta and Setiawan (2016) in Honggo and Marlinah (2019), the age of the company can also affect the existence of tax avoidance activities. Based on the research conducted by Murwaningtyas (2019), firm age has significant positive effect towards tax avoidance.

At the end of 2019 there was a Covid-19 pandemic causing a decline in economic conditions in Indonesia. As a result, this has an impact on various

industry in Indonesia. Consumer goods companies is a part of manufacturing companies that primarily serve the basic needs of society. The industry consists of manufacturing operations that manage economic resources to provide goods and services to society and meet the basic needs of society. There are five consumer industry groups listed on the Indonesia Stock Exchange, such as food and beverages, cosmetics and household, houseware, tobacco manufacturers and pharmaceuticals. According to the January 2020 APBN KITA report that the contribution of manufacturing sector toward tax revenue is 29,4%. It shows that manufacturing plays an important part in the tax revenue during the Covid-19 pandemic in Indonesia. Therefore, consumer goods industry was chosen in this study.

Table 1.2 Sales Growth, Profitability, Firm Age and Tax Avoidance

Company	Year	Sales Growth	ROA	Firm Age	CETR
MYOR	2018	0.156	0.100	28	0.304
	2019	0.040	0.108	29	0.202
	2020	-0.022	0.106	30	0.229
ICBP	2018	0.079	0.136	8	0.311
	2019	0.101	0.138	9	0.217
	2020	0.103	0.072	10	0.169
KLBF	2018	0.044	0.138	27	0.253
	2019	0.074	0.125	28	0.247
	2020	0.021	0.124	29	0.166

Source: Prepared by Writer (2022)

From the information in the Table 1.2 above, it can be seen that there is a fluctuation of tax avoidance rate of PT Mayora Indah Tbk, PT Indofood CBP Sukses Makmur Tbk and PT Kalbe Farma Tbk for the year 2018 to 2020. The Cash

Effective Tax Rate or CETR is a ratio that represents tax avoidance. If the CETR Ratio increases, it means that the tax burden will also increase. The decrease in CETR indicates that the tax burden is reduced, meaning that the company is trying to reduce the tax burden. The fluctuating CETR ratio indicates that the company is practicing tax avoidance. Typically, changes in profitability, sales growth and firm age may have an impact on tax avoidance practices. Increased sales growth will make the company profit increase, therefore the company will tend to do tax avoidance. For PT Indofood CBP Sukses Makmur Tbk, the number of sales growths keep increasing from year 2018 to 2020, while for PT Mayora Indah Tbk and PT Kalbe Farma Tbk experienced a decrease and increase throughout the year. PT Kalbe Farma Tbk showed a decline in profitability for the year 2018 to 2020. While, PT Indofood CBP Sukses Makmur Tbk showed an increase in profitability for the year 2018 to 2020. PT Mayora Indah Tbk show that in year 2018 to 2019 the CETR decreased from 0.304 to 0.202. While, its return on asset (ROA) increased from 0.100 to 0.108. This means, decrease in tax payments is represented by a lower percentage of CETR, which indicates that the company practice tax avoidance.

Based on the research described above, the writer interested to conduct further research. The time period in this study starts from 2018 to 2020. To discuss further about this research, the writer decided to conduct research with the title “The Effect of Sales Growth, Profitability and Firm Age Toward Tax Avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange”.

1.2 Problem Limitation

Referring to the background of study stated above, the writer states the problem limitation of this research as follows:

1. The research object is consumer goods companies listed on the Indonesia Stock Exchange.
2. Sales growth, profitability and firm age are the independent variable and tax avoidance is the dependent variable of this research.
3. The research period starts from year 2018 to 2020.

1.3 Problem Formulation

Referring to the background of study stated above, the writer states the problem formulation of this research as follows:

1. Does sales growth partially have significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange?
2. Does profitability partially have significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange?
3. Does firm age partially have significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange?
4. Do sales growth, profitability and firm age simultaneously have a significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

The following are the objectives of this research:

1. To identify whether sales growth partially has significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange.
2. To identify whether profitability partially has significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange.
3. To identify whether firm age partially has significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange.
4. To identify whether sales growth, profitability and firm age simultaneously have significant effect towards tax avoidance on consumer goods companies listed on the Indonesia Stock Exchange.

1.5 Benefit of Research

The writer expected that this research can provide benefits. The benefits of doing this research are as follow:

1.5.1 Theoretical Benefit

1. This research is expected to increase the knowledge and understanding of researchers related to taxes and the effect of sales growth, profitability and firm age on tax avoidance.

2. This research can help other researchers as a reference related to tax avoidance.

1.5.2 Practical Benefit

1. For investor, this research is expected to provide important and useful information to investors when they want to invest in a company.
2. For companies, this research is expected to provide an assessment by looking at several factors that influence tax avoidance behavior, in order to help companies pay more attention to tax management in implementing tax planning.

