CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is a developing country that is actively pursuing national development in various sectors. The purpose of this national development is to improve all aspects of state life and the welfare of the citizens. One of the main sources of financing to realize this development is from tax.

Table 1.1 Realization of State Revenue 2020-2022

Source of Revenue - Finance	Realization of State Revenue (Billion Rupiah)		
	2020	2021	2022
I. Revenues	**1 628 950,53**	**1 733 042,80**	**1 845 556,80**
Taxation Revenues	**1 285 136,32**	**1 375 832,70**	**1 510 001,20**
Domestic Tax	1 248 415,11	1 324 660,00	1 468 920,00
Income Tax	594 033,33	615 210,00	680 876,95
Value Added Tax and Sales Tax on Luxury Goods	450 328,06	501 780,00	554 383,14
Land and Building Tax	20 953,61	14 830,00	18 358,48
Land and Building Rights Acquisition Fee	0,00	0,00	0,00
Customs	176 309,31	182 200,00	203 920,00
Others Tax	6 790,79	10 640,00	11 381,43
International Trade Tax	36 721,21	51 172,70	41 081,20
Import Duty	32 443,50	33 172,70	35 164,00
Export Tax	4 277,71	18 000,00	5 917,20
Non-Taxation Revenues	**343 814,21**	**357 210,10**	**335 555,62**
Natural Resources Receipt	97 225,07	130 936,80	121 950,11
Revenue from Separated State Assets	66 080,54	30 011,20	37 000,00
Other Non-Tax Revenue	111 200,27	117 949,70	97 808,00
Public Service Agency Revenue	69 308,33	78 312,40	78 797,56
II. Grants	**18 832,82**	**2 700,00**	**579,90**
Total	**1 647 783,34**	**1 735 742,80**	**1 846 136,70**

Source: Indonesian Central Statistics Agency (2022)
Prepared by the writer (2022)

According to the data from the Indonesian Central Statistics Agency (2022), the source of state revenues consists of taxation revenues, non-taxation revenues, and grants. Based on the Table 1.1, it can be seen that state revenues from the taxation sector are the highest of total state revenues and tend to experience a significant increase over the last three years in a row, occupying around 77.99%, 79.26%, and 81.79%. Based on the explanation of the definition and data on the realization of taxes, it can be concluded that tax is an important element for the life of the state namely as one of the main sources of state revenue in order to make a positive contribution to the realization of public welfare and the development of state infrastructure. Therefore, the government continues to strive to increase the potential revenue from the tax sector as much as possible by formulating various policies in the form of intensification and extensification.

One of Indonesia's current tax collection systems is the self-assessment system. In this system, the government authorizes taxpayers to calculate, pay, and report their own tax payable. This system is intended to increase taxpayer compliance voluntarily which will have an impact on increasing state revenues in the taxation sector. However, in fact, the trust given by the government to taxpayers through the self-assessment system has not been able to effectively increase taxpayer participation in fulfilling their tax obligations. This system is often misused by taxpayers to have the opportunity to evade their proper tax obligations. Taxpayers will usually try to reduce their tax as small as possible by taking advantage of loopholes in tax regulations, or this is what is called as tax avoidance.

Quoted from CNBC Indonesia (2021), through Law Number 2 of 2020, the government has reduced the entity income tax rate gradually from 25% to 22% in 2020 and 2021, and to 20% since 2022. Nevertheless, the Minister RI Finance, Sri Mulyani, Indrawati revealed that currently there are still increasing entity taxpayers who avoid paying entity income tax on the grounds of loss. Sri Mulyani detailed that entity taxpayers who reported losses for five consecutive years had almost doubled from 5,199 entity taxpayers in 2012-2016 to 9,496 entity taxpayers in 2015 to 2019. "However, we want to do fair compliance, but many entity taxpayers use tax avoidance schemes," explained Sri Mulyani. The report from Tax Justice Network also stated that Indonesia has lost tax revenues of US$ 4.864 million per year in 2020 due to tax avoidance (Tax Justice, 2020).

Based on the above conditions, it can be mentioned that various government efforts in increasing tax revenues have not been able to solve all existing tax avoidance problems. Basically, this is due to conflicting interests between the state and the company. For companies, the tax imposed on revenue is a burden in running a business because it will reduce the company's net profit and economic capacity, so companies tend to take various ways to minimize their tax burden. On the other hand, the government requires large funds to finance the administration of government and state development, most of which comes from tax revenues.

This condition is increasingly complex considering that companies are taxpayers who contribute highly to the amount of state tax revenue. Quoted from liputan6.com (2022), based on data from previous years, until now, the structure of Indonesia's tax revenue is dominated by entity income tax which reaches 32.2% of total tax revenue or equal to 3.7% of GDP. The company's tax contribution can affect the country's tax ratio. The Indonesian Ministry of Finance noted that Indonesia's tax ratio in 2021 was 9.11% of GDP. Quoted from tempo.co (2022), Expert Staff for Tax Compliance at the Ministry of Finance of the Republic of Indonesia, Yon Arsal, said that the trend of Indonesia's tax ratio has not been optimal in recent years, so tax optimization is a major challenge. The OECD (Organization for Economic Cooperation and Development) also highlighted Indonesia's tax ratio which is still very small compared to other Asian and Pacific countries which reached 21%.

In conducting this research, at the same time as the outbreak of the COVID-19 pandemic which has an impact on the entire world economy, including Indonesia. COVID-19 has a variety of very significant negative impacts on companies in various industries in the country, such as absorption of production capacity, termination of employment, and even bankruptcy. However, the majority of consumer goods industry companies listed on the Indonesia Stock Exchange are still able to operate properly. This can be seen from the income data table below.

Table 1.2 The Revenue of Several Consumer Goods Companies Listed on the Indonesia Stock Exchange from 2019 to 2021

Company Name	Revenue (In Million Rupiah)		
	2019	2020	2021
PT. Indofood CBP Sukses Makmur TBk. (ICBP)	42,296,703	46,641,048	56,803,733
PT. Kalbe Farma Tbk. (KLBF)	22,633,476	23,112,654	26,261,194
PT. Mayora Indah Tbk. (MYOR)	25,026,739	24,476,953	27,904,558
PT. Industri Jamu dan Farmasi Sido Muncul Tbk. (SIDO)	3,067,434	3,335,411	4,020,980
PT. Wilmar Cahaya Indonesia Tbk. (CEKA)	3,120,937	3,634,297	5,359,440

Source: Indonesia Stock Exchange (2022)
Prepared by the writer (2022)

From Table 1.2 above, it can be seen that amid the poor economic situation in Indonesia due to COVID-19, several companies in the consumer goods industry have shown a significant increase in revenue from 2019 to 2021. This is considering that the consumer goods industry is an industry that is always in demand. because it produces basic daily needs that are most needed by the community to ensure survival. Therefore, this industry tends to have a large and stable turnover every year where the taxes paid are also automatically higher compared to other industries. This is what underlies the writer to choose the consumer goods industry as the object for researching tax avoidance.

Quoted from Kontan.co.id (2022), one of the cases of tax avoidance practice that had occurred in the consumer goods industry in Indonesia was by PT. Bentoel Internasional Investama Tbk. (RMBA) which caused a loss of state tax revenues of almost US$ 14 million. PT. Bentoel is part of British American Tobacco (BAT) which produces cigarettes in Indonesia. A report from the Tax Justice Network Agency (2019) stated that the practice of tax avoidance is carried out by diverting part of the income out of Indonesia through two ways, namely intra-company loans and repayment of royalties, fees and services.

First, PT. Bentoel took out large intra-company loans from Rothmans Far East BV of US$ 434 million in 2013 and US$ 549 million in 2015 to finance various machinery and bank loans. Then, the total interest payment of US$ 164 million on the loan will be deducted from the company's taxable income in Indonesia. In this case, PT. Bentoel deliberately took a loan through a company in the Netherlands due to an agreement between Indonesia and the Netherlands regarding the setting of a 0% tax rate on interest. As a result of this practice, Indonesia has lost state revenues of US$ 11 million per year.

Second, PT. Bentoel makes payments of US$ 19.7 million per year for brand usage royalties to BAT Holdings Ltd, consulting and technical fees to BAT Investment Ltd, and IT services to British American Shared Service Ltd. Basically, the tax rate that must be levied on royalties, fees and services is 25%. However, Indonesia and the UK have an agreement on cutting tax rates. Trademark royalty rates are 15%, consulting and technical fees are not subject to deductions, and IT service rates are not stated in the agreement. In this case, PT Bentoel assumes IT services are the same as royalty, which is 15% in order to get more tax cuts. As a result of this practice, Indonesia has lost US$2.7 million in state revenue per year.

The company's way of doing tax avoidance is through funding policy. One of the funding policies is the use of debt to finance various company obligations, or referred to as leverage. The interest expense arising from the use of debt tends to be used by the company as a deduction from profit before tax, so that the tax burden that must be paid by the company will be reduced. This is what companies tend to use to reduce their tax burden (Irawati et al., 2020). Research by Laras (2021) found that leverage has significant influence toward tax avoidance. Meanwhile, Puput (2019) found that leverage has no significant influence toward tax avoidance.

Furthermore, one thing that can make companies do tax avoidance is sales growth. The company can predict how much profit will be obtained by the amount of sales growth. The increase in sales growth resulted in an increase in the company's profit before tax so that the tax burden to be paid also increased. This is what tends to encourage companies to do tax avoidance in order to reduce their tax burden (Irawati et al., 2020). Research by Permata et al. (2018) found that sales growth has no significant influence toward tax avoidance. Meanwhile, Ainniyya et al. (2021) found that sales growth has significant influence toward tax avoidance.

Table 1.3 The Phenomenon of Leverage and Sales Growth toward Tax Avoidance in Consumer Goods Companies Listed on the Indonesia Stock Exchange from 2019 to 2021

Company Name	Year	Leverage (DAR)	Sales Growth (SGR)	Tax Avoidance (ETR)
PT. Gudang Garam Tbk. (GGRM)	2019	0.352415	0.154806	0.248971
	2020	0.251549	0.035770	0.208566
	2021	0.340980	0.090882	0.230762
PT. Darya-Varia Laboratoria Tbk. (DVLA)	2019	0.286280	0.066698	0.263790
	2020	0.332421	0.009200	0.242894
	2021	0.338034	0.038910	0.307224

Source: Indonesia Stock Exchange (2022)
Prepared by the writer (2022)

Based on the Table 1.2 above, the Debt to Asset Ratio (DAR) at PT Gudang Garam Tbk. (GGRM) from 2019 to 2020 is decreasing and the Effective Tax Rate (ETR) is decreasing as well. Meanwhile, the contradicting condition occurs in the next period, namely from 2020 to 2021 where the DAR is increasing and the ETR is increasing as well. DAR shows the use of debt to finance company assets. According to Putri (2016) in Gloria & Apriwenni (2020), the bigger the debt, the lower the ETR. This is because debt can reduce the company's tax burden by utilizing debt interest costs. Interest on debt that arises is used as a deduction from the company's profit before tax so that the tax burden paid becomes smaller. This means that there is tax avoidance effort to reduce the company's ETR. Therefore, the data in the table that shows DAR is directly proportional to ETR is not consistent with the statement from previous research that DAR is inversely proportional to ETR.

The other inconsistency occurred at PT. Darya Varia Laboratoria Tbk. (DVLA) where sales growth from 2019 to 2020 is decreasing, and the ETR is also decreasing. Meanwhile, the contradicting condition occurs in the next period, namely from 2020 to 2021 where sales growth is increasing and the ETR is increasing as well. Sales growth shows changes in sales volume and predictions of profit achieved from sales from one period to the next. According to Susilowati, et al. (2018) and Putri & Gunawan (2017) in Gloria & Apriwenni (2020), the greater the company's profits from sales growth, the lower the ETR. This is because the increase in profits derived from sales growth will automatically cause a higher tax burden so as to encourage companies to minimize their taxes. This means that there is tax avoidance effort to reduce the company's ETR. Therefore, the data in the table that shows sales growth is directly proportional to ETR is not consistent with the statement from previous research that sales growth is inversely proportional to ETR.

Research on tax avoidance has been carried out by various parties. Based on previous research, there are many factors that can influence tax avoidance. In this research, the writer focuses on two factors to be studied, namely leverage and sales growth. The reason for choosing leverage and sales growth as independent variables in this research is because previous research show an inconsistent phenomenon and differences in research results regarding the influence of these two variables toward tax avoidance, so that a research gap arises regarding the factors that actually influence tax avoidance.

Based on the data facts, phenomenon, and inconsistent result from the several previous research that have been provided and explained above, the writer is encouraged to re-examine entitled **"The Influence of Leverage and Sales Growth toward Tax Avoidance in Consumer Goods Companies Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

In this research, the writer sets the problem limitation which can be formulated as follows:

1. The research object is consumer goods companies listed on the Indonesia Stock Exchange.
2. The time period of the research is three years, started from 2019 to 2021.
3. The dependent variable in this research is tax avoidance which using indicator of ETR, while the independent variables are leverage which using indicator of DAR and sales growth which using indicator of SGR.

1.3 Problem Formulation

Based on the background of the study above, it can be concluded that there are some problems that need to be considered. The problem formulation in this research are as follows:

1. Does leverage partially have significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?

2. Does sales growth partially have significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?
3. Do leverage and sales growth simultaneously have significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the problem formulation above, it can be concluded that the objective of the research are as follows:

1. To analyze and examine the significant influence of the leverage toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange.
2. To analyze and examine the significant influence of the sales growth toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange.
3. To analyze and examine the significant influence of leverage and sales growth toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefits of the research are divided into two types as follows:

1.5.1 Theoretical Benefit

1. For researcher

   The results of this research are expected to be properly understood and applied by the researcher regarding leverage and sales growth, and the influence toward tax avoidance, especially in the consumer goods companies listed on the Indonesia Stock Exchange.

2. For future research

The results of this research are expected to be reference in conducting similar research regarding tax avoidance and the factors that influence it, especially leverage and sales growth.

3. For accounting students

The results of this research are expected to provide better understanding for accounting students in the study regarding leverage and sales growth, and those influence toward tax avoidance, especially in the consumer goods companies listed on the Indonesia Stock Exchange.

1.5.2 Practical Benefit

1. For companies

The results of this research are expected to be information and additional consideration for management in determining the factors that are significantly influence on tax avoidance, especially for consumer goods companies.

2. For investors and creditors

The results of this research are expected to be an additional information and decision consideration for creditors and potential investors before investing or giving loans in the destination company or capital market.

3. For government

The results of this research are expected to be a material for additional consideration and evaluation for the government in determining appropriate policies in order to overcome tax avoidance practices and maximize the potential for state revenue from the tax sector in Indonesia in the future.