CHAPTER I

INTRODUCTION

1.1 Background of the Study

A tax is defined as a compulsory payment to the state that is owed by a person or entity that is coercive under the law, with no direct reimbursement and is used for the goals of the state to promote the greatest prosperity for the people. This definition is based on Law No. 16/2009. Direct taxes and indirect taxes are the two categories that make up the total tax burden. Within the realm of taxation, the Official Assessment System (OAS) was changed out for the Self-Assessment System (SAS) in the year 1983.

The Self-Assessment System is used by the government of the country of Indonesia. Self-assessment and official assessment are both components of the tax collection process that are used at the local level. This is made abundantly clear in Article 7 of Law No. 18/1997 and Law No. 34 of 2000, both of which specify that taxes are either collected based on the judgment of the regional head or paid by the taxpayer himself. There is no way to increase the collection of local taxes. This indicates that the whole process of collecting taxes cannot be outsourced to a different organization.

The Self-Assessment System is the most significant shift as a result of this system transition. Under this system, the government places complete reliance in individual taxpayers to calculate the amount of tax that must be paid to the state treasury. The taxpayers are responsible for satisfying all their tax responsibilities under this system and the tax authorities solely monitor compliance via audits. The government is continually adjusting the tax system in order to increase revenue for the state and make it more difficult for individuals to evade paying their fair share of taxes.

The practice of minimizing a company's profit or revenue in order to pay the government the least amount of tax that is legally permissible is known as "tax planning." However, tax planning is still considered to be part of the tax legislation. The process of organizing one's affairs in such a manner as to minimize one's exposure to taxable consequences is referred to as "tax planning." The primary objective of tax planning is to document every transaction that may have an impact on one's tax liability to pay the government the least amount of money owed in taxes (Pohan, 2017). by exploiting a loophole in the regulations governing taxes. Since it does not violate any tax regulations, the strategy to pay less in taxes may be considered legitimate.

People engage in tax avoidance when they attempt to pay less tax by means that are in direct opposition to the goals of both the government and parliament. A company taxpayer may engage in tax avoidance to pay a lower total amount of taxes by making use of legal strategies that are sanctioned by the relevant tax authorities. Companies may get tax incentives without breaching the law if they just delay paying taxes (Putra, 2019). Making a profit is the primary objective of any enterprise, although other aims, such as assisting the local community, may also be pursued.

There may be mitigating factors present that cause a change in the tax calculation and make it feasible to avoid paying taxes. Examples from the results of previous researcher by Steven (2021), shows that the size of a firm has an influence towards tax avoidance, but liquidity and profitability does not influence tax avoidance, the result from Steven's research is the opposite with the result from another researcher by Cindy Callista (2021), that shows the size of a firm does not influence tax avoidance but, liquidity and profitability do influence tax avoidance. With this distinction, the researcher has the ideas to use several variables such as:

1. The size of the company is the primary consideration that comes into play. There are many different indicators that may be used to determine the size of a company. Some of these metrics include total assets, market value, shares, total sales, total revenue, and total capital. The stronger a firm is, in proportion to the amount of money it has in the bank and the amount of money it earns, the more assets it will have. The total assets and revenues of a firm may be used to get an approximation of the company's size. This may give you an idea of the kind of people that work for the firm. The larger firm will have an easier time raising the capital it needs to make the investments that will lead to financial success (Rifani Akbar Sulbahri, 2022).
2. The other factor beside the size of the company is profitability. The amount of profit a company can influence the possibility of tax avoidance to happen. Profitability in a firm utilizes its assets or how successfully it can produce money over a certain amount of time. This helps to determine how smoothly the operation of the organization can go. Several different ratios are used in the process of measuring profitability. One method of measurement is called return

on assets (ROA) (Rani Eka Arini & Yusuf Iskandar, 2019).

3. Another factor that will cause the happening of tax avoidance in a company is liquidity. If a company has a low liquidity, it will influence the possibility of tax avoidance to happen too. Liquidity ratio is a figure that demonstrates how effectively the company can satisfy its commitments or pay off its short-term debt. You may determine how liquid a corporation is by using this ratio to do the calculation. One method for determining how liquid a corporation is to look at its current ratio. This ratio indicates the percentage of a company's current assets that may be used toward the repayment of the company's short-term liabilities (*Jurnal Entrepreneur*, *2019*).

The factors above are chosen to conduct research from specific period and sector to test whether the result obtained will be the same or different from the previous research results. This examination is being conducted with companies that are listed on the Indonesia Stock Exchange that produce fast-moving consumer goods. Consumer goods are commodities that the average person purchases with the intention of consuming them. They are classified as either durable commodities, nondurable products, or services, depending on the nature of the transaction. The shelf life of non-durable goods is less than one year, but the shelf life of durable products is at least three years. The consumer commodities that have the highest turnover rate make up the biggest portion of total consumer goods. They are regarded as nondurable since they are eaten in a short amount of time and have a limited shelf life.

Since of the current epidemic that has been affecting Indonesia since March

2020, the firm that manufactures fast-moving consumer goods has been selected as the study object. This decision was made because the pandemic has generated economic challenges for businesses (Kompas.com., 2021). According to the findings of a survey that was carried out by the Ministry of Manpower in conjunction with the Institute for the Development of Economics and Finance (INDEF), Micro, Small and Medium Enterprises (MSME) businesses typically experience decreases in demand, production, and profits, with the percentage of these businesses being above 90 percent. Companies in the hospitality, real estate, and construction industries, as well as those dealing with food and drink, were among the most severely impacted (Barenbang., 2020). On the other hand, companies that deal in fast-moving consumer goods were maintaining their positions and some of them even saw a rise in their profits. One of the companies that exemplifies this is PT. Kimia Farma Tbk, which provides comprehensive health services throughout Indonesia as well as internationally. This pharmaceutical company, which was the first in Indonesia to be established by the Government of the Dutch East Indies in 1817, had a significant increase in revenue in 2020 since it is a Fast-Moving Consumer Goods sector that specializes in Pharmaceuticals. The company was born because of a policy of the Indonesian government to nationalize companies owned by foreigners in the country (Bisnis.com, 2021).

According to the previous definition, there are a great deal of factors that might influence the way the corporation avoids paying taxes. As a result, the author has an interest in doing research that focuses on aspects that can affect tax avoidance. These factors include the size of the organization, how lucrative it is and how much liquidity it has. With the title in the following format: "**The Influence of Profitability, Liquidity and Firm Size on Tax Avoidance in Fast Moving Consumer Goods Sector Listed on the Indonesia Stock Exchange.**"

1.2 Problem Limitation

The context determines the scope of the study topic, which is:

1. Tax avoidance is indicated with Effective Tax Rate (ETR), Profitability is indicated with Return of Asset (ROA), Liquidity is indicated with Current Ratio and Firm Size is indicated with total assets.
2. Tax avoidance is the dependent variable, whereas profits, cash flow and company size are the independent factors.
3. Companies trading on the Indonesia Stock Exchange that produce fast-moving consumer goods sector are the focus of this study.
4. The period for this research is settled on financial statements from the period of year 2019 – 2021.

1.3 Problem Formulation

Given this context, several factors should be considered. This section presents the research challenge as it has been formulated.:

1. Does profitability have an effect towards tax avoidance in fast moving consumer goods sector listed on the Indonesia Stock Exchange?
2. Does liquidity have an effect towards tax avoidance in fast moving consumer goods sector listed on the Indonesia Stock Exchange?
3. Does firm size have an effect towards tax avoidance in fast moving consumer goods sector listed on the Indonesia Stock Exchange?

4. Does profitability, liquidity and firm size have an effect towards tax avoidance in fast moving consumer goods sector listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

The research objectives are determined as follows:

1. To know if profitability has a significant effect towards tax avoidance in Fast Moving Consumer Goods.
2. To know if liquidity has a significant effect towards tax avoidance in Fast Moving Consumer Goods.
3. To know if firm size has a significant effect towards tax avoidance in Fast Moving Consumer Goods.
4. To know if profitability, liquidity, and firm size have a significant effect towards tax avoidance in Fast Moving Consumer Goods.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The findings of this study are anticipated to be beneficial in that they will give further information on the elements that effect tax avoidance. These aspects will primarily include profitability, liquidity, and business size.

1.5.2 Practical Benefit

1. The government

   The results of this study are anticipated to be beneficial in that they will give further information on the elements that drive tax avoidance. These aspects will primarily include profitability, liquidity, and business size.

2. For students

   It is anticipated that the findings of this study will be useful as a supplementary reference and will expand knowledge for another research on the same subject.