CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is a nation with a relatively strong economy and have abundance of natural resources. It is in a region with high levels of international trade, which will help the nation's efforts to advance social welfare. Therefore, other sources of funding are needed so that efforts to improve public welfare can continue to run well, one of which is through taxation.

Taxes are compulsory contributions given by individuals or entities to the state in accordance with the law and are used to meet the demands of the state to promote the greatest prosperity of the people. Because taxes are the main source of national income and are used to support all expenditures, including development expenditures, they play a crucial role in the life of a nation. This is especially true when it comes to the implementation of development (Dari, 2020). Yet, tax revenue, the country's primary source of income, is falling short of the government's expectations.

One indicator of a nation's tax performance is tax ratio. It demonstrates the government's ability to collect tax revenue or absorb back the Gross Domestic Product (GDP) from the public in form of taxes. The higher tax ratio shows the better the country's tax collection performance.

In 2019 Indonesia's tax ratio was 9.77%, then in 2020 it decreased to 8.33% and in 2021 it rose again to 9.11% (Dihni, 2022). According to the Expert Staff of the Minister of Finance for Tax Compliance Yon Arsal, the ideal tax ratio for a country is 15% in order to become a sustainable country in terms of funding (Kontan.co.id, 2022). Compared to the existing ratio in 2019 to 2021, the tax ratio is still far from 15%, indicating that state revenue from taxes is still not optimal. This can be used as an indicator of its occurrence of disparities in interests between the government and corporate taxpayers (Moeljono, 2020). In the eyes of the state, taxation is a source of fiscal revenue regulated by the government, while for business entities, taxation is a burden that reduces the net profit earned by the business entity. Due to these conflicts of interest, people fail to comply with the law, and businesses frequently look for ways to lower their tax obligations.

Tax avoidance, a practice that can be used to lower taxes, is an attempt made to decrease taxes that aims to lessen the tax burden by taking advantage of the loopholes in the regulations of the applicable tax legislation. Companies tend to use a variety of strategies to lower their tax burden by tax avoidance tactics simply to minimize tax obligations in legal way. (Catrine, 2021).

One of tax avoidances practiced by Indonesian manufacturing company is by a tobacco company, PT. Bentoel Internasional Investama, Tbk. The shareholder, British American Tobacco Ltd, is allegedly diverted its revenue from Indonesia in two ways: The first was by taking an intracompany loan from Rothmans Far East BV between 2013 and 2015 to refinance bank loans and pay for machinery and equipment. The interest paid will reduce the company's taxable income in Indonesia, so the company pays less tax than it should pay in Indonesia. The second method used is that PT. Bentoel Internasional Investama, Tbk pays companies in the UK amounted to US$ 19.7 million per year in royalties, fees, and services. So that the lost income from Indonesia reaches US$ 2.7 million per year due to payments of royalties, fees, and IT BAT fees to companies in the UK (Prima, 2019).

A manufacturing company is a business entity that converts raw goods into semi-finished goods or finished goods that have a marketable value. The manufacturing sector is separated into several types of companies engaged in various fields such as basic and chemical industries, miscellaneous industries, and consumer goods industries. The consumer goods industry is further broken down into several sub-sectors including food and beverages, cigarettes, pharmaceuticals, cosmetics, and household appliances (Saretta, 2022).

The growth of the industrial sector, particularly its contribution to the high increase in the gross domestic product, is greatly influenced by the food and beverage industry (GDP). According to Dirjen Industri Agro Kementrian Perindustrian Putu Juli Ardika stated that the food and beverage industry contributes 37.82% to the GDP of the non-oil and gas processing industry, making it the sub-sector with the largest contribution to GDP.

According to Putu, the trade balance for the food and beverage industry showed a positive value because as of September 2022, exports of food and beverage products reached US$36 billion (including palm oil), while imports of food and beverage products in the same period amounted to US$12.77 billion. (Kemenperin: Industri Makanan dan Minuman Tumbuh 3,57% di Kuartal III-2022, 2022) This shows that manufacturing companies in the food and beverage sub-sector have a fairly large role in growth in Indonesia. However, even then, it is still possible that food and beverage companies that earn substantial profits will do tax avoidance. Because the greater the profit earned by the company will cause the greater tax to pay, thus tempting the company to reduce the tax burden on the company (Sulisyanto, 2013 in Hidayat & Fitria, 2018).

As for the factors that can lead to the practice of tax avoidance, one of which is return on asset. Return on asset is a metric used to assess a company's ability to produce money using all its available assets. The greater the company's return on asset performance, the greater its potential to make profits, which has a natural influence on a large amount of taxes the company is required to pay. As a result, the greater the company's return on asset performance, the greater the likelihood that the company is engaging in tax avoidance (Sembiring & Fransiska, 2021). Research conducted by Tanjaya & Nazir (2021) shows that return on assets has a positive significant effect on tax avoidance, but research conducted by Kimsen et al. (2018) and Suryani (2020) shows the opposite result that return on assets has a negative effect on tax avoidance. There are also those who get the result that the return on assets does not have any effect, whether the return on assets is high or low, which is done by Siahaan et al. (2022)

The next factor is capital intensity. Capital intensity is one form of the company's decision to invest its assets in the form of fixed assets. Due to the yearly depreciation of the company's fixed assets, the company can deduct taxes on the fixed assets. The greater the depreciation expense, the lower the tax rate that the business must pay. This is because depreciation expense is a cost that may be deducted from income (Wati & Astuti, 2020). Based on research from Anggrani et al. (2020), and Rahma et al. (2022), capital intensity has a positive effect on tax avoidance. On the other hand, Rifai & Atiningsih (2019) found that capital intensity has a negative effect on tax avoidance. While Sugiyanto & Fitria (2019), found that capital intensity does not affect tax avoidance.

Another factor that can also effect tax avoidance is inventory intensity which is one of the components that make up assets, which is measured by comparing the total inventory with the total assets owned by the company. High inventory intensity describes the company having a large amount of inventory. The company also has to incur costs for the expenses that must be borne because of the existence of these inventories where the costs will reduce taxes to be paid Nasution & Mulyani (2020). Research conducted by Ranti & Ajimat (2022) shows that inventory intensity has a positive effect on tax avoidance, but research conducted by Niandri &

Novelia (2022), shows that it has a negative effect on tax avoidance. While Yulianty et al. (2021) found that inventory intensity does not affect tax avoidance.

Based on the background above, the writer is interested in researching the title **"The Effect of Return on Asset, Capital Intensity, and Inventory Intensity Toward Tax Avoidance in Food and Beverages Industry Listed on the Indonesia Stock Exchange"**.

1.2 Problem Limitation

Since the objective of this research is to discuss just specific parts, and due to limited time and resources, this research is limited to:

1. The period of financial statement used in this research is from the year 2019 – 2021.
2. The object used in this research is a manufacturing company that is specifically engaged in the food and beverages sub-sector.
3. In this research, the independent variables are return on asset, capital intensity, and inventory intensity while the dependent variables are tax avoidance.

1.3 Problem Formulation

Based on the background of the problem above, can be formulated several problems in this research:

1. Does return on asset effect tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange?

2. Does capital intensity effect tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange?
3. Does inventory intensity effect tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange?
4. Do return on asset, capital intensity, and inventory intensity effect tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange?

1.4 Objective of Research

Based on the problem formulation above, the objectives of this research are:

1. To determine and analyze the effect of return of asset toward tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange.
2. To determine and analyze the effect of capital intensity toward tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange.
3. To determine and analyze the effect of inventory intensity toward tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange.
4. To determine and analyze the simultaneous effect of return on asset, capital intensity, and inventory intensity toward tax avoidance in food and beverages industry listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

It is hoped that this study will be beneficial for all parties involved, which can be divided into two kinds of benefits, such as:

1.5.1 Theoretical Benefit

In theory, based on the research aims described above, the writer hopes that this research will be used as literature and a reference for future research on tax avoidance. The writers also hope that this research will improve understanding of the effect of return on asset, capital intensity, and inventory intensity.

1.5.2 Practical Benefit

In practice, based on the research objectives, the writer hopes that this research will be beneficial as follows:

1. For the researcher, this research is supposed to be used as extra information and references for other researchers who wish to conduct research in the same field.
2. For companies, it is hoped that this research will be utilized as extra knowledge about a number of factors that might effect their tax calculation, allowing them to make better decisions without breaking the law and regulations.
3. For the other parties, it is hoped that this research is going to help improve their understanding and perspective in light of their interests.