CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia is a large archipelagic country categorized as a developing nation. Indonesia is a geographically advantageous nation with a wealth of natural resources. Indonesia's strategic location establishes it as a worldwide trading route. Therefore, numerous international and local companies aspire to develop their operations in Indonesia. Despite these circumstances, the consumer products sector is a resilient industry capable of fulfilling long-term human necessities.

The consumer goods sectors are classified as non-cyclical due to their primary focus on producing goods and services. Consumer non-cyclical companies specialize in producing essential goods and services in high demand and are considered a top priority. There are many sub-sectors of the consumer goods company, such as primary goods retail, beverages and processed foods categorized as food and beverages, agricultural products, tobacco, household products, and personal care products.

Companies classified as consumer non-cyclical have significant contribution and essential role in forcing economic growth. As a result of public interest in consumer non-cyclical, economic growth increases rapidly, and it encourages company profits. Companies included in the consumer goods sector, especially those classified as consumer non-cyclical, have an essential role in pushing economic growth. The high level of public interest means that companies in this sector can substantially contribute to the economy and gain profits.

The importance of the consumer goods can also be seen from its positive impact on occupation, increasing production, and economic stability. The products, such as food and beverages or daily needs, become primary needs required by the public, even in less stable economic conditions. Economic growth in this sector can create a competitive business environment, resulting in long-term benefits for the public, but on the other hand, it will also be detrimental.

This factor provides benefits for Indonesia in increasing state revenue, especially in the field of taxation. Taxpayers are obliged to pay taxes, either directly or indirectly, to support national development and economic growth for the country's welfare. Taxation plays an important role in the state revenue and expenditure budget (APBN). The Minister of Finance, Sri Mulyani, announced that the total state revenue amounted to Rp1.109,1 trillion by the end of July 2023. This accomplishment has increased by 7.8% yearly and is expected to grow positively and encouragingly (Humas Kemenkeu, 2023).

According to Dewi *et al.* (2021), taxes are financial obligations or other types of burdens that are imposed on taxpayers by government entities in order to pay for government spending and other public necessities. Taxes have been considered a burden for companies that could reduce the net profit. As a result, company objectives clash with the purposes of the government. The Law governs the tax collecting process on General Provisions and Tax Procedures (KUP)

Number 16 of 2009, Article 1 Paragraph 1. As citizens subject to legal regulations, complying with applicable regulations, including the obligation to pay taxes, is a must. Refusal to comply with tax obligations is considered a violation of the law. Therefore, many companies try to reduce tax expenses by engaging in tax aggressiveness.

Christy (2023) stated that that tax aggressiveness is used to avoid paying taxes by taxpayers. This comprises of activities aimed at reducing the tax burden that companies must bear. Generally, there are two types of tax aggressiveness, the legal way that follows the law, which is tax avoidance, and the illegal one, which is tax evasion. By utilizing legal loopholes that exist in that country, companies can lower their income tax obligations through the practice of tax avoidance. Meanwhile, tax evasion is a type of tax violation that reduces the amount of tax that must be paid.

Tax aggressiveness can be measured by an effective tax rate (ETR). A low effective tax rate implies a high level of tax aggressiveness. Febrilyantri (2022) stated that increasing debt is a strategy companies use to avoid paying taxes. Higher amounts of debt will lead to increasing interest expenses, reducing the tax burden. In this situation, tax aggressiveness is influenced by some factors.

Return on assets is the first variable that can impact tax aggressiveness. Return on assets is a ratio used to evaluate profitability. According to (Yuliana & Wahyudi (2018), profitability refers to a company's capability to gain profits within a specific period. A high return on assets indicates an increase in the company's performance. In contrast, a lower return on assets shows a lower company performance.

The second variable that can impact tax aggressiveness is liquidity. Liquidity is an indicator that evaluates a company's capacity to pay its current financial obligations on maturity by utilizing its existing assets. The current ratio is commonly employed to determine the long-term sustainability of a company. Febrilyantri (2022) stated that companies with high liquidity indicate that the cash flow runs smoothly. Companies that run smoothly will be able to pay off their short-term financial obligations.

Company size is the third variable that can impact tax aggressiveness. Leksono & Vhalery (2018) stated that company size is a characteristic that relates to the size of a company, as which can be determined by factors such as the logarithm of the company's total assets, sales, and other indicators. Companies with high total assets can be considered large-scale companies and will typically be under stricter governmental regulation. Company size can indicate its capacity for returns and tax planning.

The data given below was collected from companies engaged in the consumer goods companies listed on the Indonesia Stock Exchange from 2020 to 2022. These three companies for analysis are INDF (PT Indofood Sukses Makmur Tbk), MLBI (PT Multi Bintang Indonesia), and UNVR (PT Unilever Indonesia Tbk). The information data are as follows:

Table 1.1 The Phenomenon of Return on Assets, Liquidity and Company Size toward Tax Aggressiveness on Consumer Goods Companies Listed on the Indonesia Stock Exchange 2020-2022

Name of Company	Year	ROA	CR	SIZE	ETR
PT Budi Starch & Sweetener Tbk (BUDI)	2020	0,023	1,144	28,717	0,032
	2021	0,031	1,167	28,727	0,195
	2022	0,029	1,330	28,786	0,198
PT Sekar Bumi Tbk (SKBM)	2020	0,003	1,361	28,201	0,601
	2021	0,015	1,311	28,309	0,327
	2022	0,042	1,442	28,345	0,261
PT Unilever Indonesia Tbk (UNVR)	2020	0,349	0,661	30,653	0,222
	2021	0,302	0,614	30,579	0,232
	2022	0,293	0,608	30,539	0,233

Source: Prepared by Writer (2023)

According to the data provided in Table 1.1, there are conflicting phenomena among Return on Assets (ROA), Liquidity (CR), Company Size (SIZE), and tax aggressiveness (ETR) within the Consumer Goods Industries listed on Indonesia Stock Exchange from 2020 to 2022.

PT Budi Starch & Sweetener Tbk (BUMI) provides data that return on assets from year 2020 to 2021 increased and effective tax rate increased. Meanwhile, from year 2021 to 2022, return on assets decreased, and effective tax rate decreased. Another circumstance influencing PT Sekar Bumi Tbk (SKBM) illustrates that from year 2020, 2021, to 2022 return on assets increased and from year 2020, 2021, to 2022 effective tax rate decreased. Meanwhile, PT Unilever Indonesia (UNVR) illustrates that return on assets from year 2020, 2021, to 2022 decreased and effective tax rate increased. According to (Endaryati & Vivi Kumalasari Subroto, 2021) stated that there is a significant impact between return on assets and tax aggressiveness. The higher return on assets, the more significant the tax that companies are required to pay to the government.

PT Budi Starch & Sweetener Tbk (BUMI) illustrates that liquidity from year 2020, 2021, to 2022 increased and effective tax rate from year 2020 to 2021 increased, while from year 2021 to 2022 decreased. Another condition that happens to PT Sekar Bumi Tbk (SKBM) illustrates that from year 2020 to 2021 liquidity is decreased and effective tax rate decreased. Meanwhile, from year 2021 to 2022, liquidity increased, and effective tax rate still decreased. PT Unilever Indonesia (UNVR) illustrates that liquidity from year 2020, 2021, to 2022 decreased and effective tax rate increased.

PT Budi Starch & Sweetener Tbk (BUMI) illustrates that company size from year 2020, 2021, to 2022 increased and effective tax rate from year 2020 to 2021 increased, while from year 2021 to 2022 decreased. Another condition involving PT Sekar Bumi Tbk (SKBM) illustrates that from 2020, 2021, to 2022 company size increased and effective tax rate decreased. PT Unilever Indonesia (UNVR) illustrates that company size from year 2020, 2021, to 2022 decreased and effective tax Rate increased. According to Darma (2020), stated that company size has a significant impact towards tax aggressiveness.

Considering the study's background and the given and explained table phenomenon, the writer is motivated to do research entitled **"The Impact of Return on Assets, Liquidity, and Company Size toward Tax Aggressiveness on Consumer Goods Companies Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

To avoid any deviation, the writer established some constraints for the problems, outlined as follows:

1. The research object is restricted to the consumer goods companies that listed on the Indonesia Stock Exchange.
2. The research measures tax aggressiveness using the effective tax rate (ETR) as the dependent variable.
3. The independent variable in this research consists of return on assets (ROA), liquidity evaluated by current ratio (CR), and company size measured by the natural logarithm of the company size.
4. The research period is from 2020 to 2022.

1.3 Problem Formulation

Following the background information provided, the problem formulation in this research is as follows:

1. Does return on assets have a significant impact toward tax aggressiveness in consumer goods companies listed on the Indonesia Stock Exchange partially?
2. Does liquidity have a significant impact toward tax aggressiveness in consumer goods companies listed on the Indonesia Stock Exchange partially?

3. Does company size have a significant impact toward tax aggressiveness in consumer goods companies listed on the Indonesia Stock Exchange partially?
4. Do return on assets, liquidity and company size have a significant impact toward tax aggressiveness in consumer goods companies listed on the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

The research aims to solve the problems stated in the problem formulation by fulfilling the main objectives:

1. To find out whether return on assets have a significant impact toward tax aggressiveness on consumer goods companies listed on the Indonesia Stock Exchange partially.
2. To find out whether liquidity have a significant impact toward tax aggressiveness on consumer goods companies listed on the Indonesia Stock Exchange partially.
3. To find out whether company size have a significant impact toward tax aggressiveness on consumer goods companies listed on the Indonesia Stock Exchange partially.
4. To find out whether return on assets, liquidity and company size have a significant impact toward tax aggressiveness on consumer goods companies listed on the Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

This research aims to be beneficial for all parties that are involved, and its benefits can be classified into two main categories, such as:

1.5.1 Theoretical Benefit

In theory, the writer expects this research to be a valuable source for tax accounting. Additionally, it is hoped that this research will be a valuable resource for academics seeking further investigation on tax aggressiveness, return on assets, liquidity, and company size, thereby improving their studies and references.

1.5.2 Practical Benefit

The research gives information and serves as a valuable resource for individuals or organisations interested in establishing or implementing policies. Companies seeking to reduce penalties and tax obligations can gain advantages from the research's results on tax aggressiveness. This study can help investors in overseeing a company's tax strategy. This analysis can assist the government in meeting its responsibilities on tax aggressiveness.