CHAPTER I

INTRODUCTION

1.1 Background of the Study

Compared to other revenue sectors, tax revenue stands as the primary and most significant source of state revenue in Indonesia. Majority portion of Indonesia's state income and grants was derived from the realization of tax revenue, as shown in the table presented below.

Table 1.1 Proportion of Indonesia's Tax Revenue to the State Income and Grants

	2018	2019	2020	2021	2022
Proportion of tax revenue to the state income and grants	78.14%	78.86%	77.99%	76.96%	78.99%

Source: *Badan Pusat Statistik* (2023)

The government highlights the importance of tax revenue as part of its state budget to implement programs that are geared toward stimulating economic growth through the advancement of infrastructure and public facilities, with the ultimate goal of the citizen's welfare. Conversely, taxes represent a burden for the companies by rising their tax expense. The government's objective of maximizing tax revenue contrasts with the companies' goal as they strive to minimize their tax burden (Suryono & Sutandi, 2022, p. 2-3). Minimizing tax payments can be a motivation for certain companies as they may perceive a lack of direct benefits from the taxes they pay. The government is the one who determines the allocation of tax revenue, which leads companies to believe that reducing their tax burden enables them to retain more funds for internal purposes, such as business reinvestment, operational expansion, or profit distribution to shareholders.

According to *Undang-Undang Republik Indonesia Nomor 6 Tahun 1983*, the applicable taxation system places trust in tax subjects to carry out their obligations and uphold their rights within the area of taxation. Supported by the tax self-assessment system implemented in Indonesia, businesses are more likely to adopt various strategies, both legal and illegal, to minimize their tax payments, which could lower the realization of tax collection in the country.

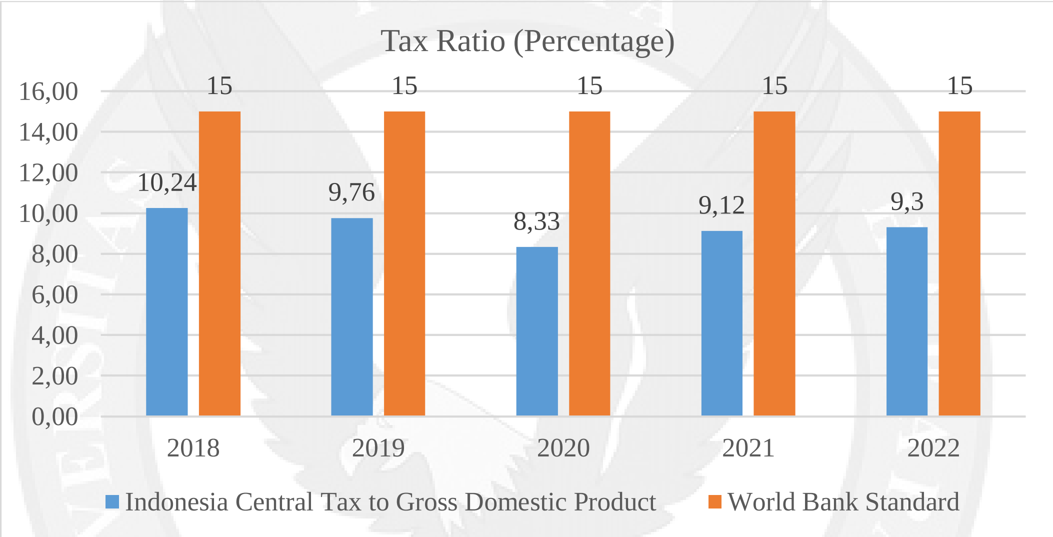

Figure 1.1 Indonesia Tax Ratio Vs World Bank Standard
Source: *Pajak.go.id* (2022) and Worldbank.org (n.d.)

Indonesia, despite having the highest GDP among ASEAN countries, maintains the lowest tax ratio within the ASEAN region. With a tax ratio below 10 percent, Indonesia lags behind both G20 and other ASEAN nations, which have tax ratios reaching double digits (Saputra, 2023). As can be seen in the chart, Indonesia has remained the tax ratio below the standard set by the World Bank. When a country collects less than 15% of its GDP in taxes, it reaches a critical point where increasing tax revenue becomes crucial. This is necessary to ensure the state can meet the basic needs of its citizens and businesses and set itself on a path towards growth and sustainability (Worldbank.org, n.d, p. 4). One of the reasons which caused the state tax revenues being impeded is due to the presence of aggressive tax practices (Anggadinata & Cahyaningsih, 2020).

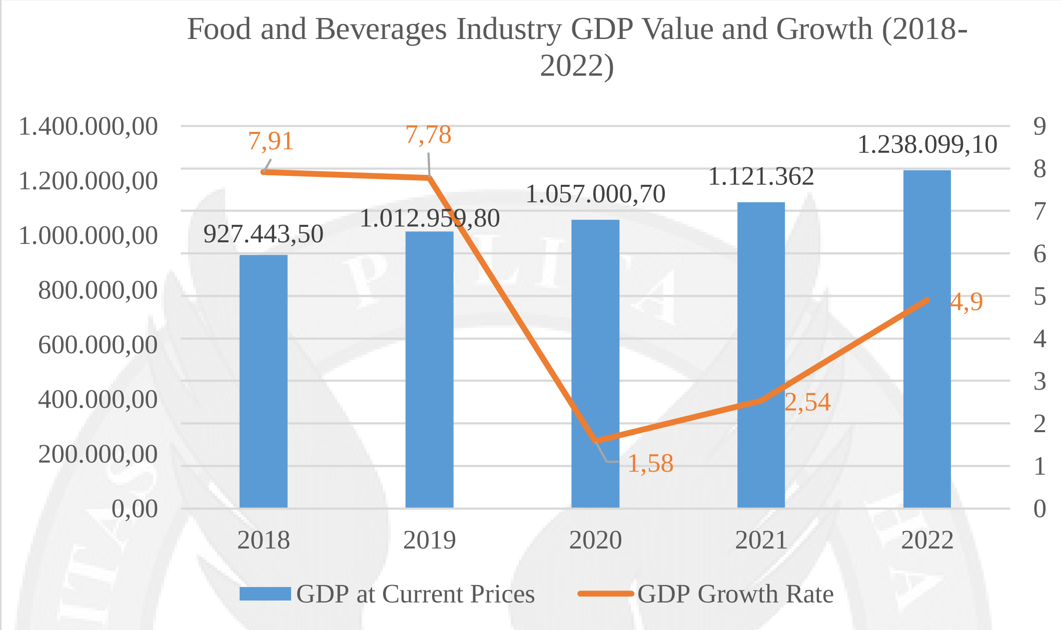

Figure 1.2 Food and Beverages Industry GDP Value and Growth
Source: *Badan Pusat Statistik* (2023)

Based on the graph above, the food and beverages industry has continued to increase since 2018. During Covid-19 pandemic, many companies were forced to stop operating due to losses. But during these difficulties, the food and beverages industry has shown resilience with the GDP at IDR 0.93, 1.01, 1.06, 1.12, and 1.24 quadrillion in 2018, 2019, 2020, 2021, and 2022 respectively. Despite experiencing lower growth compared to pre-COVID levels, the food and beverages industry managed to maintain its growth momentum during and after the pandemic with a 1.58% increase in 2020, 2.54% increase in 2021, and further 4.9% increase in 2022 (*Badan Pusat Statistik*, 2023). In 2021, the food and beverages industry stood out as one of the nine sub-sectors within the non-oil and gas processing industry that achieved growth. However, eight other sub-sectors have experienced decline

(Kusnandar, 2022, p. 5). These significant economic growths may lead to the potential for more aggressive tax planning conducted by food and beverages companies. The effective tax rate (ETR) is a metric used to evaluate tax-aggressive actions taken by taxpayers (Leksono et al., 2019). A low ETR suggests tax aggressiveness. Some businesses reduce their taxable income or keep their financial accounting profits up so that their ETR value is lower in order to avoid paying taxes. Tax aggressiveness can be influenced by several variables, including the corporate social responsibility, profitability, and liquidity.

As part of its corporate social responsibility (CSR), the business is burdened with obligations to the environment and communities. Corporate social responsibility is critically important to be chosen as the independent variable for further investigation in the context of tax aggressiveness, especially in the food and beverages industry, since it both meets basic needs of people and has a significant effect on public health. In the food and beverages industry, particularly for businesses with substantial consumer brands, CSR initiatives have become a key component of business operations (Boumediene & El Houda, 2018). Companies that have implemented CSR well will definitely enjoy several advantages, including a good reputation among stakeholders and the assurance of their long-term existence. On the other side, engaging in tax aggressiveness carries the risks of facing tax penalties and potentially causing a decline in the company's reputation (Kawakibi et al., 2021, p. 1). An essential part of CSR that helps maintain the company's positive reputation and image is by paying fair taxes. Because the corporations have spent significant costs in conducting CSR, businesses that have implemented good CSR tend to keep themselves away from taking acts that could harm their reputation. This idea is also supported by Kristiadi et al. (2020) which stated that higher corporate social responsibility action will lead to a lower tax aggressive conduct. In other words, companies who consider their reputation and care about maintaining a positive public image may be less likely to engage in aggressive tax planning.

Beside the corporate social responsibility, the level of a company's profitability may also influence companies' motivation for engaging in tax aggressive-behavior. According to Gunawan and Kris (2019), companies with higher profitability tend to have a high level of tax aggressiveness. As profitability increases, its taxable income also tends to increase, resulting in greater tax liability. Consequently, the company might be more motivated to adopt aggressive tax planning to reduce its tax obligations.

Moreover, liquidity is one of the important factor to be considered when analyzing the tax aggressive behavior. By comparing current assets with current liabilities, liquidity can be determined. Low liquidity may be an indication that the business is experiencing issues when paying its short-term debts. As a result, aggressive efforts will be taken against corporate taxes to cut tax expenses and take advantage of the tax savings to sustain cash flow. Liquidity issues might cause businesses to disobey tax legislation. As a result, businesses with low liquidity ratios have a tendency to engage in high tax aggressive practice (Handayani, 2022).

In order to provide a deeper understanding of how corporate social responsibility, profitability, and liquidity influence tax aggressiveness, the writer is motivated to observe the phenomenon that occurred in the food and beverages companies as presented in Table 1.2 below.

Table 1.2 Phenomenon Table

Company	Year	Corporate Social Responsibility (CSRI)	Profitability (ROA)	Liquidity (CR)	Tax Aggressiveness (ETR)
PT. Mayora Indah Tbk (MYOR)	2021	0.6404	0.0608	2.3282	0.2185
	2022	0.6404	0.0884	2.6208	0.2139
PT. Sariguna Primatirta Tbk (CLEO)	2021	0.6262	0.1340	1.5300	0.2155
	2022	0.5878	0.1155	1.8123	0.2152
PT. Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ)	2021	0.6143	0.1724	3.1126	0.1720
	2022	0.6087	0.1309	3.1700	0.2510
PT. Cisarua Mountain Dairy Tbk (CMRY)	2021	0.3581	0.1410	5.7195	0.2223
	2022	0.6959	0.1704	4.3950	0.2101
PT. Diamond Food Indonesia Tbk (DMND)	2021	0.7931	0.0558	3.5836	0.2188
	2022	0.7826	0.0556	3.2581	0.2339

Source: Prepared by Writer (2023)

The first phenomenon is presented by the inconsistent relationship between corporate social responsibility and ETR of PT. Cisarua Mountain Dairy Tbk (CMRY) in the year 2021 to 2022. In PT. Cisarua Mountain Dairy Tbk, the increase in corporate social responsibility disclosure index from 0.3581 in 2021 to 0.6959 in 2022 was not followed by the increase of the effective tax rate. In fact, the effective tax rate was declining from 0.2223 in 2021 to 0.2188 in 2022. The increase in corporate social responsibility (CSRI) was due to the more extensive and complete CSR information disclosure in the sustainability report in accordance with the GRI

Standard. In addition, the company’s CSR activities were increasing as reflected by higher community investments from IDR 133 billion in 2021 to IDR 392 billion 2022. On the other hand, the decrease in ETR was due to the higher increase in income before tax as denominator amounted to 32% from IDR 1.02 trillion in 2021 to IDR 1.34 trillion in 2022, compared to the increase in the tax expenses as numerator which only increased by 25% from IDR 225.90 billion in 2021 to IDR 282.13 billion in 2022.

Companies with higher levels of corporate social responsibility often prioritize building a good reputation and positive public image. Participating in CSR initiatives can help companies enhance their reputation by showcasing the dedication to ethical and responsible business practices. Therefore, companies with high levels of corporate social responsibility are less inclined to participate in aggressive tax planning, primarily because tax aggression can be harmful to a company's reputation and branding. As a result, in the case when increase in CSR is not followed with increase in ETR, there is a possibility that the company has done more aggressive tax behavior to minimize the tax burden. Company might utilize the high CSR related cost to lower its accounting profit, which will automatically impact the fiscal profit when calculating its taxable income. Lower taxable income will potentially lower its tax obligation. Additionally, the company may use CSR initiatives to cover up the aggressive tax planning behaviors by diverting stakeholders’ attention on the positive perception associated with CSR.

The next phenomenon is displayed through the profitability of PT. Mayora Indah Tbk (MYOR) in the year 2021 to 2022 which presented an inconsistent relationship between profitability and ETR. In PT. Mayora Indah Tbk, the increase of profitability from 0.0608 in 2021 to 0.0884 in 2022 was not followed by the increase of the effective tax rate. In fact, the effective tax rate was declining from 0.2185 in 2021 to 0.2139 in 2022. The increase in the profitability (ROA) was significantly due to the drastic rise in the income after tax as the numerator of ROA amounted to 63% from IDR 1.21 trillion to IDR 1.97 trillion, while the total assets as the denominator increased by only 12% from IDR 19.92 trillion to IDR 22.28 trillion. The increase in income after tax was mainly caused by higher sales generated from IDR 27.90 trillion in 2021 to IDR 30.67 trillion in 2022. In addition, the company had successfully lowered its selling expense from IDR 4.54 trillion in 2021 becoming IDR 3.71 trillion in 2022. In the other side, the increase in total assets was mostly contributed by the increase of current assets, including cash and cash equivalents, short-term investment, trade receivable related parties, current inventories and other current advances. The company's profitability, as measured by ROA, has increased as a result of the net income after tax increasing at a faster rate than total assets. On the other hand, the decrease in ETR was due to the higher increase in income before tax as denominator amounted to 62% from IDR 1.55 trillion in 2021 to IDR 2.51 trillion in 2022, compared to the increase in the tax expenses as numerator which only increased by 58% from IDR 338.60 billion in 2021 to IDR 535.99 billion in 2022.

Since profits serve as a tax base when determining taxes payments, greater profitability should be associated with a higher effective tax rate. Therefore, in the case when increase in profitability is not followed by an increase in ETR, there is a possibility that the company has done several earnings managements, including raising expenses, delaying income and utilizing specific accounting methods. The declining ETR when the company is experiencing profit growth may be an indication that the company has tried to arrange the profit by conducting more aggressive tax planning.

As for the liquidity case, there is an inconsistent relationship between liquidity and ETR. In PT. Sariguna Primatirta Tbk (CLEO), the increase of liquidity (CR) from 1.5300 in 2021 to 1.8123 in 2022 was not followed by the increase of effective tax rate. In fact, the effective tax rate was declining from 0.2155 in 2021 to 0.2152 in 2022. The increase in liquidity (CR) was significantly due to the drastic rise in current assets as the numerator amounted to 36% from IDR 279.80 billion in 2021 to IDR 380.27 billion in 2022, while the current liabilities as the denominator increased by only 15% from IDR 182.88 billion in 2021 to IDR 209.83 billion in 2022. Since the current assets increment were more significant rather than current liabilities, the liquidity ratio increased. The increase in current assets was mainly caused by higher trade receivables related parties from IDR 122.44 billion in 2021 to IDR 189.07 billion in 2022. In addition, the company also has higher current inventories from IDR 121.73 billion in 2021 to IDR 178.18 billion in 2022. The increase in those accounts paralleled the 23.12% of sales revenue growth in 2022. In the other side, the increase in current liabilities was mainly attributed to the growth in short-term bank loans, which have increased by 160.55%. Additionally, 26.84% increase of trade payables related parties and 107.80% increase in other payables third parties were also the reasons for higher current liabilities in 2022 compared to 2021. Therefore, the higher increase in current assets compared to current liabilities have caused the company's liquidity (CR) to increase. On the other hand, the decrease in ETR was due to the higher increase in income before tax as denominator amounted to 8.20% from IDR 230.34 billion in 2021 to IDR 249.23 billion in 2022, compared to the increase in the tax expenses as numerator which only increased by 8.06% from IDR 49.63 billion in 2021 to IDR 53.63 billion in 2022.

Companies with higher levels of liquidity are better positioned to cover up their short-term obligations, indicating lack of cash flow problems and being able to pay taxes. Therefore, a company with high liquidity is less likely to engage in aggressive tax planning because a company that has a strong cash flow position is anticipated to have the willingness and ability to meet its tax obligations more readily. As a result, in the case when increase in liquidity is not followed with increase in ETR, there is a possibility that the company has done more aggressive tax behavior to optimize the tax burden, including utilizing the excess of liquidity to invest in assets that qualify for tax incentives or utilizing high liquidity to finance the creation of special purpose entities, which are used to hold and manage certain assets or income and enable the separation of revenue streams along with potential tax benefits.

Numerous researchers have conducted studies on tax aggressiveness, but research gap still exists in this area. According to a previous study conducted by, it was found that corporate social responsibility has no significant influence on tax aggressiveness. Conversely, another study conducted by Martaningrum and

Sriyono (2023) revealed a significant influence of corporate social responsibility on tax aggressiveness. Additionally, research conducted by Christy (2023) indicates that profitability and liquidity have significant influences on tax aggressiveness partially. In contrast, research by Chilwinnie (2022) reveals that profitability has no significant influence on tax aggressiveness. As for liquidity, Handayani (2022) demonstrates an insignificant influence on tax aggressiveness.

Given the aforementioned research background and the existence of inconsistent research results in this topic, the writer finds it intriguing to conduct a study entitled "The Influence of Corporate Social Responsibility, Profitability, and Liquidity Toward Tax Aggressiveness in Food and Beverages Companies Listed on the Indonesia Stock Exchange".

1.2 Problem Limitation

With the purpose of achieving a more focused research scope, this paper narrows down its discussion to:

1. Tax Aggressiveness indicated by Effective Tax Rate (ETR), as the dependent variable.
2. Corporate Social Responsibility indicated by CSR disclosure index (CSRI), Profitability indicated by Return on Assets (ROA), and Liquidity indicated by Current Ratio (CR), as the independent variables.
3. Food and Beverages companies listed on the Indonesia Stock Exchange as the population of this research, specifically from the period of 2021 to 2022.

1.3 Problem Formulation

Drawing upon the background discussed earlier, the problem formulation in this research are as follows:

1. Does corporate social responsibility have significant influence towards tax aggressiveness partially in food and beverages companies listed on the Indonesia Stock Exchange?
2. Does profitability have significant influence towards tax aggressiveness partially in food and beverages companies listed on the Indonesia Stock Exchange?
3. Does liquidity have significant influence towards tax aggressiveness partially in food and beverages companies listed on the Indonesia Stock Exchange?
4. Do corporate social responsibility, profitability, and liquidity have significant influence toward tax aggressiveness simultaneously in food and beverages companies listed on the Indonesia Stock Exchange?

1.4 Objectives of the Research

The objectives of this research, which aim to address the identified problems, are as follows:

1. To examine whether corporate social responsibility has significant partial influence towards tax aggressiveness in food and beverages companies listed on the Indonesia Stock Exchange.

2. To examine whether profitability has significant partial influence towards tax aggressiveness in food and beverages companies listed on the Indonesia Stock Exchange.
3. To examine whether liquidity has significant partial influence towards tax aggressiveness in food and beverages companies listed on the Indonesia Stock Exchange.
4. To examine whether corporate social responsibility, profitability, and liquidity have significant simultaneous influence toward tax aggressiveness in food and beverages companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This study is anticipated to offer advantages to a range of stakeholders by enhancing knowledge, encompassing both theoretical and practical benefits, as outlined below:

1.5.1 Theoretical Benefit

This research is expected to provide theoretical benefits in filling the gaps and assisting the growth of knowledge in the field of tax accounting. Moreover, this study is intended to contribute to the existing literature, as well as being an inspiration for new innovation and references for future research in the area of tax aggressiveness, corporate social responsibility, profitability, and liquidity.

1.5.2 Practical Benefit

1. For the writer

This research aims to enhance knowledge and deepen the writer's comprehension, particularly concerning the influence of Corporate Social Responsibility, Profitability, and Liquidity toward Tax Aggressiveness.

2. For the companies

This study aims to enhance companies' decision-making abilities, specifically in the financial and CSR strategies, by offering them a deeper understanding and knowledge of tax aggressiveness.

3. For the investors

This research is proposed to equip investors with information about tax aggressiveness and the companies' condition, enabling them to make more informed investment decisions.

4. For the government

This study intends to provide government with insights into tax aggressiveness, enabling them to perform better duties in developing more effective taxation policies.