CHAPTER I

INTRODUCTION

1.1 Background of Study

Every individual has their own needs, where food and beverages are categorized as the primary one. Seeing the individual needs, company engages in food and beverages sector.

From year to year, companies develop and attract investors' attention. A company that has run for a long time and has developed its scale usually earns profits for years. Those profits were counted as a contribution to a country's state revenue by paying taxes to the government.

According to Pohan (2014), tax is mandatory for taxpayers to fulfill which has a great contribution toward Indonesia's state revenue. With Indonesia's state revenue has consistently increased over years, tax has played a great role in the state's budget (APBN). Therefore, it was expected that all taxpayers make their contribution in paying tax based on their ability. Taxpayers are individuals or corporations that have the responsibility for tax obligations based on tax law. Since Indonesia's tax system has changed to a self-assessment system, the government expects that both individuals and corporations have self-awareness as taxpayers in implementing the tax system.

Due to the development of the tax system, the regulations about tax collection are also getting more numerous than before. Because of those regulations, taxpayers are likely to commit tax avoidance (Manurung, 2019). This happens more in big companies, where they are likely to minimize their tax payable because they think that paying more in tax will decrease their profit or, in the worst scenario, can result in losses. Consequently, many companies attempt to reduce their tax liability in a legally compliant manner through taxes avoidance. In addition, because it does not conflict with tax legislation, taxation avoidance is a kind of active resistance to avoid paying taxes safely and legally. According to the government's view, when all taxpayers reduce their income tax liability by avoiding payment of taxes, the revenue derived from them will be lower for the State (Pohan, 2014).

One of the methods that the company uses to avoid paying more tax is by utilizing Law No.23 Year 2018, where the company can use several legal entities to split its financial results. By earning profit below Rp 4.8 billion, company is subject to tax 0.5% of its gross profit (Manurung, 2019).

Table 1.1 Target and Realization of Tax Revenues in the Year 2019-2022 (in Trillion Rupiah)

Year	2019	2020	2021	2022
Target Revenue	1,786.378	1,404.507	1,444.541	1,783.987
Revenue Realization	1,546.134	1,285.145	1,547.867	2,034.542
Revenue Realization Percentage	86.55%	91.5%	107.15%	114.04%

Source: Ministry of Finance, data possessed (2023)

As can be seen from the table above, the target revenue set by the government was not achieved from 2019 to 2020. This can be presumed that during that period, companies committed tax avoidance since it was one of the factors that reduced the targeted tax revenue. Moreover, according to the Ministry of Finance, Sri Mulyani, tax revenue has slowly recovered since the pandemic hit before with the revenue realization exceeding 100% (Pajak.go.id, 2021).

Several companies have tax avoidance practices. PT RNI, an affiliated healthcare service provider in Singapore, was discovered in 2016 that it had engaged in tax avoidance by recognizing affiliated debts as capital, reporting large losses in its financial statements, and reporting annual revenue below Rp 4.8 billion. The company aimed to utilize the government's regulations, namely PP No. 46 Year 2013 regarding income tax for Micro, Small & Medium Enterprises (MSMEs) to obtain the 1% rate. In 2019, PT Adaro Energy Tbk, a company in the coal mining industry, committed tax avoidance through its subsidiary company in Singapore, Coaltrade Services International Pte Ltd. It is assumed that PT Adaro Energy Tbk has used transfer pricing techniques to minimize its domestic tax liability and thus generate a better profit for its shareholders. The financial reports of the company, which contained excessive transactions conducted by PT Adaro Energy Tbk and Coal Trade Services International Pte Ltd showing an imbalance in transfer prices relative to global coal markets, indicated signs of price fixing (newsunair, 2022).

PT Bentoel International Investama Tbk did tax avoidance practices between 2013 and 2015. To pay bank debts and machinery & equipment. the company got loans from a company in the Netherlands, Rothmans Far East BV. The loans amounted to Rp 5.3 trillion in August 2013 and Rp 6.7 trillion in 2015. The funds that were lent to Bentoel which came from the Dutch company's accounts show it came from another BAT (British American Tobacco) group company, Pathway 4 (Jersey) Limited, based in England. The loan was sent to the Netherlands' company in notes of it was stated in Rupiah and will be lent to Bentoel. Bentoel is required to pay Rp 2.25 trillion in total interest on the loans, amounting to US $164 million. In Indonesia, that interest shall be deducted from taxable income. Consecutively, the interests amounted to US $6.3 million in 2013, US $43 million in 2014, US $68.9 million in 2015, and US $45.8 million in 2016. To avoid tax deductions for interest payments to foreign nationals, Bentoel obtained loans originating in Jersey through a company established in the Netherlands. Indonesia applies a tax cut of 20%. However, there is agreement with the Netherlands that the tax is 0%. In contrast, Indonesia and England did not have such an agreement. The original loan was not made through a Jersey company. Indonesia-England has an agreement setting the tax rate on interest at 10%. Indonesia losses the US $11 million a year in revenue to the state from this strategy. Indonesia should be allowed to impose a tax rate of 20% or 33 million and US $11 million per year from the debt amounting to US $164 million. However, Indonesia and the Netherlands have amended the agreement allowing Indonesia to impose a 5% tax (kontan.co.id, 2019).

Based on cases in several company sectors, some companies have motives to avoid taxes. The research used the Effective Tax Rate (ETR) as a tool to measure tax avoidance. Effective Tax Rate is an indication of the effectiveness of strategies to reduce taxes on high incomes after taxation. It is measured by dividing taxable income by income tax expense. A high level of ETR indicates that there is a low level of tax avoidance. In vice versa, if the ETR value is lower, it indicates that the ability to commit tax avoidance is higher (Nathania et al., 2021).

Several research studies have shown that there are factors that can influence tax avoidance. Profitability is one of the factors influencing tax avoidance. As Kasmir (2016) mentioned, profitability is a ratio measuring how a company gains profit. Profitability is measured by the Return on Asset (ROA) ratio, which indicates how well a company performs and also represents its obligation to pay higher taxes (Thesia, 2022).

Previous research was done by Anggraeni & Oktaviani (2021), Dwiyanti & Jati (2019), Fiskawati & Subagyo (2022), and Mahdiana & Amin (2022) stated that profitability positively influence tax avoidance. In addition, Rahmawati et al. (2021) points out that profitability influences tax avoidance. Contrary, Januwito (2022) and Virhan & Aprilyanti (2022) stated that profitability did not have any influence toward tax avoidance.

Tax avoidance can be influenced by sales growth. The sales growth is counted from year-on-year increase. If the sales growth value increases, it means that the sales revenue obtained by a company also increases, which indicates the profit obtained is assumed to be increased. Overall, there would be a higher tax burden for the company to pay (Wahyuni et al., 2017).

Based on the latest research conducted by Tebiono & Sukadana (2019), Januwito (2022), and Rismawati & Atmaja (2023), sales growth influences tax avoidance. Other research results by Mahdiana & Amin (2020) stated that sales growth did not influence tax avoidance.

Capital intensity was another aspect that was involved with tax avoidance. It refers to a company's investment activity in which the company invests its assets as fixed assets (Fiskawati & Subagyo, 2022). Increasing the nominal of fixed assets can affect depreciation expense. If fixed assets are depreciated each year, the company's tax burden can also be reduced and a corresponding decrease in payment of taxes will automatically take place (Dewi & Oktaviani, 2021).

In Dwiyanti & Jati (2019) and Fiskawati & Subagyo (2022) research, capital intensity positively influences tax avoidance. Moreover, as Januwito (2022) and Virhan & Aprilyanti (2022) stated capital intensity influences and negatively influences tax avoidance consecutively. However, based on Rahmawati et al. (2021), Tebiono & Sukadana (2019) and Rismawati & Atmaja (2023) research, capital intensity did not influence tax avoidance.

The last variable that can affect tax avoidance is firm size. Firm size is the measurement of how big the company is. When company gets bigger, it is assumed stronger to pay tax to the government with the profit the company obtained. As a result, companies are likely to think about how they manage their tax payment (Prabowo & Sahlan, 2021).

Previous research done by Anggraeni & Oktaviani (2021) and Suryani (2020), firm size has a negative influence, and Rahmawati et al. (2021) research showed that firm size influences tax avoidance. The contrary research done by Tebiono & Sukadana (2019), Januwito (2022), Mahdiana & Amin (2020), and Virhan & Aprilyanti (2022), stated firm size did not have any influence toward tax avoidance.

Related to the phenomenon mentioned above, there are motives for tax avoidance carried out by companies. Therefore, it encouraged the writer to take a closer look at tax avoidance taken by companies in various sectors. Since those companies have used various factors as their basis for avoiding taxes, the writer would like to examine by observing through the title **“The Influence of Profitability, Sales Growth, Capital Intensity, and Firm Size Toward Tax Avoidance in Food and Beverages Companies Listed on the Indonesia Stock Exchange”**.

1.2 Problem Limitation

The following are limitations and other issues as follows:

1. The research object used is limited to food and beverages companies listed on the Indonesia Stock Exchange.
2. The variables used in this research are limited to profitability, sales growth, capital intensity, firm size, and tax avoidance.
3. The period used in this research is limited from 2019 to 2022.

1.3 Problem Formulation

The following are the formulations as follows:

1. Does profitability significantly influence tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?
2. Does sales growth significantly influence tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?
3. Does capital intensity significantly influence tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?

4. Does firm size significantly influence tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?
5. Do profitability, sales growth, capital intensity, and firm size significantly influence tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the problem formulation, the objectives of the research are as follows:

1. To analyze the influence of profitability toward tax avoidance in food and beverages sector companies listed on the Indonesia Stock Exchange.
2. To analyze the influence of sales growth toward tax avoidance in food and beverages sector companies listed on the Indonesia Stock Exchange.
3. To analyze the influence of capital intensity toward tax avoidance in food and beverages sector companies listed on the Indonesia Stock Exchange.
4. To analyze the influence of firm size toward tax avoidance in food and beverages sector companies listed on the Indonesia Stock Exchange.
5. To analyze the influence of profitability, sales growth, capital intensity, and firm size toward tax avoidance in food and beverages sector companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This research is intended to benefit readers who are interested based on the topic discussed. Here are the benefits of the research:

1.5.1 Theoretical Benefit

The research is expected to provide readers a comprehensive knowledge of the theories and supply detailed insights into the scale of profitability, sales growth, capital intensity, and firm size to tax avoidance. Furthermore, this research can become further research as a reference in the future.

1.5.2 Practical Benefit

Below are the practical benefits of the research:

1. For the government, it is expected to give feedback regarding the factors affecting tax avoidance, improve tax policies, strengthen legislation, enhance law enforcement and make it possible to collect a fair and efficient amount of revenue.
2. For the company, it is expected to give information and understanding regarding tax avoidance in several factors and hopefully the company can prevent committing tax avoidance.
3. For the writer, it is expected to give more knowledge about taxes either business or other situations and to give awareness about the duties as a taxpayer.