CHAPTER I

INTRODUCTION

1.1 Background of the Study

In 2020 until 2022, countries including Indonesia faced inevitable economic turbulent. The Government of Republic of Indonesia must issue the policy to maintain their social conditions by social distancing to deal with Covid-19 pandemic. As a result, consumers goods companies must maintain business stability. The consumer must limit their buying activities due to the policy implemented by the government as people are prohibited from being crowded and the public facilities must maintain the number of visitors. In pandemic situation, tax payment seems a burden for company as business run slower.

Tax is a source of income gained by the government of a country from the business activities of their citizens or people in a country. Tax becomes the source to fund government expenditure. To increase government spending, a large tax revenue is needed to finance the government spending budget.

Consumption plays an important role influencing the stability of a country's economy. Basically, economic growth is influenced by the consumption of its people. The higher level consumption means the higher rate of change in economic activity and the change in income of a country (Sangaji, 2009). Therefore, household consumption plays an important role in increasing state income and country’s economic resilience.

Companies usually maintain their profit toward the tax rate set by the government. As profit is a target for that company's management, they will try to manage the taxes they should pay. Based on Government Regulation in lieu of Law of the Republic of Indonesia No. 1 of 2020, corporate income tax rate is adjusted from 25% to 22% for 2020 and 2021. Later, continued by Article 17 paragraph (1b) no. 7 of 2021 regarding The Harmonization of Tax Regulation (HPP), the tax rate for corporate taxpayer and permanent establishment in Indonesia is 22% which comes into force since 2022.

Sales growth is one of many factors that have a certain influence toward the increase of tax base. The greater sales gained by a company causes an increase of tax. Sales growth is influenced by the company's market condition. A good condition will result in a greater sales growth rate as the good economic condition of a country increases the people's consumption which leads to increasing sales growth for the company. The increase of sales growth may result the increase of profitability, as the company gain more profit from their sales during the year.

Profitability is an indicator of company condition based on the profit gained from their business activities. A company with great profitability indicates that they have an ability to generate more profit. Profitability can be determined by the amount of total assets or equity of a company. As a company generates more profit, they tend to become a target by investors for investment. Companies with good profitability and sales growth usually tend to have more assets to increase their company value thus resulting in an increase in firm size.

Firm size is determined by the amount of assets owned by the respective company. People have an opinion that the bigger firm size will result in a bigger tax as bigger companies will generate more profit. The size of a company also influences the company's taxation system. The larger firm size causes a more complex taxation system of company. To lower the tax burden, the management generally applied tax avoidance to achieve their goals to maintain the stabilization of profit and tax burden within the company.

Tax avoidance is a legal action implemented by company tax management to reduce the tax burden that must be paid without violating tax provisions set by government (Rakhmayani et al., 2022). Tax avoidance becomes an action applied by a company's management to lower the amount of tax they should pay to the government. Effective tax rate has negative relationship with company's tax avoidance level. If ETR is closer to 25%, it indicates lower tax avoidance level and conversely (Tebiono et al., 2019). The corporate income tax rate was changed to 22% after the implementation of Article 17 paragraph (1b) No. 7 of 2021 *UU Harmonisasi Perpajakan*. Tax avoidance behavior of company can be measured by looking at the value of Effective Tax Rate. When the company has a lower Effective Tax Rate (ETR) value indicates that there is greater tax avoidance behavior implemented in the company (Awaliah et al., 2022).

There are several factors that support the implementation of tax avoidance in a company, however the author of this paper chose to focus only on profitability, firm size, and sales growth as the factors of tax avoidance in this research.

Table 1. 1 Profitability, Firm Size, and Sales Growth comparison toward Tax Avoidance of some companies in Consumer Goods Sector for year 2020-2022

Firm	Years	Profitability	Firm Size	Sales Growth	ETR
ADES (PT. Akasha Wira International Tbk.)	2020	14.16%	27.5889	-11.94%	0.1913
	2021	20.38%	27.8965	38.87%	0.2133
	2022	22.18%	28.1291	38.06%	0.2139
ULTJ (PT. Ultra Jaya Milk Industry & Trading Company Tbk.)	2020	12.68%	15.9850	-4.11%	0.2194
	2021	17.24%	15.8179	10.88%	0.1720
	2022	13.09%	15.8138	15.71%	0.2510
CPIN (PT. Charoen Pokphand Indonesia Tbk.)	2020	12.34%	31.0701	0.04%	0.1934
	2021	10.21%	31.1990	21.59%	0.2190
	2022	7.35%	31.3161	10.00%	0.1716
DSNG (PT. Dharma Satya Nusantara Tbk.)	2020	3.38%	30.2808	16.77%	0.3123
	2021	5.39%	30.2493	6.35%	0.2342
	2022	0.83%	30.3626	35.22%	0.2507
CAMP (PT. Campina Ice Cream Industry Tbk.)	2020	4.05%	27.7143	-7.03%	0.2248
	2021	8.66%	27.7675	6.53%	0.2067
	2022	11.28%	27.7031	10.82%	0.2122

Source: Prepared by Writer (2023)

According to Table 1.1, ADES has increased value in profitability, firm size, sales growth and ETR during the year 2020-2021. It is in contrast with the statement where while profitability, firm size, and sales growth increase, ETR decreases. PT. Ultra Jaya Milk Industry & Trading Company Tbk. has lower ETR in 2021 even though there are increasing profitability and sales growth. Increasing profitability and sales growth generally influence changes in the tax burden that must be paid by a company. The increase in these two variables reflects that the company has positive economic conditions during the year so that the tax burden increases as the two variables increase. However, the change in contrast between the independent variable toward the ETR indicates that the company did tax avoidance during that year. The ETR result indicates that the increase in profitability and sales growth influence the decision of company's management to implement tax avoidance. The negative sales growth also affects the decision to implement tax avoidance as the company needs to make a profit.

Based on the background above, the writer conduct research with title **"The Impact of Profitability, Firm Size and Sales Growth Toward Tax Avoidance in Consumer Goods Companies Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

This paper focused on analyzing profitability, firm size, and sales growth as the factors influencing toward tax avoidance in Consumer Goods companies listed on Indonesia Stock Exchange. Profitability (X_1), firm size (X_2), sales growth (X_3), and tax avoidance (Y) are respectively proxied by return on asset (ROA), total assets, percentage of change of sales, and effective tax rate (ETR).

1.3 Problem Formulation

As the topic of this research "**The Impact of Profitability, Firm Size and Sales Growth Toward Tax Avoidance in Consumer Goods Industry"**, the problem formulation are as follows:

1. Does profitability have significant impact toward tax avoidance partially?
2. Does firm size have significant impact toward tax avoidance partially?
3. Does sales growth have a significant impact toward tax avoidance partially?
4. Do profitability, firm size, and sales growth have significant impact toward tax avoidance simultaneously?

1.4 Objectives of The Research

The objective of the research are as follows:

1. To know whether profitability has a partially significant impact on tax avoidance.

2. To know whether firm size has a partially significant impact on tax avoidance.
3. To know whether sales growth has a partially significant impact on tax avoidance.
4. To know whether profitability, firm size, and sales growth simultaneously have significant impact on tax avoidance.

1.5 Benefits of The Research

1.5.1 Theoretical Benefits

It is expected that the author and readers of this research paper will have better knowledge, information, and experience regarding The Impact of Profitability, Firm Size, and Sales Growth toward the Implementation of Tax Avoidance in Consumer Goods Industry Listed on The Indonesia Stock Exchange for references of future research.

1.5.2 Practical Benefits

1. For Company

   This study offers better understanding regarding the implementation of tax avoidance affected by profitability, firm size, and sales growth of company.
2. For Investors

   This study provides useful information for investors that will invest in the consumer goods companies listed on Indonesia Stock Exchange in the future.
3. For Researchers

   This study is intended for researcher to expand the knowledge regarding the impact of profitability, firm size, and sales growth toward tax avoidance in consumer goods industry listed on Indonesia Stock Exchange.