# CHAPTER I

# INTRODUCTION

## 1.1    Background of Study

In 2022, the national income of Indonesia reaches Rp2.266,2 trillion, exceeds the expected income of Rp2.626,4 trillion. This income comes from various sources such as tax revenue amounting to Rp1.717,8 trillion, customs and excise receipts amounting to Rp317,8 trillion, and non-tax revenue amounting to Rp588,3 trillion. These amount shows that taxation is the largest source of income in Indonesia (*Kementrian Keuangan Republik Indonesia,* 2023). According to (Rachman, 2023), from all the tax revenue received in 2022, 22,6% are collected from corporation income tax.

Even though taxes are one of the main sources of income for a country, it is considered as expenses by taxpayers, in this research companies (Erlana, 2019). One of the largest promoters of Indonesia's economic is from the food and beverages companies. In 2021, this sector contributes considerable amount to Indonesia's gross domestic product (GDP) of 6,61%, which approximately amounted Rp 16,97 quadrillion (Sari, 2022). In 2022, the food and beverages sector reaches 6,32% of the total Rp 19,57 quadrillion of gross domestic product (GDP) in Indonesia, with the total of Rp 1,23 quadrillion. (Viva Budy Kusnandar, 2023)
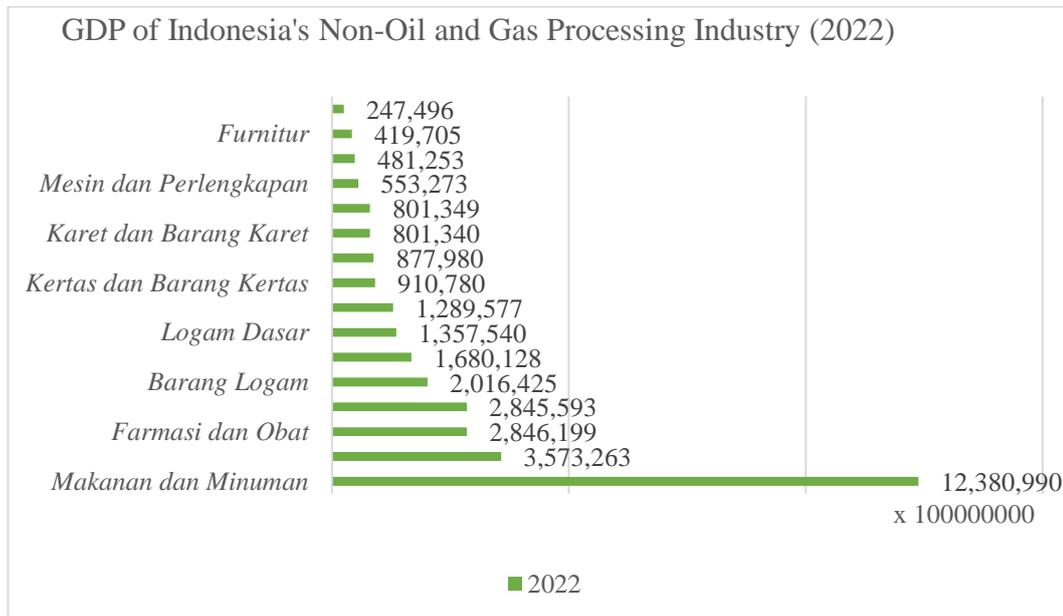
**Figure 1.1 GDP of Indonesia's Non-Oil and Gas Processing Industry**
Source: Prepared by Viva Budy Kusnandar (2023)

Despite being impacted by the outbreak of Covid-19, the food and beverage sector grew strongly at 3.57% in the third quarter of 2022, exceeding the 3.49% growth rate recorded in the same quarter of the previous year (*Kemenperin*, 2019).

(Ali Murad et al., 2022) mentioned that there are multiple factors that have an impact on increasing tax revenues, one among them is economic development, which will cause tax collection to increase even without the impact of tax rates. In addition, (Yulyanah & Kusumastuti, 2019) also stated that the food and beverage industry is one of the essential sub-sectors in manufacturing industries that contribute greatly to the growth of national economic and tax revenue.

Although food and beverages industry are supposed to contribute considerable amount of tax revenue for the government of Indonesia, because of different in the interests, tax revenue targeted is not always as how expected by the government. For a country, taxes are considered as one of the largest sources of

income. On the other hand, taxes are considered as expenses by companies in order to fulfill their obligation as taxpayer (Erlana, 2019).

Tax avoidance is often implemented by companies in order to maintain their cash resources, instead of "giving" them away for government. It is because tax avoidance is one of the legal ways to reduce tax burden by relying on loopholes of General Tax Provisions Law. One of the most common indicators that applied on tax avoidance is effective tax rate (ETR), which generally measures a company's tax burden (Wang et al., 2020).

The table below shows the effective tax rate in food and beverages companies used in this research:

**Table 1.1 Effective Tax Rate of Companies in the year 2020-2022**

| Company | 2020 | 2021 | 2022 |
|---|---|---|---|
| PT. Garudafood Putra Putri Jaya Tbk | 27,91% | 22,13% | 23,96% |
| PT. Indofood Sukses Makmur Tbk | 29,57% | 22,49% | 25,38% |
| PT. Mayora Indah Tbk | 21,82% | 21,85% | 21,39% |

Source: Prepared by the writer (2023)

The effective tax rate above shows the measurement of tax avoidance, in which tax expense is divided by net income before tax of the companies. The tax avoidance measurement in PT. Garudafood Putra Putri Jaya Tbk decreases from 27,91% in 2020 to 22,13% in 2021 and increases in the year after to 23,96%. Similar measurement shows in PT. Indofood Sukses Makmur Tbk, where tax avoidance measurement in 2020 decreases from 29,57% to 22,49% in 2021 and increase again in 2022 to 25,38%. In PT. Mayora Indah Tbk, the tax avoidance is more stable from 21,82% in 2020 to 21,85% in 2021, and 21,39% in 2022. The varieties of tax avoidance in these companies are influenced by some factors like profitability, liquidity, and capital intensity.

The profitability of a company is considered as one of the factors that have the potential to increase a company to conduct tax avoidance. According to (Ghozali, 2021), higher profitability (ROA) shows that a company is managing its assets efficiently and therefore would gain more profit. The increase in profit would cause an additional tax burden for the company and cause more possibility for them to do tax avoidance.

The other factor expected to influence the possibility of tax avoidance in companies is liquidity, which is used as a measure of how prepared a company is to is to fulfill its short-term obligations. The magnitude of liquidity indicates the cash flow condition in a company. A higher level of liquidity shows that a company has a secure cash flow condition, and are able to fulfill their short-term obligations, including to fulfill the obligation to pay taxes. On the other hand, a lower liquidity level shows unsecure cash flow, and the company will have a hard time managing their short-term obligation, including fulfilling the responsibility to pay taxes (Urrahmah & Mukti, 2021).

Capital intensity is considered as one of the factors that have direct influence on effective tax rate directly, the indicator of tax avoidance. This is because the depreciation came from the company's decision to invest in fixed assets (Pattiasina et al., 2019).

The research conducted before by (Ghozali, 2021) shows that profitability (ROA) has positively significant towards tax avoidance unlike the research done by (Fatimah et al., 2021) which shows there is profitability (ROA) does not influence tax avoidance. Based on previous research conducted by (Urrahmah & Mukti,

2021), liquidity has positive and significant influence on tax avoidance. This research is supported with another research by (Artinasari & Mildawati, 2018) that shows the positive and significant influence of liquidity towards tax avoidance. On the other hand, (Ghozali, 2021) rejected this statement, saying tax avoidance is not significantly influenced by capital intensity. On the contract, the research done by (Urrahmah & Mukti, 2021) shows that capital intensity have a positive and significance influence on tax avoidance.

From the phenomenon discussed and contradiction of previous research that have been conducted before, this research is done with the title **"The Influence of Profitability, Liquidity, and Capital Intensity on Tax Avoidance in Food and Beverages Companies Listed on the Indonesia Stock Exchange."**

## 1.2 Problem Limitation

The following are some of the problem limitations identified in conducting this research:

1. Tax avoidance which is indicated by effective tax rate (ETR) is the dependent variable used in this research. Meanwhile, profitability which is indicated by return of assets (ROA), liquidity which is indicated by current ratio (CR) and capital intensity are the independent variables used in conducting this research paper.

2. The population of this research is limited to food and beverages companies listed on the Indonesia Stock Exchange between the year 2020-2022.

**1.3    Problem Formulation**

The following problem formulations will be used in the conduct of this research:

1.    Does profitability have a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?

2.    Does liquidity have a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?

3.    Does capital intensity have a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?

4.    Do profitability, liquidity, and capital intensity simultaneously have a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange?

**1.4    Objectives of The Research**

The following problem formulations will be used in the conduct of this research:

1.    To find out whether profitability has a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange.

2.    To find out whether liquidity has a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange.

3.    To find out whether capital intensity has a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange.

4. To find out whether profitability, liquidity, and capital intensity simultaneously have a significant influence on tax avoidance in food and beverages companies listed on the Indonesia Stock Exchange.

## 1.5 Benefits of the Research

The following are the theoretical and practical advantages that are anticipated from this study:

### 1.5.1 Theoretical Benefits

The theoretical benefits that are expected of this research can be acquired by providing the latest data about the existing variables used in the research, which is how profitability, liquidity, and capital intensity have influence on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange.

### 1.5.2 Practical Benefits

The practical benefits of this research are aimed to several different subject listed below:

1. Researchers

Researchers of future studies are expected to benefit from this research as this research provide the latest data and information regarding the latest topic about how profitability, liquidity, and capital intensity have influence on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange.

2.     Taxpayers

Companies are expected to benefit from this research by having their awareness regarding the matter of tax avoidance increased. They are hoped to understand the impact on how excessive tax avoidance will have a bad impact on the country.