

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is one of the most important roles for the state with the aim of achieving prosperity and social welfare as a source of state revenue to support increased development and economic growth in Indonesia. The definition of tax according to Article 1 Paragraph (1) of Law No. of 1983 regarding General Provisions and Taxation Procedures as amended several times lastly by Government Regulation in Law No.2 of 2022 on Job Creation states that:

Pajak adalah kontribusi wajib kepada negara yang terutang oleh orang pribadi atau badan yang bersifat memaksa berdasarkan Undang-Undang, dengan tidak mendapatkan imbalan secara langsung dan digunakan untuk keperluan negara bagi sebesar-besarnya kemakmuran rakyat

From the definition of tax above, there is a difference of opinion between the government and taxpayers, where taxes are coercive. For the government, taxes are a reliable source of funds for state development and economic growth. Therefore, the government continues to increase the state revenue target through taxes. Meanwhile, according to taxpayers, taxes are a large burden and can reduce the profits they generate. With this, companies will try to minimize tax payments to their companies, so as not to reduce company profits by carrying out tax avoidance.

This research is using food and beverages company that listed on the Indonesia Stock Exchange. First, food and beverages companies are part of manufacturing companies that have the largest number of companies compared to other manufacturing sectors. Then the second, the food and beverage sector

is included in fast moving consumer goods, because this sector is a basic need for people throughout Indonesia.

**Table 1.1 Realization of Tax Revenue Targets for the Period 2020-2022
(In Trillion Rupiah)**

Year	Tax Revenue Target (Rp)	Tax Revenue Realization (Rp)	Realization Percentage (%)
2020	1198,8	1072,1	89.43%
2021	1229,6	1277,5	99.83%
2022	1485,0	1716,8	115.6%

Source: www.kemenkeu.go.id (2023)

Based on Table 1.1, it can be seen that every year there is an increase in both the tax revenue target and the realization of tax revenue, although in 2020 and 2021 it appears that the government has not succeeded in achieving the tax revenue target that has been set. However, in 2022 the tax revenue realization has successfully exceeded the tax revenue target, which reached Rp.1.716,8 trillion. This indicates that the government and the level of taxpayer compliance contribute to each other positively. The level of taxpayer compliance is the government's main focus in efforts to achieve optimal state tax revenue targets. Tax regulations apply to all taxpayers, including companies or corporate taxpayers. The company has the main goal of achieving maximum profits, which will ultimately provide benefits to capital owners or shareholders. However, some companies are reluctant to pay tax because it is considered a deduction from the profits earned by the company.

With companies considering tax as a burden, it appears that there are differences in interests between the government and companies as taxpayers.

Companies see taxes as a burden that can reduce the income they earn. Meanwhile, the government has the motivation to collect taxes owed from taxpayers to increase state tax revenues, because taxes are considered an obligation that must be fulfilled by all citizens. Given this difference, companies are looking for ways to minimize their taxes by carrying out tax avoidance practices. According to (Hartato,2018), taxes are considered a factor that reduces a company's net profit, so managers tend to take steps to minimize company taxes through tax avoidance practices.

According to the Director General (*Dirjen*) of Tax at the Ministry of Finance (Kemenkeu), Suryo Utomo, the findings of tax avoidance are estimated to cost the state up to Rp 68.7 trillion per year. These findings were obtained from the Tax Justice Network report, that there was an impact of tax avoidance efforts with Indonesia which caused losses of US\$4.46 billion per year which was equivalent to Rp 68.7 trillion according to the exchange rate at that time. In a report released by the Tax Justice Network with the title "Overview of Tax Justice in 2020: Tax Avoidance Practices During the Covid-19 Pandemic," the statement stated that around US\$ 4.78 billion or the equivalent of Rp 67.6 trillion at that time, when converted to the prevailing exchange rate, represents the amount involved in corporate tax avoidance practices in Indonesia. Meanwhile, the remaining around US\$ 78.83 million or around Rp 1.1 trillion came from individual taxpayers (Kontan.co.id, 2020). Therefore, based on this report, it can be concluded that tax avoidance practices still frequently occur in various industrial sectors in Indonesia.

Tax Avoidance is an effort or action to lighten the tax burden legally, without violating the law. The difference between tax avoidance and tax evasion is where tax avoidance is carried out by companies legally, by looking for loopholes from predetermined tax regulations. Meanwhile, tax evasion is carried out by illegally violating tax regulations. The indicator that will be used in this study is the cash effective tax rate with cash tax paid divided with pre-tax income. In this research the indicator to calculate the tax avoidance is using cash effective tax rate (CETR). According to (Ardillah & Halim, 2022), The Cash Effective Tax Rate (CETR) is an appropriate metric for assessing tax avoidance practices employed by firms. This is due to the fact that the CETR remains unaffected by fluctuations in estimates, such as allowances, assessments, or tax protections.

One of the phenomenon tax avoidances practiced that cited from (nasional.kontan.co.id), The tax avoidance case that occurred in Indonesia was carried out by PT Coca-cola Indonesia which operates in the consumer goods industry. PT Coca-Cola Indonesia is suspected of manipulating taxes resulting in a tax underpayment of IDR 49.24 billion. Therefore, Director General the Tax Ministry of Finance carried out an investigation and found that there were cost overruns large in 2002, 2003, 2004 and 2006. Large cost expenses caused income the taxable amount is reduced, so the tax payment becomes smaller. These costs come from beverage product advertisements spanning the period from 2002-2006 with a total of IDR 566.85 billion. According to the DJP, PT Coca-Cola total taxable income for that period was IDR 603.48 billion.

Meanwhile, according to PT Coca-cola calculations, it is only IDR 492.59 billion. With this difference, DJP calculated PT Coca-cola income tax shortfall of IDR 49.24 billion. For DJP, it is a cost burden This is very suspicious and leads to transfer pricing in order to minimize taxes

Profitability is a fundamental indicator of a company's financial performance and sustainability. Where profitability describes a company's ability to generate profits. The higher a company's profits the tax burden of a company will increase. Therefore, companies that have high profitability will certainly have a higher corporate tax burden, so that the tendency to carry out tax avoidance in these companies will be higher. The indicator used in this research to calculate profitability is Return on Assets (ROA). Return on Assets (ROA) can be calculated from net income divided by total assets.

Institutional ownership refers to the ownership of shares by institutional bodies, which is undertaken with the objective of enhancing managerial oversight. This practice aims to improve the efficiency of management and align it with the expectations of shareholders, who act as principals in this context. According to (Pratomo & Risa Aulia Rana, 2021) Institutional ownership has a prominent position in an industry, as institutional ownership or ownership owned by external parties will increase the level of oversight of a company's management, thereby minimizing management action in instituting tax avoidance. The formula used to calculate institutional ownership is the number of shares owned by the institution divided by the number of shares outstanding.

Table 1.2 Table of Phenomena Profitability and Institutional Ownership in Food and Beverages Companies Listed on the Indonesia Stock Exchange

Company Name	Year	Profitability (ROA)	Institutional ownership	Tax Avoidance (CETR)
PT. Multi Bintang Indonesia Tbk (MLBI)	2021	0,228	0,818	0.199
	2022	0,274	0,818	0.260
PT. Mayora Indah Tbk (MYOR)	2021	0.061	0.843	0.460
	2022	0.088	0.843	0.333
PT. Nippon Indosari Corpindo Tbk (ROTI)	2020	0.038	0.828	0.202
	2021	0.067	0.833	0.135
PT. Garudafood Putra Putri Jaya Tbk (GOOD)	2020	0.037	0.942	0.287
	2021	0.073	0.851	0.248

Source: Prepared by writer (2023)

Table 1.2 above describes the value of profitability, institutional ownership and cash effective tax rate found in food and beverage companies listed on the Indonesia Stock Exchange for the 2020-2022 period.

The profitability of PT Multi Bintang Indonesia Tbk (MLBI) was increasing from 2020-2021, but the CETR was increasing from 2020-2021. The decline in CETR from 2020-2021 may indicate there are tax avoidance attempt at PT Multi Bintang Indonesia Tbk at that time. Meanwhile, PT Mayora Indah Tbk (MYOR), which is in the period of 2021-2022 the company having an increasing in profitability followed by the decreasing CETR from 0,460 to 0,333.

The institutional ownership of PT Nippon Indosari Corpindo Tbk (ROTI) was increasing from 2020-2021, but the CETR was decreasing from 2020-2021. The decline in CETR from 2020-2021 may indicate there are tax avoidance attempt at PT Nippon Indosari Corpindo Tbk at that time. Meanwhile, PT. Garudafood Putra Putri Jaya Tbk (GOOD), which in the period of 2020-2021 the company having an increasing in institutional ownership followed by decreasing CETR.

There are several factors that influence a company to carry out tax avoidance practices, namely profitability, institutional ownership. The first factor that affects tax avoidance is profitability. In research conducted by (Darsani & Sukartha, 2021), stated that there are several variables that have an impact on tax avoidance, namely profitability, institutional ownership, leverage and capital intensity ratio. The study shows that profitability has a positive effect on tax avoidance. However, this result contradicts the results of research from (Aulia and Mahpudin, 2020), which states that profitability does not affect tax avoidance. The second factor that affect tax avoidance is institutional ownership. Research on institutional ownership conducted by (Sari & Kinasih, 2021), that institutional ownership has no influence on tax avoidance. This is different from research conducted by (Mita Dewi, 2019), proving that institutional ownership has a positive influence on tax avoidance. This is because, the higher the ownership of the institution, the higher the amount of tax burden that must be paid by the company due to the increasing strong control carried out by external parties on the company so as to prevent potential abuse of power, one of which is tax avoidance.

Based on the explanation and phenomenon above, the researcher is interested in conducting research with the title "**The Influence of Profitability and Institutional Ownership Toward Tax Avoidance in Food and Beverages Companies listed on the Indonesia Stock Exchange**".

1.2 Problem Limitation

The problem limitation of this research as follows:

1. This study will be limited to the food and beverages companies that listed on the Indonesia Stock Exchange in the period 2020-2022.
2. The studies have 2 independent variables and 1 dependent variable. The independent variable is profitability and institutional ownership, and the dependent variable is tax avoidance. The indicator for the independent, which are profitability is using return of asset and the second variable is institutional ownership. While for the dependent variable, tax avoidance is cash effective tax rate.

1.3 Problem Formulation

The problem formulation of this research as follows:

1. Does profitability have significant influence towards tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange?
2. Does institutional ownership have significant influence towards tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange?
3. Does profitability and institutional ownership simultaneously have significant influence tax avoidance in food and beverage companies listed on Indonesia Stock Exchange?

1.4 Objectives of The Research

The purpose of this study based on the problem formulation is:

1. To determine the influence of profitability towards tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange

2. To determine the influence of institutional ownership towards tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange
3. To determine the simultaneously influence of profitability and institutional ownership toward tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange

1.5 Benefits of The Research

The benefit from conducting this research as follows:

1.5.1 Theoretical Benefit

1. This research is expected to give a contribution in adding reading material for students of Universitas Pelita Harapan Medan.
2. This research can give benefit in understanding about the theory of accounting and taxation, especially about tax avoidance.

1.5.2 Practical Benefit

1. For Researchers

This Study is aiming to learn more about the influence of profitability and institutional ownership toward tax avoidance in food and beverage listed on Indonesia Stock Exchange

2. For Companies

This research is expected to provide knowledge and motivation to the company in the problem of tax avoidance.

3. For Further Researchers

This research is expected to provide benefits as reference material and theoretical studies for the further research on the same topic.