CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is one of the developing countries in the world, which is strategically located and has abundant natural resources and large population. These factors attracted many domestic and foreign investors to invest in Indonesia. Supporting facilities and infrastructure are needed to speed up carrying out business activities, including infrastructure. The government needs significant funds to build facilities and infrastructure in all fields to prosper its people, and taxes are one of the largest state revenue sources.

Although income sources differ, almost all countries in the world's most significant income comes from taxes. The central and local governments carry out tax collection in Indonesia. Income tax, value-added tax, luxury goods sales tax, stamp duty, and land and building tax are taxes collected by central government. Meanwhile, motor vehicle, advertisement, cigarette, and restaurant taxes are among several types of taxes collected by local government.

Under law No. 16 year 2009, tax is a mandatory contribution to the state owed by an individual or entity that is coercive based on law. According to Siregar (2021), taxes are mandatory payments to the government that must be made and are enforced by either individuals or entities. Tax payments must be made on time and under the applicable laws and regulations in Indonesia. Indonesia implements a self-assessment system, which means that taxpayers calculate and deposit taxes payable, and report taxes paid are the taxpayers themselves. This system provides an opportunity for taxpayers to manipulate the amount of the tax burden. Thus, tax payments can be forced if the taxpayer is negligent in carrying out his obligations honestly (Lestari & Setiawati, 2023).

The Indonesian government continues to strive to increase state revenues from taxes. Taxes are a form of contribution from society to the government to carry out its state duties (Wulandari et al., 2022). The effectiveness of tax collection in Indonesia from 2018 to 2022 is presented as follows:

Table 1. 1 Effectiveness of Tax Collection in Indonesia (2018-2022)

Year	Target (Trillion)	Realization (Trillion)	Effectiveness of Tax Collection
2018	IDR 1,424	IDR 1,315.9	92.41%
2019	IDR 1,577.6	IDR 1,332.1	84.44%
2020	IDR 1,198.82	IDR 925.34	77.19%
2021	IDR 1,229.6	IDR 1,231.87	100.19%
2022	IDR 1,784	IDR 2,034.5	114%

Source: Prepared by writer (2023)

From Table 1.1, the tax realization during 2020 has the lowest percentage. It was influenced by difficult economic conditions due to the worldwide COVID-19 pandemic, which resulted in many companies laying off their employees and even closing their businesses. However, in 2021, the realization of tax revenue has finally reached the target set by government after 12 years, which is 100.19%, because since 2008 Indonesia has never reached the tax revenue target. The Indonesian government's failure was influenced by the low level of citizen compliance in paying taxes, the small taxpayer base, and many leaks in tax revenue

(Safitri & Oktris, 2023). This achievement is extraordinary for the Tax Directorate General, considering that Indonesia is still in the middle of an economic recovery period after being slumped due to the COVID-19 pandemic. The ongoing economic recovery has resulted in the tax realization in 2022, increasing by 13.81% from the previous year, which is 14% higher than the government's target.

At this time, the government is trying to increase state revenue from the tax sector to cover the deficit during Covid-19 pandemic, which made the state spend enormous funds to deal with Covid-19. Tax revenue has exceeded the targets set for 2021 and 2022 and is expected to continue to grow in the following years. Corporate taxpayers significantly contribute to achieving the target compared to individual taxpayers. According to Moeljono (2020), the activities of business entities are an essential component in forming a country's economic structure. Corporate taxpayers, namely companies, are the cogs of the national economy, which absorb the available factors of production.

However, this government effort to increase tax revenue contradicts the company's goal as a taxpayer to get as much profit as possible. The government seeks to optimize state revenues from tax revenues. In contrast, the company's goal is to increase profits and improve the welfare of shareholders. Therefore, taxpayers, especially companies, try to make the tax payment smaller.

According to Setyaningsih & Wulandari (2022), tax avoidance helps reduce the tax burden for taxpayers by looking for loopholes in a country's tax regulations. The literature on tax administration often views tax avoidance as a legal tax. All companies from various business can avoid tax (Firmanzah & Marsoem, 2023).

This study observed consumer goods companies listed on the Indonesia Stock Exchange because companies engaged in this business have high business opportunities. The goods produced and sold by companies operating in this field relate to the daily needs required by people of Indonesia. Apart from that, companies operating in this field have small profit margins but have a great opportunity to increase the quantity of sales so that the profit obtained increases.

Consumer goods are products used directly by consumers. These products are not only limited to food and beverages, but many other products such as cosmetics, medicines, cigarettes, and household needs. These products are divided into long-lasting products such as clothing and household equipment, while food, drinks, medicines, and cosmetics are non-durable products. Consumer goods companies will continue to grow due to increasing demand for consumer goods, thereby contributing significantly to increasing state revenue from taxes.

Several factors influence tax avoidance, including profitability, leverage, fiscal loss compensation, return on assets, institutional ownership, company risk, company age, and firm size. Of the many factors that influence tax avoidance, the author will examine profitability and leverage. These two factors were studied to determine their influence on tax avoidance actions. The author chose these two factors because profitability shows a company's ability to generate profits with existing resources and good management using return on assets (ROA). The next factor is leverage, which can show the company's ability to utilize debt or capital loans using debt to equity ratio. Tax avoidance is measured using cash effective tax rate (CETR). Firm size as moderating variable is measured using Ln (Total Assets).

Oktrivina et al., (2020) and Effendi & Trisnawati (2023) stated that profitability has a positive effect on tax avoidance. Mulyati et al., (2019) and Siregar (2021) showed that profitability does not affect tax avoidance. For the leverage factor, Ernawati et al., (2019) and Suliana & Suhono (2020) stated that it has a positive effect on tax avoidance, while the research results of Moeljono (2020) and Radiany et al., (2022) showed that leverage has a negative effect on tax avoidance. Because the results of previous research are inconsistent, the author adds firm size as a moderating variable which research results are expected to clarify the direction either to strengthen or weaken the influence of profitability on tax avoidance and the influence of leverage on tax avoidance.

Based on the explanation above, the author is interested in researching **"The Influence of Profitability and Leverage Toward Tax Avoidance with Firm Size as Moderating Variable on Consumer Goods Companies Listed on the Indonesia Stock Exchange."**

1.2 Problem Limitation

The problem limitation of this study as follows:

1. This study examines data from Consumer Goods Companies listed on the Indonesia Stock Exchange.
2. This study examines data for period 2020-2022.
3. The independent variable used in this study were profitability and leverage.
4. The dependent variable used in this study was tax avoidance.
5. The moderating variable used in this study was firm size.

1.3 Problem Formulation

The author makes the problem formulation as follows:

1. Does profitability affect tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange?
2. Does leverage affect tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange?
3. Do profitability and leverage simultaneously affect tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange?
4. Does firm size moderate the relationship between profitability and tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange?
5. Does firm size moderate the relationship between leverage and tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange?
6. Does firm size moderate the relationship between profitability, leverage, and tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange?

1.4 Objective of the research

This study aims to obtain empirical evidence on:

1. The influence of profitability towards tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange.
2. The influence of leverage towards tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange.

3. The influence of profitability and leverage simultaneously toward tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange.
4. The influence of firm size moderating profitability on tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange.
5. The influence of firm size moderating leverage on tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange.
6. The influence of firm size moderating profitability and leverage on tax avoidance on Consumer Goods Companies Listed on the Indonesia Stock Exchange.

1.5 Benefit of the research

The benefit of the research is expected to provide more knowledge and benefits for various related parties, as follows:

1.5.1 Theoretical benefit

This research is expected to provide more understanding for various parties related to the research topic, namely the influence of profitability and leverage toward tax avoidance with firm size as a moderating variable on Consumer Goods Companies listed on the Indonesia Stock Exchange.

1.5.2 Practical benefit

This research is expected to generate practical benefits as follows:

1. For investor

This research is expected to provide information to investors to facilitate decision-making when deciding to invest capital in a company.

2. For author

   This research is expected to be helpful for the author to gain more knowledge regarding the influence of profitability and leverage on tax avoidance with firm size as moderating variables.

3. For reader

   This research is expected to increase knowledge of tax avoidance among various parties and to be used as a reference with empirical evidence that guides further analysis.