

CHAPTER I

INTRODUCTION

1.1 Background of the Study

One of the crucial metrics for a nation in evaluating the strength and prosperity of its economy is economic growth. For a country to grow and thrive, the economy of the company must be strengthened. The biggest contributor to economic growth in a country is taxes. In Indonesia, taxes contribute approximately 82,5% of the total income of the country for the year 2023 (*Badan Pusat Statistik, 2023*). According to The Ministry of Finance, Sri Mulyani, Tax revenue realization increased by 31.4% from 2021's realization of IDR 1,547.8 trillion to IDR 2,034.5 trillion, or 114% of the Presidential Decree 98/2022 objective. Tax, customs, and excise revenue all contribute to the realization of this tax income (*Kemenkeu, 2023*).



Figure 1. 1 Tax Realization of Tax Revenue
Source: (Datanesia, 2023)

According to the graph above, it can be seen that the tax revenue in Indonesia keeps on increasing for the last 2 years. Before 2021, the tax revenue of the country is quite low because of the Covid-19 pandemic. However, a year after the pandemic, the economy of Indonesia has start to recover and even reached the target set by the President Joko Widodo. It can be concluded that the realization that exceeded the target for two consecutive years shows improved tax performance (*Kemenkeu, 2023*)

Taxes collected by the government are used to finance the development of the country, open up new job opportunities to reduce unemployment, maintain inflation, etc. These acts later will also have an impact on the citizens. The more citizens are aware and pay taxes according to the regulations, the faster the country can develop by improving itself, because one of the functions of taxes is to fund the government spending. This spending includes the improvement of the country by the government. The improvement will bring prosperity to the country, such as decreasing the unemployment rate by building job opportunities, leading to the lower the criminal action in Indonesia. Because one of the reasons people commit crime is because their daily activities are insufficient to raise the welfare (Priyanto, 2016). The chances for companies to hire a professional employee is also increasing, because the development of each city is even, the level of social inequality will also decline. However, there are still a lot of citizens who are reluctant to pay taxes to the government and the thought of misusing tax paid by the government is still haunting them. These thoughts lead to the hesitation of paying taxes, either by the individual taxpayers or entity taxpayers.

The hesitation made by the individual taxpayers can cause a desire to lower their income, not report the assets truthfully, or worse, not fill in the annual tax return. On the other hand, for the entity taxpayer, the hesitation to pay taxes can cause the company to lower its tax income to have a higher profit after tax. This will become a problem for the government, because the tax paid will be reduced and development will be hampered. There are 2 ways to reduce a company's tax income, which are by doing tax evasion or tax avoidance. If a company reduces its tax income by doing tax evasion, which is an embezzlement of tax fund, the company may be convicted if the Directorate General of Taxes finds out this act. However, if the company is using tax avoidance, which is lowering its tax income by utilizing the loopholes in the tax regulation, it is legal. Even if tax avoidance is legal, the outcome of it will harm the country. Because, the lower tax collected by the government, the slower the development of the country will be. One of the solutions to increase the awareness of the citizens about the importance of paying tax is by providing seminar/counselling to raise the citizens' knowledge that tax paid by them will be used by the government to increase the prosperity of the country (Jatmiko, 2016).

Although there are still people who are not willing to pay taxes accordingly, there are also some industries whose performances are good and productive. According to the Ministry of Finance, Sri Mulyani, the biggest contributor to taxes in the beginning of 2023 is the manufacturing industry. This industry contributes 31,5% of the total tax collected, which is approximately Rp. 162.23 trillion. The growth of this sector increases 65,1% year on year. This growth is higher than January 2022 which in

55,3% year on year (Damara, 2023). According to Sri Mulyani, during the pandemic, the growth of the manufacturing industry was lower than the year before pandemic. However, the activity of this sector is resilient, because it can still grow despite the pandemic. One of the subsectors that also plays an important role in the manufacturing industry is the food and beverages subsector (Satyagraha, 2020). As food and beverages is one of the primary needs of humans to stay alive, this subsector becomes more resilient. Thus, even if a disaster happens, food and beverages may be one of the stable subsectors. There are a lot of factors that are impacting the act of tax avoidance in a company, namely profitability, corporate social responsibility, fiscal loss compensation, leverage, institutional ownership, firm size, etc. (Putri & Suryarini, 2017). However, in this research the variables that affect tax avoidance are focused on profitability, Leverage, and sales growth.

Table 1.1 Table of Phenomenon

Company	Year	Return on Assets (ROA)	Debt to Equity Ratio (DER)	Sales Growth	Effective Tax Rate (ETR)
ULTJ	2020	0.1268	0.8307	-0.0411	0.2194
	2021	0.1724	0.4415	0.1088	0.172
	2022	0.1309	0.2668	0.1571	0.251
MLBI	2020	0.0982	1.0283	-0.4652	0.2796
	2021	0.2279	1.6584	0.2462	0.2414
	2022	0.2741	2.1441	0.2592	0.258
SKLT	2020	0.0549	0.9016	-0.0214	0.2363
	2021	0.0951	0.6409	0.0823	0.1691
	2022	0.0725	0.7491	0.1345	0.1901

Source: Prepared by the Author (2023)

An increase in profitability which is proxied by Return on Assets (ROA) may lead to an increase in the tax burden in a company. This can be seen on PT. ULTJ from

the table above. ROA for the company increases from 0.1268 to 0.1724 for the year 2020 to 2021. This increase may be due to the higher sales made by the company in 2021. In addition, the company managed to suppress its selling expense from Rp 773.759 million in 2020 to Rp 748.823 million in 2021. However, the ETR of PT. ULTJ has decreased from 2020 to 2021. On the other hand, PT. MLBI for the year 2021 to 2022, the ROA increases as the sales of the company increase. In contrast with PT. ULTJ, the ETR of PT. MLBI increases from 0.2414 to 0.258 while the ROA increases from 0.2279 to 0.2741.

According to the table, PT. ULTJ and PT. MLBI show a different result of the relationship between profitability and tax avoidance. As the profitability of a company gets bigger, the tax burden of the company will increase. However, if the ETR of a company decreases while the company's profitability increases, there is a possibility that the company is engaged in the act of tax avoidance. According to the research conducted by Robin, et. al. (2021) and Salman et al. (2019), profitability has a negative significant impact towards tax avoidance. On the other hand, the result of the research conducted by Yohan & Pradipta Arya (2019) shows that profitability has a positive significant impact towards tax avoidance. However, according to Mocanu et al. (2021), profitability has a negative impact towards tax avoidance. On the other hand, according to Satria & Lunardi (2023) and Setyobudi, et al. (2017) profitability has no significant impact towards tax avoidance.

An increase in leverage proxied by Debt-to-Equity Ratio (DER) may lead to lower tax burden imposed on a company. It can be seen on PT. MLBI from the year

2020 to 2021. This increase may be mainly because of the rise in the short-term loans bank borrowings for Rp. 100.000 million from 2020 to 2021. In addition, the accrued expense and other current liabilities also increased by 31.66%. On the other hand, the ETR of PT. MLBI decreases from 0.2796 to 0.2414. Whereas the DER in PT. SKLT for the year 2021 to 2022 increased from 0.6409 to 0.7491. This increase may be because of the rise in the short-term bank borrowings of 28.86%. On the other hand, third parties account payable rise for 93.12%. However, the ETR 0.1691 to 0.1901 from 2021 to 2022.

There is an inconsistency shown by PT. MLBI and PT. SKLT of the relationship of leverage towards tax avoidance. As the leverage of a company increases, the interest on bank loans will eventually increase resulting in a lower tax burden imposed to the company. This way may be used by companies to reduce their tax burden. According to the previous research conducted by Rakhmawati & Restuti (2022), leverage has a negative significant impact towards tax avoidance. In contrast, the research conducted by Robin, et al.(2021) and Khan & Nuryanah (2023) shows that leverage has a positive significant impact towards tax avoidance. On the other hand, the research conducted by Yohan & Pradipta Arya (2019) shows that leverage has no significant impact towards tax avoidance.

An increase in sales growth may lead to a higher tax burden being imposed on the company. It can be seen on PT. SKLT, the sales growth increased for 0.1044 from the year 2020 to 2021. The increase in sales growth is mainly because of the increase in sales revenue made by the company. However, the ETR of PT. SKLT decreases from

2020 to 2021. As for PT. ULTJ, the sales growth increased for 0.0483 from the year 2021 to 2022 as the sales of the company increases. On the other hand, the ETR of PT. ULTJ increases from 0.172 to 0.251.

There is an inconsistency of the impact of sales growth towards tax avoidance in PT. SKLT and PT. ULTJ. When the sales of a company grow, the tax burden may be affected by the sales growth. As the sales increase, the tax burden will be increased as well. This may lead to the act of tax avoidance conducted by the company to lower its tax burden and maximize the profit of the company. According to the research conducted by Satria & Lunardi (2023), sales growth has a negative significant impact towards tax avoidance. In contrast, according to Kim & Im (2017) and Muthmainah & Hermanto (2023) sales growth has a positive significant impact towards tax avoidance.

Because of the phenomenon stated above and the difference of result between the previous researchers, the author decided to choose the title **“The impact of profitability, leverage, and sales growth Toward Tax Avoidance of Food and Beverages Companies Listed on Indonesia Stock Exchange.”**

1.2 Problem Limitation

According to the background of the study, there are several problem limitations, as follows:

1. The research is limited to the food and beverages companies listed on Indonesia Stock Exchange for the year 2020-2022.

2. The indicator for profitability is Return on Assets (ROA), the indicator for leverage is Debt to Equity Ratio (DER), the sales growth is total revenue, and the indicator for tax avoidance is Effective Tax Rate (ETR).

1.3 Problem Formulation

There are several problem formulations according to the background of the study, such as:

1. Does profitability have significant impact towards tax avoidance in food and beverages companies listed in Indonesia Stock Exchange partially?
2. Does leverage have significant impact towards tax avoidance in food and beverages companies listed in Indonesia Stock Exchange partially?
3. Does sales growth have a significant impact towards tax avoidance in food and beverages companies listed in Indonesia Stock Exchange partially?
4. Do profitability, leverage and sales growth have a significant impact toward tax avoidance in food and beverages companies listed in Indonesia Stock Exchange simultaneously?

1.4 Objectives of the Research

The objectives of this research are:

- 1 To determine whether profitability has a significant impact towards tax avoidance on food and beverages companies listed on Indonesia Stock Exchange partially.

- 2 To determine whether leverage has a significant impact towards tax avoidance on food and beverages companies listed on Indonesia Stock Exchange partially.
- 3 To determine whether sales growth has a significant impact towards tax avoidance on food and beverages companies listed on Indonesia Stock Exchange partially.
- 4 To determine whether profitability, leverage and sales growth have a significant impact toward tax avoidance on food and beverages companies listed on Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

There are 2 benefits of conducting this research, which are:

1.5.1 Theoretical Benefit

This research is hoped can contribute as the additional information to the readers who are willing to find some references about the similar topic of this research, which is The impact of profitability, leverage, and sales growth of the Food and Beverages Companies Listed on Indonesia Stock Exchange.”

1.5.2 Practical Benefit

There are several practical benefits according to the research objective, which are:

1. For Researchers

This research may become one of the sources of the impact of profitability, leverage, and sales growth toward tax avoidance in food and beverages companies.

2. For Investors

This research may be useful for the investors who are interested in investing on the food and beverages companies listed on Indonesia Stock Exchange.

3. For Companies

This research may become one of the contributors of the information about factors that are impacting tax avoidance.

4. For Government

This research may be helpful for the government to find out which companies are doing tax avoidance and encourage the policymakers to make regulations about the companies who are doing tax avoidance.