CHAPTER I

INTRODUCTION

1.1 Background of the study

The Preamble of the 1945 Constitution of Indonesia articulates the fundamental objective of the Indonesian state, which is to safeguard the entirety of the Indonesian nation and its people, while concurrently advancing the overall well-being of the populace, fostering national development, and actively contributing to the establishment of a global order founded upon principles of autonomy, enduring peace, and equitable social justice. Indonesia encompasses four primary objectives, specifically those pertaining to safeguarding, well-being, knowledge, and tranquility. The attainment of this objective is contingent upon the outcomes derived from diligent effort and collaboration across many strata of society and governmental entities. Furthermore, the success is attributed to the financial support provided by the State Budget (APBN). This makes taxes crucial to a country's economy (Chen, 2018)

According to Article 1, paragraph 1 of Law Number 16 of 2009 on General Provisions and Tax Procedures, Taxation is a compulsory levy imposed by the government on individuals or entities, without providing direct compensation. It serves as a means for individuals to contribute to the progress of society and to demonstrate their commitment and support to the government in the administration of the nation.

Table 1.1 2020 – 2022 Stated Revenue (Billion Rupiah)

Sources of revenue	2020	2021	2022
Tax Revenue	1,285,136.32	1,547,841.10	1,924,937.50
Non Tax State Revenue	343,814.21	458,493.00	510,929.60
Total	1,628,950.53	2,006,334.10	2,435,867.10

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

Table 1.1 provides an overview of the overall state revenues in Indonesia, highlighting the significant contribution of tax revenue to the total state revenues. In 2021, the tax revenue achieved a significant milestone, amounting to IDR 1,547.8 trillion. The tax revenue experienced a growth rate of 9.6% after the conclusion of the fiscal year in 2020. During the first few months of 2021, the COVID-19 pandemic has necessitated increased efforts from the government to sustain economic activity in the face of restricted mobility.

The corporation is one of the main sources of tax revenue, so it plays a key role in the overall tax system. The amount of taxes a corporation has to pay is directly related to how well it does financially. Basically, the amount of taxes it has to pay is closely connected to how profitable it is. It is interesting to note that there is a direct and positive link between a company earnings and the amount of taxes it has to pay. According to (Aryatama, 2021)The high tax burden has prompted many companies to try tax management to reduce taxes paid.

According to Brown (2012) as stated in (Pradhana A. Z., 2021), tax avoidance involves arranging transactions to obtain tax gains, benefits, or deductions in ways not desired by tax law. There is an obstacle to the welfare of the country because the function of tax is providing health facilities, education, infrastructure, and other public services. It may be not impact to the rich but the poor. For ex: BPJS in Indonesia is to help the poor for survive from lack of money in conducting medical treatment.

From a business perspective, tax avoidance can positively impact a company's profitability by lowering its tax burden, thereby increasing its after tax profits. A company can strategically organize the operations, investments, and financial transactions to capitalize tax benefits, credits, and deductions. Companies have option to enhance profitability and decrease overall tax burden by opting for tax-efficient structures. In other hands, governments frequently provide tax credits and incentives to businesses operating within specific sectors or engaging activities, such as research and development, investments in renewable energy, or recruitment efforts in designated regions. Utilizing these advantages has the potential to lead to a decrease in tax obligations and an augmentation of financial gains.

Tax avoidance and corporate leverage are two separate concepts that might be interconnected. Tax avoidance entails the lawful reduction of tax obligations using several strategies, whereas firm leverage pertains to the degree to which a corporation employs debt to fund its activities and investments.

Interest Deductibility is the association between tax avoidance and leverage that can be established by examining the tax implications of interest payments on debt. Interest payments on debt are commonly eligible for tax deductions, enabling a corporation to decrease its taxable income by the corresponding amount of interest paid on loans. As a result, increased leverage, characterized by a higher level of debt, can result in elevated interest payments, and expanded tax deductions, so reducing the company tax obligations and perhaps enhancing its profitability.

Nevertheless, it is crucial to underscore that although tax-efficient leverage has the potential to enhance a company profitability, an excessive amount of leverage can concurrently elevate financial risk and impede the company capacity to fulfill its debt commitments. Achieving a harmonious equilibrium between tax considerations and financial risk management is crucial for the attainment of sustained growth and profitability. It is vital for companies to do thorough evaluations of their financial standings, market dynamics, and tax ramifications to make well-informed choices pertaining to their leverage and tax approaches. Further, it is imperative to engage in consultations with financial and tax experts to guarantee adherence to tax regulations and achieve best financial strategizing. In research conducted by Erwin Sulistiono (2019), leverage has no impact on tax avoidance. However, in research conducted by Vina Novia Damayanti and Sartika Wulandari (2021) stated that leverage has an impact on tax avoidance.

Tax avoidance and capital intensity are two separate concepts within the field of commercial finance; yet they can be interconnected in specific financial strategies. Capital intensity is a term used to describe the level of capital investment, specifically in assets such as machinery and buildings, necessary to generate a single unit of output or revenue. Tax avoidance, conversely, encompasses the lawful reduction of tax obligations by employing several tactics.

This is how tax avoidance strategies may be related to a company capital intensity and how can impact financial decisions, Depreciation is a tax-deductible expense that allows businesses to recover the cost of assets over their useful life. When making decisions about capital investments, companies may consider the tax implications associated with depreciation. Accelerated depreciation methods have the potential to yield more favorable tax advantages within a shorter time frame, so exerting an impact on the timing and characteristics of capital investments. Research conducted by Sari Mustika Widyastuti and Inten Meutia (2021) capital intensity has an impact on tax avoidance. This result also following by Riski Ayu Fitriani (2023) research. Meanwhile in research conducted by Dian Eva Marlida, Kartika Hendra Titisari, Endang Masitoh (2020) stated that capital intensity has no impact on tax avoidance.

Tax avoidance strategies can be associated with a company inventory intensity, denoting the quantity of inventory held by a company relative to its sales or revenue. The optimization of inventory levels and adoption of tax-efficient strategies are crucial to effectively manage tax obligation and enhance its profitability. The following are ways in which tax avoidance can intersect with inventory intensity:

1. Inventory valuation Methods: Various inventory valuation methodologies, such as First-In, First-Out (FIFO) or Last-In, First-Out (LIFO), have the potential to impact a company taxable income and subsequent tax obligations. The first-in, first-out (FIFO) method typically leads to increased reported profits and higher tax liabilities during periods of inflation, whereas the last-in, first-out (LIFO) method

might offer tax benefits by aligning higher-priced inventory with higher revenue, potentially reducing taxable income.

2. Tax deduction for Inventory Expenses: Tax deductions associated with inventory expenses, including the cost of goods sold (COGS), can provide advantageous outcomes for businesses. The implementation of effective inventory management methods enables organizations to precisely determine the cost of goods sold (COGS), hence immediately impacting taxable income and tax liabilities.
3. Inventory Write-Offs and Tax Deductions: The act of deducting old or damaged inventory can yield tax benefits for a corporation, thereby decreasing its taxable revenue and subsequent tax obligations. By efficiently managing obsolete inventory and promptly writing it off, a company can achieve tax savings.
4. Tax Credits for Inventory Investments: Certain jurisdictions provide tax credits or incentives to encourage investments in particular categories of inventory, particularly within companies such as manufacturing or renewable energy. Companies often make strategic investments in inventory that meet the criteria for these credits to decrease their tax obligations and improve their profitability.
5. Transfer Pricing for Inventory Transactions: For international corporations, transfer pricing tactics related to inventory transfers between associated organizations might impact tax obligation.

Establishing transfer prices for inventories that conform with tax rules and regulations helps optimize tax situations and minimize tax liability.

6. Tax Planning for Inventory Holding Period: Tax planning might involve optimizing the holding time of inventories to optimize tax benefits. Holding inventory for durations may have tax ramifications, and corporations should arrange their inventory turnover and holding periods accordingly.

In research conducted by Niandri and Novelia (2022), inventory intensity ratio is indicated having a negative impact on tax avoidance. Meanwhile in research by David Malindo Pasaribu and Susi Dwi Mulyani (2019), inventory intensity has an impact on tax avoidance. This result also followed by Rizal Saputra, Ade Adriani and Saprudin (2023) stating that inventory intensity had an impact on tax aggressiveness.

Table 1.2 The Phenomenon of Profitability, Leverage, Capital Intensity, and Inventory Intensity Toward Tax Avoidance in Food and Beverages Companies Listed On The Indonesia Stock Exchange in 2020 – 2022

Company Name	Year	Profitability (ROA)	Leverage (DER)	Capital Intensity (CI)	Inventory Intensity (II)	Tax Avoidance (ETR)
PT. Sekar Bumi Tbk (SKBM)	2020	0,003	0,839	0,249	0,219	0,601
	2021	0,015	0,985	0,223	0,223	0,327
	2022	0,042	0,902	0,224	0,224	0,261
PT. Akasha Wira International Tbk (ADES)	2020	0,142	0,369	0,367	0,084	0,191
	2021	0,204	0,345	0,430	0,075	0,213
	2022	0,222	0,233	0,430	0,090	0,214
PT. Sekar Laut Tbk (SKLT)	2020	0,055	0,902	0,459	0,190	0,236
	2021	0,095	0,641	0,465	0,152	0,169
	2022	0,072	0,749	0,425	0,231	0,190
PT. Budi Starch and Sweetener Tbk (BUDI)	2020	0,023	1,241	0,573	0,173	0,032
	2021	0,031	1,157	0,556	0,121	0,195
	2022	0,029	1,196	0,499	0,195	0,198
PT. Ultra Jaya Milk Company and Trading Company Tbk (ULTJ)	2020	0,127	0,831	0,196	0,106	0,219
	2021	0,172	0,442	0,292	0,092	0,172
	2022	0,131	0,267	0,306	0,222	0,251

Source: Prepared by the author (2023)

Table 1.2 above describe the value of profitability, leverage, capital intensity, inventory intensity and ETR found in some food and beverages companies listed from 2020 to 2022 on the Indonesia Stock Exchange (IDX). The table above shows differences between profitability, leverage, capital intensity and inventory intensity from the phenomenon in some food and beverages company.

In PT Sekar Bumi Tbk (SKBM) in 2021 the company has an increase in profitability and not followed by the rise in company tax burden. The significant decline in ETR from 2020 to 2021 may indicate tax avoidance practices attempt at PT Sekar Bumi Tbk at that time. An increase in company profit should be follow the rise in the amount of tax paid. This phenomenon also shows that the profitability factor significantly impacts tax avoidance. In other words, a decreased percentage of ETR indicates that the company high profitability is not in line with the amount of tax paid by the company. PT Sekar Bumi Tbk's income in 2021 was 84.5% higher than in 2020, but the tax paid in 2020 was more significant than in 2021.

The leverage of PT. Akasha Wira International Tbk. Decrease at year 2020 to 2022. The decreasing of leverage shows that the company does not get debt for business. There is indication that company conducts tax avoidance to reduce the tax payment and get fund from tax avoidance. The leverage of PT. Sekar Bumi Tbk. Increase at year 2020 – 2022. The increasing of leverage shows that the company can increase the interest expense from debt with result that the company can decrease the tax payment for conducting tax avoidance.

The capital intensity of PT. Sekar Laut Tbk. Increasing at year 2020 to 2021 while the effective tax rate is decreasing. The capital intensity from the year 2021 to 2022 is decreasing while the effective tax rate increases. PT. Budi Starch and Sweetener Tbk. The capital intensity from year 2020 – 2022 is decreasing while the effective tax rate is increasing. This previous research proof that capital intensity significantly impacted toward effective tax rate.

The inventory intensity of PT. Ultra Jaya Milk company and Trading Company Tbk. Decreasing from year 2020 to 2021 followed by the effective tax rate. The inventory intensity from year 2021 to 2022 is increased followed by the effective tax rate. The inventory intensity Of PT. Sekar Bumi Tbk. Is increasing from 2020 to 2022 while the effective tax rate decreased. This previous research proof that inventories intensity significantly impacted toward effective tax rate.

From the background of the study described above, several factors can impact the Effective Tax Rate in the food and beverages companies listed on the Indonesia Stock Exchange on 2020-2021, namely profitability, leverage, capital intensity and inventory intensity.

Based on the description above, the writer is fascinated in research to analyze furthermore about profitability, leverage, capital intensity and inventory intensity. Whether they can impact to the effective tax rate in food and beverages companies, entitled **"The Impact of Profitability, Leverage, Capital Intensity, and Inventory Intensity Toward Tax Avoidance in Food and Beverages Companies Listed on The Indonesia Stock Exchange".**

1.2 Problem Limitation

This research is aims to focus on the impact of Profitability, leverage, Capital Intensity, and Inventory Intensity toward tax avoidance in Food and Beverages companies listed on Indonesia stock exchange in year 2020, 2021,2022. To solve this problem as author I must analyze the variable which is profitability (X1), leverage (X2), Capital Intensity (X3) and Inventory Intensity (X4) So the result will be proof that the company have any impact toward tax avoidance (Y) in Food and Beverages companies listed in the Indonesia stock exchange.

1.3 Problem Formulation

For the problem formulation can be refer as:

1. How profitability give impact on company's tax avoidance?
2. How Leverage give impact on company's tax avoidance?
3. How Capital Intensity give impact on company's tax avoidance?
4. How Inventory Intensity give impact on company's tax avoidance?

1.4 Objective of the Research

1. To determine profitability impacted on company's tax avoidance.
2. To determine leverage impacted on company's tax avoidance.
3. To determine capital intensity impacted on company's tax avoidance.
4. To determine inventory intensity impacted on company's tax avoidance.

1.5 Benefit of the research

The benefit of this research which can provide valuable insights into the relationship between these factors and tax practices in the specific company. Here are some potential benefits of such as:

1. Understanding tax avoidance behavior:

   The research can shed light on the extent and nature of tax avoidance strategies employed by Food and Beverages companies in Indonesia. By examining profitability, leverage, capital intensity and inventory intensity research can identify patterns and determine how these factors impact tax planning and avoidance practice.

2. Policy implications:

   The research can inform term and conditions department about the impact of existing tax regulations and special areas that need attention. If the research reveals a significant impact of profitability, leverage, capital intensity and inventory intensity toward tax avoidance, Terms and Condition department can try to find the solutions to reduce tax avoidance.

3. Investor decision making:

   The research can be known by investor which can be more understand about profitability, leverage, capital intensity and inventory intensity and tax avoidance. if the research shows relationship toward tax avoidance, investor can use this as consideration and analysis for decision making.

4. Corporate governance and transparency:

The research can show the company's corporate governance and transparency. This research can highlight the value of honest reporting and acting as responsible taxpayers, encouraging businesses to take a more sustainable and ethical approach to tax administration.

1.5.1 Theoretical Benefit

For academics, there are several benefits of research results that can be obtained as follows:

1. For future researchers, this research will serve as a reference for future studies.
2. For the author, this research aims to increase the understanding regarding the impact of profitability, leverage, capital intensity and inventory intensity toward tax avoidance in food and beverages companies listed on the Indonesia stock exchange.
3. For the literature, this research aims to contribute to a better understanding of the impact of profitability, leverage, capital intensity and inventory intensity toward tax avoidance in food and beverages companies listed on the Indonesia stock exchange.

1.5.2 Practical Benefit

Basically, the research can hold relevance for all companies. The research may help to multiply information to engage in legal tax avoidance strategies. Thus, this research offers practical value to companies by providing guidance on tax planning with legal limitation.