

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Indonesia is developing countries with a large population that has an unlimited growth potential. To support the development and prosperity of Indonesia populace, the government need a lot of money. Taxation, non-taxation, and grants are the primary sources of socioeconomic development funding.

**Table 1.1 Realization of State Revenue in Year 2021-2023 (in Billion Rupiah)**

Source of Revenue - Finance	Realization of State Revenue (Billion Rupiah)		
	2021	2022	2023
Revenue	2006334,00	2435867,10	2443182,70
a. Taxation Revenue	1547841,10	1924937,50	2016923,70
b. Non-Taxation Revenue	458493,00	510929,60	426259,10
Grants	5013,00	1010,70	409,40
Total	2011347,10	2436877,80	2443592,20

Source : Indonesia Central Statistics Agency (2023)

Based on Indonesia Central Statistics Agency (2023), taxation play a vital role in state revenue. As it can be seen on Table 1.1, taxation are the largest sources of funds for state revenues for over last three years. Therefore, it can be concluded that taxation is critical to Indonesia's socioeconomic development. They stimulate economic growth by allowing the government to invest in key infrastructure projects and attract foreign investment.

An effective tax collection and administration are required to achieve financial independence and long-term growth for laying the groundwork for Indonesia's progress and prosperity. As a result, the government continues to make an initiative to maximize potential revenue from the tax sector by enacting various

policies in the form of intensification and extensification. One of their initiative is to change the tax collection system from official assessment system to self-assessment system. In a self-assessment tax system, taxpayers are given the power to file their own returns and to calculate, pay, and report their own taxes.

This replacement is made to improve taxpayer's compliance on fulfilled their tax obligations, which will have an influence on raising state revenue in taxation sector. However, in fact, the number of taxpayers who have fulfilled their taxation obligations is still not in accordance with the targets.

**Table 1.2 Target and Realization of Tax Revenue in Year 2017-2019 (in Trillion Rupiah)**

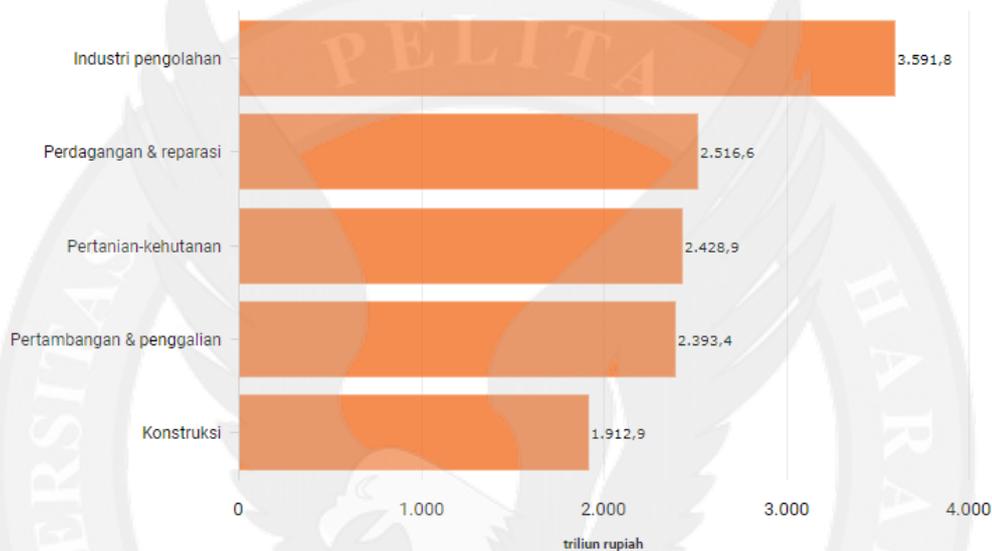
Year	2017	2018	2019	2020
Target	1,283	1,424	1,577.6	1,404.5
Realization	1,147	1,315.9	1,332.1	1,285.1
Percentage	89.4%	92%	84.4%	91.5%

Source : CNBC Indonesia (2020)

Based on CNBC Indonesia data, which can be seen on Table 1.2, it can be seen that for three years in a row which from 2017 to 2019 the realized tax revenue has failed to meet their targets. The failure to fulfill the target despite several government initiatives raises the question of whether corporate or individual taxpayers are utilizing tax avoidance tactics to reduce their tax obligations.

Many people still see taxes as a financial burden. Especially in businesses, a company of course wants to get more profit so from the company perspective taxes are a burden that will lower the net earnings of the business. They will try to seek a way to minimize the amount of paperwork associated with taxation in order for the owner to prosper and maintain the viability of his business. In other words, they are engaging in tax avoidance.

In Indonesia, taxes are collected from a range of industrial sectors. Based on Indonesia Santika (2023), manufacturing industry contribute the most to Indonesia's Gross Domestic Product (GDP). In other words, consumer goods industry is the one who provide the largest contribution to state revenue in taxation as it can be shown in figure below.



**Figure 1.1 GDP Exchange Consumer Goods Industry 2017-2021**

Source: Santika,2023

The consumer goods industry, although part of the broader manufacturing sector, stands out as the most substantial contributor to the Gross Domestic Product (GDP) within this sector. While the manufacturing industry as a whole undeniably plays a pivotal role in driving economic growth and generating the highest GDP figures, it is the consumer goods sector that emerges as the powerhouse within this multifaceted landscape. The consumer goods industry's unparalleled influence on GDP can be attributed to its diverse range of products and its intrinsic connection to consumer demand, reflecting the essence of both production and consumption that underpins the manufacturing sector's economic significance.

The public demand for consumer goods has always been high, which means it has an influence on the company's profitability as well as its tax burden. Because if the company makes a huge profit, the tax payment will be higher as well. As a result, significant increase in tax payments can cause businesses to prioritize tax payments by engaging in tax avoidance.

There are several factors that might influence companies to do tax avoidance. In this study, the writer will focus on corporate governance, profitability, and firm size as the factors that influence tax avoidance. According to Husen et al. (2021), profitability, and firm size has a positive influence on tax avoidance. This is because corporations with high profit tend to perform tax planning to decrease their tax burden which can lead to tax avoidance. On contrast according to Wahyuni et al. (2019), profitability has no influence towards tax aggressiveness. Because if there is one-unit increase in profitability tax avoidance might decrease insignificantly, and vice versa.

As tax avoidance is not only limited to large companies, but it can also be done by any size of companies. Even small and medium-sized companies are capable of engaging in such practice. So, it is concluded that firm size has no influence on tax avoidance. But according to Warih (2019), firm size has a positive influence on tax avoidance while corporate governance has a negative influence on tax avoidance.

**Table 1.3 Table of Phenomenon of Corporate Governance, Profitability, and firm size Toward Tax Avoidance In Consumer Goods Companies Listed on IDX from 2020-2022**

Company	Year	CG	ROA	SIZE	ETR
INDF	2020	0.375	0.072	32.27	0.255
	2021	0.375	0.063	32.82	0.225
	2022	0.375	0.051	32.83	0.254
GGRM	2020	0.000	0.098	31.99	0,209
	2021	0.000	0.062	32.13	0.231
	2022	0.000	0.031	32.11	0.238
MLBI	2020	0.500	0.100	26.16	0,280
	2021	0.333	0,228	28.70	0,241
	2022	0.333	0,274	28.85	0,258

Source : Prepared by writer (2023)

Based on the background and inconsistent result from the previous research that were mentioned above, the writer is interested to conduct research with the title: **“The Influence of Corporate Governance, Profitability, and Firm size Toward Tax Avoidance in Consumer Goods Companies Listed on the Indonesia Stock Exchange”**.

### 1.2 Problem Limitation

1. The independent variables are Corporate Governance ( $X_1$ ), Profitability ( $X_2$ ), and Firm size ( $X_3$ ) while the dependent variable is Tax Avoidance ( $Y_1$ ).
2. The population of this research is limited to consumer goods companies listed on the Indonesia Stock Exchange between the year 2021-2022

### 1.3 Problem Formulation

1. Does corporate governance partially have a significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?
2. Does profitability partially have a significant influence toward tax avoidance

in consumer goods companies listed on the Indonesia Stock Exchange?

3. Does firm size partially have a significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?
4. Do corporate governance, profitability, and firm size simultaneously have a significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?

#### **1.4 Objective Research**

1. To determine whether corporate governance partially has a significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?
2. To determine whether profitability partially has a significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?
3. To determine whether firm size partially has a significant influence toward tax avoidance in consumer goods companies listed on the Indonesia Stock Exchange?
4. To determine whether corporate governance, profitability, and firm size partially have a significant influence toward tax avoidance on the consumer goods companies listed on the Indonesia Stock Exchange?

#### **1.5 Benefit of Research**

##### **1.5.1 Theoretical Benefit**

1. The findings of this study can directly assist consumer goods companies in

refining their tax strategies. By understanding how corporate governance, profitability, and firm size influence tax avoidance, these companies can adapt their tax planning approaches to align with ethical standards and regulatory requirements while optimizing their tax positions.

2. Regulatory bodies and tax authorities in Indonesia can use the research results to inform potential adjustments to tax regulations. If the study identifies factors like weak corporate governance or profitability as contributing to tax avoidance, policymakers may consider refining tax laws to address these issues and enhance tax compliance in the consumer goods sector.

#### **1.5.2 Practical Benefit**

1. The research outcomes can help consumer goods companies enhance their operational efficiency in managing tax-related matters. By considering the influence of corporate governance, profitability, and firm size on tax avoidance, these companies can streamline their tax planning processes and reduce the risk of non-compliance, potentially leading to cost savings.
2. Tax authorities can use the study's findings to improve tax collection efforts. Understanding how corporate governance practices, profitability, and firm size influence tax avoidance can guide tax authorities in identifying high-risk companies and implementing more effective tax enforcement strategies, ultimately leading to increased tax revenue.