

# CHAPTER 1

## INTRODUCTION

### 1.1. Background of the Study

Tax is a key source of income for the country. *Undang Undang Republik Indonesia Nomor 28 Tahun 2007* concerning The Third Amendment of The Law Number 6 Year 1983 on General Provision and Taxation Procedure stated that tax is a mandatory contribution that involves the citizens of Indonesia as the contributor or taxpayer. The collection of tax is coercive and will be allocated to develop the country and giving benefits to the contributors indirectly. According to Sulatyawati (2014), tax is one of various sources of income for a country that the nature is mandatory and must be obeyed by all the civilians. The collection of tax will be accumulated as *Anggaran Pendapatan Belanja Negara (APBN)* and is used to improve the public sector facility and increase the social welfare of the citizens, giving impact to the taxpayer indirectly and slowly.

According to Holandari (2021), the government uses three types of tax assessment system to collect tax obligations, which are self-assessment system, official assessment system, and withholding tax system. Self-Assessment system is the most popular tax assessment system in our country, where the government delegates taxpayers the responsibilities to calculate and identify their own tax. By calculating our own tax, this would trigger several parties to find flaws in the tax regulations to avoid the tax obligation and manipulating several reports to pay little less than it supposed to be.

From 2020 to 2022, people around the world suffered from Covid-19. Business suffered from the decline of consumer behavior and lower capacity of production. This phenomenon shows the other way for Indonesia. According to McKinsey (2022), Indonesia does not suffer too much from the Covid compared to other country's economics chart.

When tax realization percentage does not meet the tax collection target, it means that there are several parties that apply tax avoidance. As a result, the tax government will keep updating the law to prevent any loopholes possible for the taxpayer to abuse and minimize the tax payment. Despite the amendments of tax regulations, taxpayers will always seek for the flaw in the regulations by burdening the expense of the company or any other method. There are several methods used by the company to apply tax avoidance, such as sales, loan, expense, and many other aspects of accounting that could be the factors to minimize the tax payment.

Tax Avoidance is a practice done by companies to reduce the amount of tax that has to be paid by utilizing the loophole on the tax regulations to calculate their own tax in legal way without violating the law applied in the period (Catrine, 2020). This method is used in the taxation sector and normally, the amount of tax that is avoided is not that much but will still burden the country's income much. Based on report by Tax Justice Network, back before the updated tax regulation in 2020, tax avoidance has given impact to the income of Indonesia. Logically, tax avoidance is done based on the transaction occurred during the accounting period

of companies. The company having bigger transaction and has lower ratio of measurement in effective tax rate would likely apply the tax avoidance.

One industry that still has high transaction during covid is the consumer goods industry. As in the previous paragraph, the writer has mentioned that the consumer goods industry is one of the industries that could survive during hard times for business which is during Covid-19.

Consumer Goods industry has been one of the industries that support the economic growth of our country. Its products are primary products such as household, foods and beverage, and secondary and tertiary products such as cosmetics and tobacco that all the Indonesian are depended on the products. Those are the reasons why even though the world is suffering from a disease that has limited the activity of the citizens, they still can survive and give participation in maintaining the stability of the economy in the country. Based on the article written by Consulting (2020), there are several decreases and increases in the FMCG's products. Before Covid, the trend of the products sold by the industry are any foods product related to school and work activities. But during covid, the trends change to frozen food and any instant foods that is cheap and practical to be consumed during the hard time of the activity limited by the disease.

**Table 1.1 Table of Phenomenon**

Company	Year	ROA	DAR	ETR
PT Garudafood Putra Putri Jaya TBK (GOOD)	2021	0,073	0,550	0,221
	2022	0,071	0,543	0,226
PT Gudang Garam TBK (GGRM)	2021	0,062	0,341	0,231
	2022	0,031	0,347	0,238

Source: Prepared by Writer (2023)

From this table of phenomenon, the variable represented by the operating measurement used in this research. For profitability, the operating measurement is Return on Assets (RoA), for the leverage the operating measurement is Debt – to – Assets Ratio (DAR), and the last to observe the tax avoidance case by observing the income tax payment, the indicator of tax avoidance is Effective Tax Rate (ETR). The lower ETR means that the company would likely apply tax avoidance practices in their industry to optimize their income by finding the loophole in the tax regulation without breaking the law.

For the first phenomenon shown in the table above, the return on assets ratio of PT Garudafood Putra Putri Jaya TBK decreases in the period of 2021 to 2022 from 7,3% to 7.1%. Based on Amalia & Nurhayati (2021) research, Return on Assets affects ETR as Tax Avoidance as return of company increase will lead to higher income tax which will increase the effective tax rate. But on the other hand, the table of phenomenon shows that the return on assets on PT Garuda Food decreases while the effective tax rate of the company increases. The cause of this increase is because of the increase in the net income of PT Garudafood Putra Putri Jaya TBK does not as much as the increase in total assets. This may cause the return on assets to decrease despite the increase in effective tax rate.

There is another phenomenon shown by PT. Gudang Garam (GGRM), as shown in the table of phenomenon. There is a high increase in Debt to Asset ratio in the period 2021 to 2022. The significant account that supports the amount of total liabilities is from the loan that Gudang Garam obtained from 2021 to 2022. With other account that affects the number is from the tax payable.

According to Aulia & Mahpudin (2020) research result, the leverage affects the tax avoidance negatively which means if the leverage increases, the tax avoidance as ETR decreases. In fact, the phenomenon shows otherwise. The DAR of PT Gudang Garam increases, but on the other hand the ETR also increases.

The table above are some of the examples that the result does not meet the agreement of the previous research. There are still other factors that might affect tax avoidance from the period 2021-2022, this is why the writer decided to be interested in observing this field due to some reasons. The research title will be **“The Impact of Profitability and Leverage on Tax Avoidance in Consumer Goods Company listed on the Indonesia Stock Exchange”**.

## **1.2. Problem Limitation**

To ease the research and clear the object of study, here are the limitation to the problem in this research.

1. The object of study is consumer goods companies.
2. The period of the research is from 2021 to 2022.
3. Finding the definition of Profitability and Leverage, and its relation to the Tax Avoidance
4. The dependent variable (Y) is tax avoidance and measured with Effective Tax Rate (ETR)
5. The independent variables are profitability and leverage, measured with Return on Assets (RoA) and Debt to Assets Ratio (DAR) respectively.

### **1.3. Problem Formulation**

Finding out the limitation of our research now has narrowed down the formulation of the problem to reach the objective of the research:

1. Does profitability partially have significant impact on the tax avoidance in consumer goods company listed on the Indonesia Stock Exchange?
2. Does leverage partially have significant impact on the tax avoidance in consumer goods company listed on the Indonesia Stock Exchange?
3. Do profitability and leverage simultaneously have significant impact on the tax avoidance in consumer goods company listed on the Indonesia stock Exchange?

### **1.4. Objective of Research**

Based on the problem limitations, there are the objective of the research that are described as follows:

1. To find out if the profitability has a significant impact on the tax avoidance in consumer goods company listed on the Indonesia Stock Exchange partially.
2. To find out if the leverage has significant impact on the tax avoidance in consumer goods company listed on the Indonesia Stock Exchange partially.
3. To find out if the profitability and leverage have a significant impact on the tax avoidance in consumer goods company listed on the Indonesia Stock Exchange simultaneously.

## **1.5. Benefit of the Research**

### **1.5.1. Theoretical Benefit**

The writer hopes that this research meets the purpose to add more references for the next writers that attempt the research based on this topic, to enrich the value of theories by researching the definition, previous research, method of research, and discussing the result based on selected topic. Another purpose is to widen the source of literature to the reader and next writer regarding the topic that are discussing or going to conduct this related topic.

### **1.5.2. Practical Benefit**

There are several benefits for practical use to be applied in their fields:

1. For entities, to give a rough sketch of the influence between the independent variables and the dependent variables, to be notified about factors that influence the tax avoidance, and don't violate the tax rules and regulations.
2. For government, the research is expected to the government to develop and correct another loophole of the tax regulations to not be violated by the taxpayer which will be resulting in the higher tax realization compared to tax target.
3. For other parties, the research is expected to give additional knowledge and to enlarge the insight of the reader.