CHAPTER I

INTRODUCTION

1.1.   Background of the Study

Tax is one of the income source for country. Indonesia's income that comes from tax is around 80%. This tax is then used by the government to fund the welfare of its people. Tax payment is important because it will be used for the people sake. Tax payment is not only subjected to individual but also company (Luke and Zulaikha, 2016).

As for company, they see tax as a burden that will decrease their net income. Every company will seek to gain profit as much as possible, so company will use some strategies to minimize their tax. Company in minimizing their tax can be aggressive in doing it by doing tax avoidance which is legal and tax evasion which is illegal. But for companies who are doing tax aggressiveness has a higher risk than companies which are not doing tax aggressiveness. The risk could be sanction or fine, falling stock prices (Sari and Martani, 2010) and company reputation if aggressive tax actions are carried out to violate the rules.

The other way to minimize the tax is by using Effective Tax Rate (ETR). ETR is used to measure tax paid as a proportion of economic income (Ardyansah and Zulaikha, 2014).

There are financial and non-financial factors that can influence tax aggressiveness, such as; liquidity, profitability, leverage, corporate social responsibility, inventory intensity, firm size, corporate governance, board of commissioner, audit committee, management profit and family ownership. (Ardy and Ari, 2016)

Firm size is used to measure the size of the company and can describe the company's operational activities and income earned. One way to determine the size of the company is from the total assets owned.

Leverage is a ratio to see how far the company uses debt. According to Maryani and Irin Dwi (2014) in Susilowati, Widyawati and Nuraini (2018) stated that leverage has a positive effect towards effective tax rate because the higher the leverage of the company, effective tax rate will be bigger in an effort to pay off debt.

Company has a high profitability will pay higher tax than company with lower profitability. Return on assets (ROA) is an indicator that reflects the company's financial performance, the higher the ROA, the greater the company performance.

There were some phenomenons about tax avoidance that occur in Indonesia. The first one is PT. Coca-Cola Indonesia (CCI) in 2014 allegedly outsmarting the tax, so that raises a shortage of tax payments worth IDR 49.29 billion. The results from the searching of the Directorate General of Taxes, that the company had carried out tax avoidance actions that cause tax deposits diminished with the discovery of swelling of taxable income reduced, so that the tax deposit also shrinks. The cost of expenses is among others for advertisements from 2002-2006 with a total of IDR 566.84 billion. As a result, there were decrease in taxable income.

The second company to do tax avoidance practices was carried out by PT Ades Alfindo which indicated doing earnings management. Capital Market Supervisor Agency *(Bappepam)* had ensured that the management of PT Ades Alfindo Putrasetia Tbk (ADES) had provide misleading information to the public.

Information misdirection is related case of differences in the calculation of production numbers and sales figures in the report company finance. According to Chairman of Bapepam Herwidayatmo at the Stock Exchange Jakarta (BEJ) (2004), ADES's new management report regarding the existence inflating the information carried out by the old management turned out to be not accompanied by sufficient evidence. As is known, the new management of ADES reported differences in financial statements from 2001 to 2003.

According to Etienne Benet, Director of Ades, for the difference in volume use the average selling price assumption outside of VAT. 8 For 2001 the difference the volume of net sales is estimated at a maximum of Rp 13 billion. For the year 2002 amounting to Rp. 45 billion, for the year 2003 amounting to Rp. 55 billion and Rp. 2 billion for the middle of 2004. These estimates can be presented maximum difference of 10 percent, 30 percent, 32 percent and 3 percent more low of sales reported in the years mentioned above. As a result, the financial statements of PT ADES in 2001-2004 were overstated. Profit management carried out by PT ADES includes increasing income due to PT ADES they are net sales so that PT ADES's profits increase. PT ADES conducts earnings management with the aim of attracting investors to invest in the company.

Table 1.1 Firm Size, Debt to Asset, Return on Assets and Effective Tax Rate in some of Food and Beverage Companies listed in Indonesia Stock Exchange

Company's Name	Year	Firm Size	Debt to Asset	Return on Assets	Effective Tax Rate
PT. Akasha Wira International Tbk (ADES)	2013	26.812	40%	12.6%	6%
	2014	26.944	41.9%	6.2%	25.3%
	2015	27.205	49.7%	5%	25.7%
	2016	27.366	49.9%	7.3%	9.2%
	2017	27.457	49.7%	4.6%	25.2%

	2013	27.689	50.6%	6.1%	24.8%
PT. Wilmar Cahaya Indonesia Tbk (CEKA)	2014	27.881	58.1%	3.2%	27.9%
	2015	28.027	56.9%	7.2%	25.1%
	2016	27.986	37.7%	17.5%	12.6%
	2017	27.962	35.2%	7.7%	25%

Source: www.idx.co.id

From the table above, can be seen some of food and beverage companies listed in Indonesia Stock Exchange in year 2013 to 2017. It showed the relation between the independent variable and the dependent variable. As it has been stated before the higher the leverage of the company, effective tax rate will be bigger in an effort to pay off debt.

It can be seen from the table above for PT Akasha Wira International Tbk, for year 2013 to 2015 debt to asset is increasing and effective tax rate is increasing while for year 2016 the debt to asset is increasing but the effective tax rate is decreasing and for year 2017 the debt to asset is decreasing while the effective tax rate is increasing. It can be stated that there are issues happening in the company.

The same issue also happened in PT Wilmar Cahaya Indonesia Tbk, it can be seen that for year 2013 to 2016 if the debt to asset is high then the effective tax rate is also high and vice versa. But for the year 2017, debt to asset is decreasing but the effective tax rate is increasing. Therefore, it can be stated that the company is having issues.

Based on the phenomena of the study, the author would want to do the "**The Influence of Firm Size, Debt to Asset and Return on Assets towards Tax Aggressiveness on Food and Beverage Companies Listed in Indonesia Stock Exchange**".

1.2.   Problem Limitation

Due to the lack of time, problem limitation of this research is limited to the influence of firm size, debt to asset and return on assets towards tax aggressiveness which will be studied are annual financial statements on food and beverage companies listed on Indonesia Stock Exchange year 2013 to 2017.

1.3.   Problem Formulation

To raise the issues discussed in this study, the author makes the formulation of the problem as follow:

1. Does firm size influence tax aggressiveness partially at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017?
2. Does debt to asset influence tax aggressiveness partially at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017?
3. Does return on assets influence tax aggressiveness partially at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017?
4. Do firm size, debt to asset and return on assets influence tax aggressiveness simultaneously at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017?

1.4.   **Objective of the Research**

In accordance with the formulation of the problem, this study aim to find empirical evidence on:

1. To identify the influence of firm size on tax aggressiveness partially at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017

2. To identify the influence of debt to asset on tax aggressiveness partially at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017

3. To identify the influence of return on assets on tax aggressiveness partially at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017

4. To identify the influence of firm size, debt to asset and return on assets on tax aggressiveness simultaneously at food and beverage companies listed in Indonesia Stock Exchange year 2013 to 2017

1.5.   **Benefits of the Research**

This research is expected to give benefits for various parties related to the research topic, including:

1.5.1.   **Theoretical Benefit**

1. For Author

   To provide better understanding and explanation of tax aggressiveness related to firm size, financial leverage and return on assets of food and beverage companies listed on Indonesia Stock Exchange

2. For Readers

   The result of this research is expected to provide knowledge about firm size, financial leverage, return on

asset and tax aggressiveness for the readers and can be used as reference for future research

1.5.2. Practical Benefit

1. For Company

   This research can be used as reference for a company to reconsider whether to use tax aggressiveness or not and to reduce the sanction of tax payment

2. For Government

   This research is expected to give better understanding for government to help companies in taking decision to pay tax and assist government on deciding the tax policy

1.6. Systems of Writing

To facilitate this research, then the author compiled systems of writing consisting of the following details:

CHAPTER I: Introduction

This chapter reviews about the background of study, problem limitation, problem formulation, objective of the research which is to identify the relationship between the independent and dependent variables, benefit of the research and systems of writing of the research

CHAPTER II: Literature Review and Hypothesis Development

This chapter reviews about agency theory, firm size, leverage profitability and tax aggressiveness, previous research,

hypothesis development, research model and framework of thinking related to the research

CHAPTER III: **Research Methodology**

This chapter reviews about the research design used in this study which is quantitative method, population and sample of the research, data collection method, operational variable definition and variable measurement and data analysis method of the research

CHAPTER IV: **Data Analysis and Discussion**

This chapter reviews about the sample of the research, data analysis and interpretation result of the research

CHAPTER V: **Conclusion**

This chapter reviews about the conclusion, implication and recommendation of the research