

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Every people would have a never ending needs and wants. Because of this, people would strive to fulfill their needs and wants so that they could feel satisfied after fulfilling it. But, sometimes people could equalize the meaning between needs and wants. According to Utari, R. P. (2019), needs comes from the nature of human who wish for things that could bring benefit or help them in doing their activities. In contrast with needs, wants comes from the desire that human harbored in which once it is fulfilled, it will only bring the sense of accomplishment. Due to the humans' nature of never-ending needs, it implies the potential gain in the consumer goods industry in the nation. Consumer goods industry is one of the thriving sector in the nation due to the constant demand of consumer goods in the people' lives. Either conscious or unconsciously, people would demand for consumer goods in their lives. So with this base, it could be said that consumer goods industry is one of the major contributor in the nation' economy. The consumer goods industry consists of sub-sectors such as: food and beverage industry, cosmetics industry, cigarette industry, pharmaceutical industry, household appliance industry and many others.

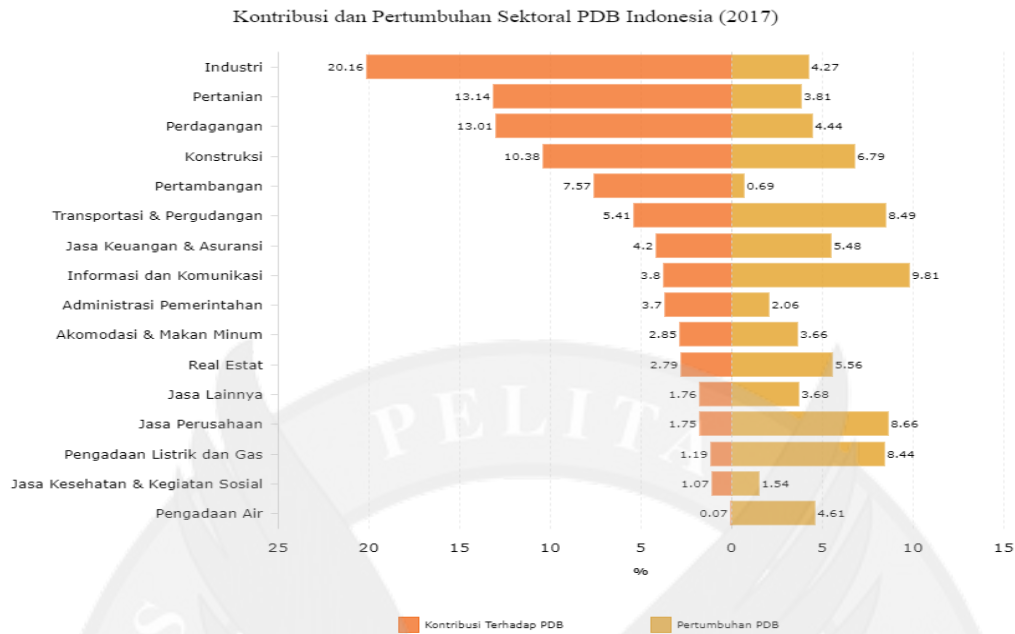


Figure 1.1 Sectoral Contribution of Indonesia Year 2017

Source: Menko Perekonomian (2017)

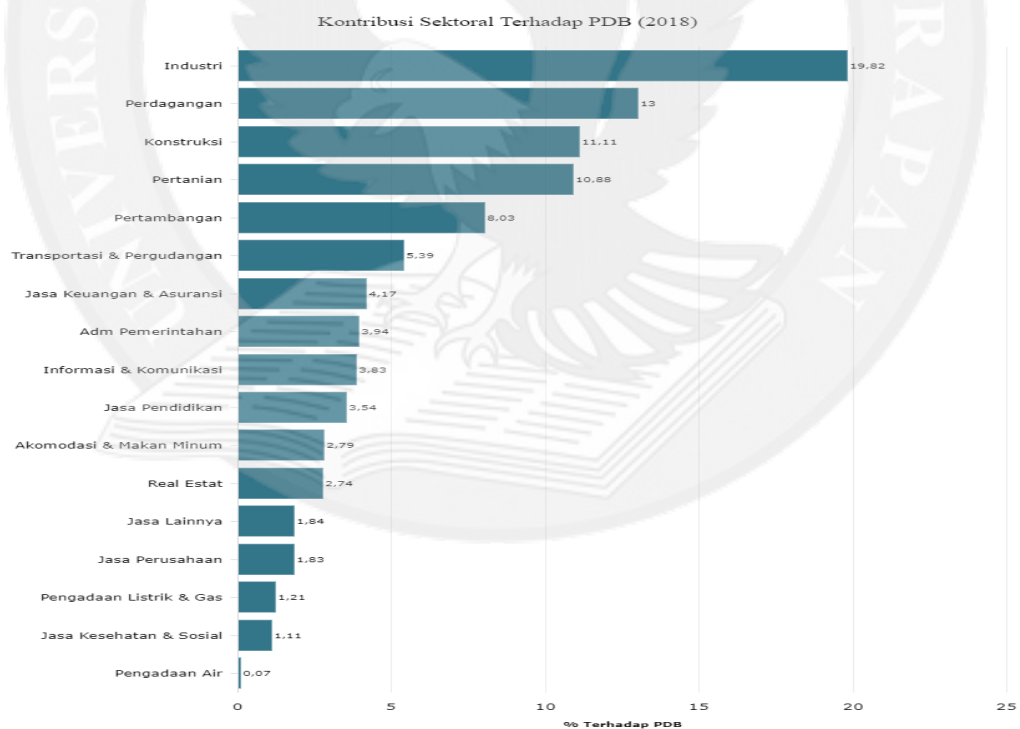


Figure 1.2 Sectoral Contribution of Indonesia Year 2018

Source: Badan Pusat Statistik (2019)

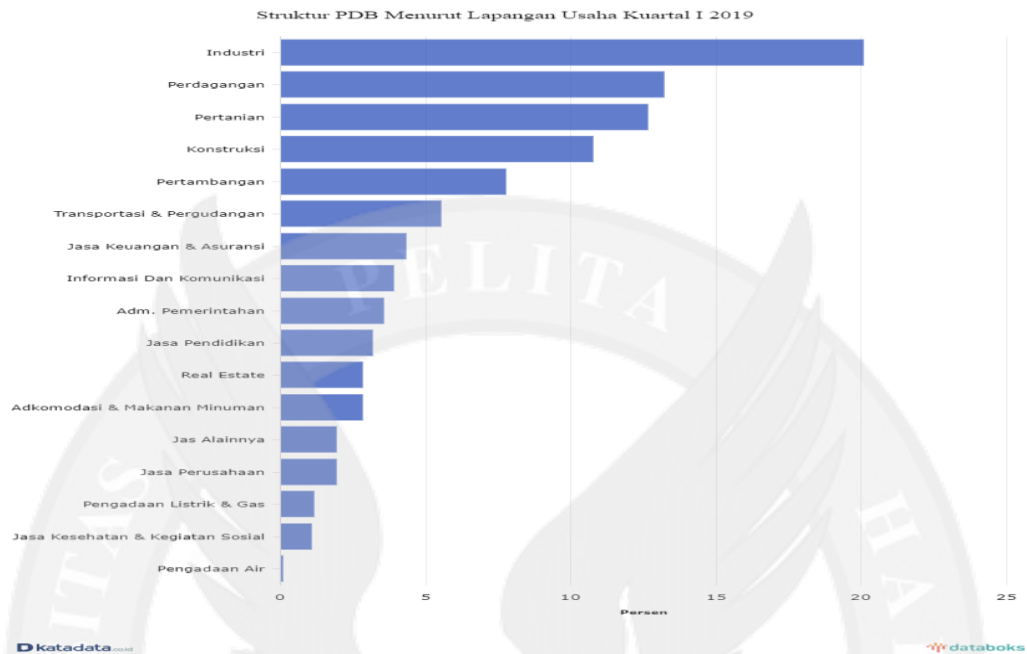


Figure 1.3 Sectoral Contribution of Indonesia Year 2019 First Quarter
 Source: *Badan Pusat Statistik* (2019)

Based on the information gathered through *Badan Pusat Statistik* (BPS) and *Menko Perekonomian* Indonesia on Databoks webpage, industry sector played a vital role in Indonesia's economic activities as well as became the largest contributor for Indonesia's economic growth. This occurrence happened consecutively from year 2017 up to the first quarter of year 2019. Although the industry sector's contribution was declining in year 2018 from the previous number of 20.16% to 19.82%, but it shows signs of increase in the first quarter of year 2019 Indonesia to 20.07%.

Furthermore, according to *Kementerian Perindustrian Republik Indonesia* (2019), the industry sector is still the leading contributor of the economy during the second quarter of year 2019. Based on this information, it could be seen that the consumer goods industry is quite active in its economy activities, and this would then lead to the economic growth of Indonesia. Of course, active economic activities would signify a steady revenue received and expenses spent. As the business derived income from Indonesia, then according to the taxation regulation implemented in Indonesia, the business who met the criteria stated in the regulation would need to fulfill its taxation obligation.

Tax is a mandatory contribution of a nation's citizen. The tax that is collected from the citizen would act as the one of the nation's source of income. And with the tax, the nation would have enough fund to start on the nation's development project with the goal of developing the nation. With Indonesia implementing the Self-Assessment System, every taxpayer either individual or entity should fulfill their taxation obligation by themselves. This taxation obligation would need to be carry out in accordance to the taxation provisions. The provisions that is published by the government would act as the guide in monitoring the compliance of the taxpayers in fulfilling their taxation obligation. There are some provisions that has been published by the government, such as General Tax Provisions, Income Tax Provision, Value Added Tax Provision and many other provisions that are specialized in certain area of taxation. But, the goal of every taxpayer is to minimize the amount of the tax payable in order to maximize the amount of income after tax.

Therefore, tax planning would be very essential for taxpayers to achieve their goal. However, the way to minimize the tax must not fall under Tax Evasion, instead it should be labeled as Tax Avoidance. Because, Tax Avoidance is a legal way of minimizing the amount of tax payable by utilizing the “loophole” in the taxation regulations while tax evasion the effort in minimizing the amount of tax payable illegally.

Without any doubt, the consumer goods industry would also try to minimize its tax payable amount by utilizing every available “loophole” in the taxation regulation in order to optimize its income after tax. Seeing that the consumer goods industry became the biggest contributor for the economic growth in Indonesia during year 2017 - 2019, the object of this research would be the companies listed in Indonesia Stock Exchange that is categorized as the consumer goods industry during the period of 2017 - 2019.

From the background that has been described, the title for the research would be **“The Effect of Liquidity, Leverage, Profitability and Firm Size to Tax Aggressiveness on Consumer Goods Industry Companies Listed in Indonesia Stock Exchange”**.

1.2 Problem Limitation

Problem limitation is needed to allow the author to focus on what is the main problems that need to be discussed. The existence of problem limitation could guide the author to not deviate from the focus of the research, as well as to prevent the author to expand the problems. With the problem limitation as the guideline, the

research would be structured well and the objectives of the research could be fulfilled. Based on the background of the study, here are some problem limitations:

1. The independent variable of liquidity would be limited to Current Ratio.
2. The independent variable of leverage would be limited to Debt to Equity Ratio.
3. The independent variable of profitability would be limited to Return on Assets Ratio.
4. The independent variable of firm size would use the Natural Logarithm Method.
5. The dependent variable of tax aggressiveness would be limited to Tax Avoidance with the indicator of Effective Tax Rate Method.
6. The object of the research would be the Non-Cyclical companies of consumer goods industry sector that is listed in Indonesia Stock Exchange.
7. The period of observation is three years, starting from year 2017 until 2019.

1.3 Problem Formulation

Based on the background of study, some problem formulations are founded during research. The research would be focused on the following problem of formulations:

1. Does liquidity have significant effect on entity's tax aggressiveness?
2. Does leverage have significant effect on entity's tax aggressiveness?
3. Does profitability have significant effect on entity's tax aggressiveness?
4. Does firm size have significant effect on entity's tax aggressiveness?
5. Do liquidity, leverage, profitability and firm size have significant effect on entity's tax aggressiveness simultaneously?

1.4 Objective of the Research

The objectives of this research are:

1. To determine whether liquidity of the entity has significant effect on its tax aggressiveness act.
2. To determine whether leverage of the entity has significant effect on its tax aggressiveness act.
3. To determine whether profitability of the entity has significant effect on its tax aggressiveness act.
4. To determine whether firm size of the entity has significant effect on its tax aggressiveness act.
5. To determine whether liquidity, leverage, profitability and firm size of the entity have significant effect on its tax aggressiveness act simultaneously.

1.5 Benefit of the Research

The benefit of conducting this research are as follows:

1.5.1 Theoretical Benefit

Theoretically, this research could help people to perceive whether the components in an entity would have any influence toward tax aggressiveness act that is done by the entity. This research is also expected to provide additional knowledge for people who is currently doing businesses or interested in the taxation field. People could use this research as a reference when conducting other relevant researches or it could help in completing assignments for students who majored in taxation.

1.5.2 Practical Benefit

Practically, this research could help in equipping the business owners with the basic knowledge of entity's tax aggressiveness. With the knowledge, business owners could do tax aggressiveness in legal way by considering the components of the business. The business owners who could understand which components of the business that would influence tax aggressiveness, could use it along with the proper use of relevant "loophole" in the taxation regulation. By doing so, the business owners could minimize the tax payable while optimizing the income after tax received.

