CHAPTER I
INTRODUCTION

1.1 Background of the Study

Indonesia is a developing country with a large population, and its strategic geographical location with the rich natural parts of the world's largest archipelago makes the region of Indonesia the center of world trade traffic. As a result, many domestic and foreign companies have been established in Indonesia. This would be very beneficial to Indonesia in terms of increasing tax revenue. Taxes are one of the obligations of society to the nation and a form of society that supports the development of the homeland and the nation. Taxes are an element of national income to meet the needs of the nation. Taxation is the most influential source of national income, contributing for the highest percentage of the State Budget (APBN) when compared to several other revenues (Yanti and Hartono, 2019).

Along with the rate of economic growth, Indonesia will also see improvements in taxation policy, implying that taxes are a factor that will still evolve alongside society. The budget function is one of several tax functions in which taxes are levied as a source of funds for the government to finance its expenses. Tax contribution to the Revenue and Budget State Expenditure (APBN) every year more increasing (Mulyati Akib, 2019).

Established businesses and those expanding their operations in Indonesia are required to pay taxes. The tax is one form of revenue for the government when it comes to financing state production. For businesses, tax is something they try to stop at all costs, since it is counterproductive to their operations. Taxes are a burden that will minimize a business's net profits (Putri & Lautania, 2016).

Although taxes are seen as the main source of government revenue that must be prioritized, the corporate sector often views taxes differently, seeing taxes as an expense that must be paid by the business and eventually decreases the business's net benefit (Pradnyana & Noviari, 2017 in Arham et al., 2020). According to Husted & Salazar (2006) in Arham et al. (2020), A profit-oriented business's objective is to maximize earnings, thus taxes are seen as a potential impediment to the organization achieving its objectives. According to Landry et al. (2013) in Arham et al. (2020), taxes are major market expenses, and their expenditure may not have a direct effect on the payer. Government attempts to maximize tax income was detrimental to businesses as taxpayers (Setyaningrum & Suryarini, 2016 in Arham et al., 2020). Businesses see tax as a cost that must be paid and as negative due to its very existence, which is a cut in company earnings (Permana, 2015 in Arham et al., 2020). As a result, businesses often strive to keep their tax bills to a minimal (Hardika, 2007; Kurniasih & Sari, 2013 in Arham et al., 2020). These factors all contribute to businesses evading taxation by tax evasion.

According to Indradi (2018), one of the impediments to the government's attempts to optimize this tax field is tax avoidance and evasion, as well as the implementation of different types of policies. Companies aim to limit the amount of tax they spend. Of course, paying taxes in compliance with the provisions would conflict with the corporation's primary goal, which is to maximize profit or profit, and so the organization aims to minimize its tax expenses carry. Among the methods employed by businesses is tax planning or tax aggressiveness.

Corporate Tax Aggressiveness namely the desire of the company to minimize its tax burden paid in a legal manner, illegal, or both, Yoehana (2013) in Ratnawati and Silfi (2017). Tax Aggressiveness Companies are also judged by how much great company takes evasive steps tax by taking advantage of regulatory loopholes taxation. So, with that, companies will be considered increasingly aggressive towards taxation (Ratnawati and Silfi, 2017).

When businesses have a significant tax burden, they appear to be tax aggressive. According to Lanis and Richardson (2012: 87) in Dewi and Cynthia (2018), tax evasion is a publicly irresponsible act. Businesses are purposefully evading taxation and reducing state proceeds that should be used to promote community growth. According to Ratmono and Sagala (2015: 17) in Dewi and Cynthia (2018), the company's decisions on tax minimization are currently inconsistent with the community's views and aspirations. This is because the taxes collected by the business have a significant impact on how public resources are funded. According to stakeholder theory, tax aggressiveness is an action that favors only the business and disregards other stakeholders, including the government and society.

Tax aggressiveness is a key topic in today's field of taxes. Numerous businesses engage in tax planning in order to mitigate their tax liability. The objective of this research is to investigate the relationship between corporate social responsibility, capital intensity, firm size and profitability and the tax aggressiveness of manufacturing in Indonesia's subsector food and beverage listed in Indonesia Stock Exchange. This research integrated several viewpoints on tax aggressiveness into a single paradigm.

According to Prescott et al. (2002) in Boumediene (2018), while corporate social responsibility (CSR) has become a more widely recognized company concern, there is still very little realistic advice available to assist businesses in addressing the problems it poses. The tools that do occur are generally applicable to every business and thus quite generic; there is no guidance that answers the complex CSR issues encountered by businesses in particular market sectors. Therefore, CSR is critical for the food and beverage sector, as it meets fundamental human requirements and has a significant effect on public health. Additionally, CSR policies have become ingrained in the food and beverage industry's business practices, especially for companies with high-value customer products. Additionally, while food protection and quality concerns have earned significant attention in agricultural economic analysis for a long period of time, research on CSR with an emphasis on the food sector remains scarce.

Capital Intensity is a spending practice correlated with fixed assets and inventories that demonstrates the effectiveness of utilizing assets to produce sales. It may also be characterized as how businesses make concessions to expend funds on operational operations and funding assets in order to achieve business profitability (Indradi, 2018). According to Afiana and Mukti (2020), capital intensity refers to a company's spending operation that is synonymous with an investment of fixed assets (capital). Since high ownership in fixed assets results in a high depreciation cost, earnings decline and the corporate tax burden decreases as well. Thus, the company's large wealth base has compelled it to pursue tax evasion.

Richardson and Lanis (2013) in Ratnawati et al. (2019) discovered that the larger the business, the greater the risk of tax aggressiveness. This is since, in general, large-sized businesses are well-established and have knowledgeable resources, particularly those in the field of taxation. As a result, bigger businesses would be more equipped to engage in tax aggressiveness than smaller businesses.

According to Yahaya and Yusuf (2020), profitability ratios indicate a firm's earning potential and are used to gauge its development, success, and power. They can also be viewed as an intuitive measure that is intended to affect the effective tax rate, especially where the profitability measure is dependent on pre-tax profits.

This research is done in food and beverage companies listed at Indonesia Stock Exchange, and here are some data from food and beverage companies in Indonesia Stock Exchange for the year 2015 – 2019 can be seen as follows:

Table 1.1 Phenomena Table

Company	Year	Corporate Social Responsibility	Capital Intensity	Firm Size	Profitability (ROA)	Tax Aggressiveness (ETR)
ICBP	2015	0.187	0.247	30.910	0.110	0.271
	2016	0.165	0.246	30.995	0.126	0.272
	2017	0.253	0.257	31.085	0.112	0.319
	2018	0.231	0.313	31.168	0.136	0.277
MYOR	2015	0.121	0.332	30.060	0.110	0.238
	2016	0.209	0.299	30.190	0.107	0.248
	2017	0.209	0.267	30.333	0.109	0.254
	2018	0.242	0.242	30.498	0.100	0.261
INDF	2015	0.187	0.273	32.151	0.035	0.349
	2016	0.165	0.313	32.040	0.059	0.343
	2017	0.253	0.447	32.113	0.058	0.329
	2018	0.231	0.439	32.201	0.051	0.334

Source: Prepared by Writer (2020)

The table above shows the fluctuation of tax aggressiveness of several food and beverage companies during 2015 to 2018. Tax aggressiveness is measured with the effective tax rate (ETR) while Profitability is determined by using Return on Assets ratio (ROA). The declining of ETR percentage shows that the companies have tried to do tax management. The percentage of effective tax rate of PT. Indofood CB Sukses Makmur, Tbk. (ICBP) from year 2017 to 2018 decreased from 31.9% to 27.7% which contradictory with Return on Assets that keep Increasing. Meanwhile, The ETR dan ROA increased from year 2015 to 2016. But suddenly decreased by a leap in ROA while keep increasing in the year of 2017.

PT. Mayora Indah, Tbk. (MYOR), the effective tax rate as well as Firm Size from year 2015 to 2018 showed increased rate. Even though the CSR in year 2015 to 2018 has increased from 12.1% to 24.2%. Which is also contradictory with the capital intensity ROA decreased from 11% to 10% in year 2015 to 2018.

In PT. Indofood Sukses Makmur, Tbk. (INDF), the percentage of effective tax rate of PT. Indofood Sukses Makmur, Tbk. from year 2015 to 2017 decreased from 34.9% to 32.9% but suddenly increased to 33.4% in the year 2018 which is contradictory with the ROA which Increased from 3.5% to 5.9% in year 2015 to 2016 and decreased to 5.1% in year 2018. Therefore, some cases and table above show that Tax aggressiveness is an important issue to get more attention.

Indonesia, the fourth most populous country in the world, has significant demand to meet in food and beverage. Primarily as the population grows, the local consumer demand for food and beverage is also growing as well. Changing food consumption patterns are also found to increase the demand of food and beverages that characterized by future trends, as young, urbanized populations tend to be more interested in healthy, time-saving foods and drinks.

According to *Kementrian Perindustrian Republik Indonesia* (2017), Food & beverages industry has become an important pillar supporting the economy of Indonesia. Increased in public consumption of food and beverages product, will affect the company sales and profit of the company. So, the better the performance of a company will be, and the more investors will be interested in planting their capital toward the company. The more advanced and developing capital markets in Indonesia, the economy will be pushed forward and developed, it will therefore affect the GDP and the economic growth of the country.

Based on *Badan Pusat Statistik* (2019), the substantial influence of the food & beverage industry in Indonesia can be observed from the contribution towards the country's gross domestic product (GDP), Where the contribution of the food and beverages industry to GDP has reached 6.62% in 2018 that have kept increasing year by year from 6.02% in 2015. This shows that food and beverages company have given a big impact on economic development in Indonesia. Therefore, the food and beverages companies are projected to be the mainstay of supporting Indonesia's manufacturing and economic growth.

Moreover, the term 'food and beverages industry' refers to the companies that produce, process, manufacture, sell and serve food, beverages, and dietary supplements (Luque et al. 2017). Where it is a multi-dimensional, complex, and challenging subsector due to the manufacturing of raw materials, semi-finished products and finished products (Demir and Dincer, 2020).

The research on food and beverages companies might has been used as the object of others research and many influencing factors have been tested by many researchers before. But based on the background study described above, the writer decides to conduct the research with the title **"The Effect of Corporate Social Responsibility, Capital Intensity, Firm Size and Profitability Towards Tax Aggressiveness on Manufacturing Companies In Food and beverages subsector Listed in Indonesia Stock Exchange"**

1.2 Problem Limitation

The limitations of this research are stated as follow:

1. This research object only focuses on Manufacturing Companies in Food and beverages subsector Listed in Indonesia Stock Exchange
2. The independent variable are Corporate Social Responsibility, Capital Intensity, Firm size, and profitability that might bring impact towards Tax Aggressiveness
3. This research period only limited from the year 2015 – 2019

1.3 Problem Formulation

There are several problems that are identified, which include:

1. Does Corporate Social Responsibility partially bring significant influence towards tax aggressiveness on Manufacturing Companies in Food and beverages subsector Listed in Indonesia Stock Exchange?
2. Does Capital Intensity partially bring significant influence towards tax aggressiveness on Manufacturing Companies in Food and beverages subsector Listed in Indonesia Stock Exchange?
3. Does Firm Size partially bring significant influence towards tax aggressiveness on Manufacturing Companies in Food and beverages subsector Listed in Indonesia Stock Exchange?
4. Does Profitability partially bring significant influence towards tax aggressiveness on Manufacturing Companies in Food and beverages subsector Listed in Indonesia Stock Exchange?
5. Do Corporate Social Responsibility, Capital Intensity, Firm Size, Profitability simultaneously bring significant influence towards tax aggressiveness on

Manufacturing Companies in Food and beverages subsector Listed in Indonesia Stock Exchange?

1.4 The objective of the Research

Based on the problem formulation above, there are some objectives of the research can be used to solve the problems that have been found in food and beverages subsector for the period of 2015 – 2019 registered in Indonesia Stock Exchange, which are as follows:

1. To analyze and provide empirical evidence of significance influence of Corporate Social Responsibility towards tax aggressiveness.
2. To analyze and provide empirical evidence of significance influence of Capital Intensity towards tax aggressiveness.
3. To analyze and provide empirical evidence of significance influence of Firm Size towards tax aggressiveness.
4. To analyze and provide empirical evidence of significance influence of Profitability towards tax aggressiveness.
5. To analyze the simultaneous influence of significance influence of Corporate Social Responsibility, Capital Intensity, Firm size and profitability towards tax aggressiveness

1.5 The benefit of the Research

The benefits from conducting this research are as follow:

1.5.1 Theoretical Benefit

Basically, in this research given a useful information, which is to give insight new idea and knowledge for further analysis regarding topic with similar nature of studies. Which expected to give the readers a deeper understanding about accounting and tax theories that related to this research.

1.5.2 Practical Benefit

The practical benefits of this research are as follow:

1. For Academicians

   This research servers as a useful information, which given insight, new idea and knowledge for further analysis.

2. For Company

   This research expected to use as an additional information relates to the factors which may provide some impact on tax aggressiveness behaviors, so, the companies can consider in using tax aggressiveness as the tax planning in food and beverage Companies.

3. For Investor

   This Research is expected to give useful information for the investor in understanding the factors that have impact on tax aggressiveness.

4. For Researcher

   The result of this research is expected to be use as additional literature in the future. And given as references for other researchers.