CHAPTER I

INTRODUCTION

1.1 Background of the Study

Government can take the tax as part of revenue. It can show the source of government revenue. Increasing the amount of tax will be considered by the government in adding the government's revenue to the national budget. There is planning from the government in order to increase tax revenue each year because the country needs to utilize the revenue from local sources. There are many types of tax. One of the tax types which can be collected by the government is the income tax. Income tax is collected taxpayer from its income. Tax subject consists of individual taxpayer and entity taxpayer. Income tax is implemented based on applicable Income Tax Law.

The tax collection is used for many purposes, such as country development and expenditure in government activities. The government also need fund for conducting the development. Therefore, the government increases the participation of people in the country's development and increasing people's welfare. The people can increase their participation in paying tax for the country by paying tax based on applicable tax regulations. In collecting the tax, the government implements a certain tax collection system. The government considers the system in order to get optimal tax amounts from people. The growth of business activity in a certain country is expected can increase the amount of tax. The government expects the tax, especially income tax, to provide contribution for financing the country's development optimally.

A certain tax collection system that can be implemented is the self-assessment system. In this system, the taxpayer should make bookkeeping or recording in order to calculate the amount of tax payable. The amount of tax should be filed in the income tax return. The company calculates the amount of tax payable by multiplying the tax rate with the net income. The company can consider tax credit that has been paid in a certain year. The purpose of this system is to give trust to taxpayers. The government can conduct the controlling and assessment of the taxpayer’s calculation in order to ensure the payment of tax is based on tax regulation.

Tax aggressiveness is a term to describe activities of the company as taxpayers to minimize tax amount. The reduction of tax expense can be implemented in many ways. Some companies have an effort to reduce the tax based on tax regulation, while other companies reduce the tax without considering tax regulation. An aggressive way to reduce tax is reflected in the arrangement of transactions or business activities. It has the goal of reducing the amount of entity income tax optimally. Companies conduct tax aggressiveness as an effort to take the opportunity in a certain condition at the company’s business activities and transactions in reducing the taxable object with the result that it can make low tax expense. Tax aggressiveness can show that the company can conduct the tax obligation with high compliance. Tax aggressiveness is the company’s effort in reducing tax payable to the government. It can also be defined as the activity to make a minimum income that should be paid based on tax regulation. Entity taxpayers can conduct tax aggressiveness with tax avoidance or tax evasion. (Fadli, 2016).

Liquidity management involves estimating the demand for funds by the company and providing funds to meet all needs. Liquidity management also involves the estimation of funding sources and the providing of cash continuously, both short and long term. The purpose of liquidity management is to maintain the company's liquidity position, to manage liquid assets so that it can always meet all cash flow needs, including unexpected needs, and to minimize the possible existence of idle funds. Liquidity management is basically relating to how to manage funds and sources of funds in order to maintain a liquidity position. Liquidity is the ability of a company to meet the possibility of the payment of an obligation. The company is said to be liquid if it can meet the obligation to pay the supplier and borrower. Liquidity is the ability of the company to meet its debt obligations, can repay all of their borrowers, and can meet credit sales requests by the customer. From this understanding, a company is said to be liquid if the company has current assets as much as needs to be used to meet its liquidity. (Indradi, 2018).

The company can use sources of liabilities to conduct business activities. The leverage can give result in increasing the company's expense in the form of interest expense imposed for the number of liabilities. Increasing the number of liabilities can increase the interest expense as part of the company expense. The increasing of the company expense can reduce tax expense. Companies can consider the liabilities in decreasing the tax expense. However, a high amount of liabilities can give result in a problem for the company in the form of financial position. Therefore, the leverage should be considered by the company as part of tax planning in reducing the tax expense. It indicates that the liabilities can give a result the company's effort in conducting the tax avoidance. The taxpayer with high liabilities can recognize the interest expense from the loan to minimize income tax expense. (Nurjannah, et.al., 2018).

Net income can show the performance and condition of company activities. This information can be seen in the financial statement that can assist the owner and many stakeholders in evaluating the company's ability to generate income. There are many users of financial reports. These conditions can give result in the company's effort to manage earnings. There is an opportunity for the company's management to choose the many efforts in conducting the earning management, such as choosing a certain method in recording financial transactions. One of the purposes in conducting the earning management is reducing the tax expense. The company can determine a certain method in recording the financial transaction in order to reduce the net income. This condition can reduce the amount of income tax. The goal of earning management is to obtain some benefits in many purposes with the management of financial transactions and bookkeeping. It can be seen that earnings management is an activity to determine the available method and to implement a certain method in order to determine expected income. (Purwanto, 2016).

The information from the financial statement in the form of net income or earning can describe the condition of the company. The manager can prepare the financial statement by using many accounting methods as an effort in conducting earning management. The earning management is done by manipulating the financial statement by presenting improper earning. The company usually present the good financial position and performance which present the high profit in order to attract the many parties, especially investor. There are many ways in conducting earning management, such as the arrangement of the amount of net income and the presentation of financial statements. Earnings management can be done by using a certain method based on financial accounting standards. There are many options for the company in implementing certain accounting methods in order to manage the income based on financial accounting standards. (Jannah and Mildawati, 2017).

The research is conducted by determining the consumer goods company listed in Indonesia Stock Exchange as a research object. Share in the company will be purchased if the investors have confidence in the company's financial condition. The financial statement presents the financial condition and financial performance of the company. The company listed on Indonesia Stock Exchange can manage the presentation of net income in order to attract people to purchase the company's share. The company can conduct the earning management for this purpose. (Indradi, 2018). The high income can increase the investor's intention in buying the company's stock with the result that it can increase the price of the company's share. The investors can consider the tax payment done by the company in order to know whether the company makes payment of tax based on tax regulation. It will determine the company's effort in paying the tax appropriately. (Jannah and Mildawati, 2017). The liquidity, leverage, earning management, and tax aggressiveness of some consumer goods industries for the company listed in Indonesia Stock Exchange in the year 2015-2019 can be seen as follows:

Table 1.1 Liquidity, Leverage, Earning Management and Tax Aggresiveness

Company	Year	Liquidity	Leverage	Earning Management	Tax Aggresiveness
PT Akasha Wira International, Tbk	2015	138.60%	49.73%	0.30%	28.72%
	2016	163.51%	49.92%	3.92%	9.22%
	2017	120.15%	49.66%	-3.39%	12.42%
	2018	138.77%	45.32%	2.71%	8.72%
	2019	200.42%	30.94%	5.02%	14.42%
PT Budi Starch & Sweetener, Tbk	2015	100.08%	66.16%	-2.62%	42.63%
	2016	100.14%	60.26%	4.48%	31.76%
	2017	100.74%	59.36%	1.67%	8.79%
	2018	100.32%	63.85%	1.11%	35.94%
	2019	100.65%	57.15%	2.92%	18.41%
PT Wilmar Cahaya Indonesia, Tbk	2015	153.47%	56.93%	32.59%	19.63%
	2016	218.93%	37.73%	17.82%	25.10%
	2017	222.44%	35.16%	-18.54%	33.96%
	2018	511.31%	16.45%	-1.81%	11.26%
	2019	479.97%	18.79%	12.36%	17.89%

Source : Indonesia Stock Exchange (2021)

From the table above, the tax aggressiveness is not in a stable position during the year 2015-2019. Some companies do not make payment of tax consistently. This condition shows that the companies have an effort to reduce the payment of tax. The liquidity, leverage, and earning management are not in line the tax aggressiveness. There is also the variation of liquidity, leverage, and earning management for some consumer industry companies during the year 2015-2019. The movement of tax aggressiveness isn't followed by the movement of liquidity, leverage, and earning management. Liquidity can show the impact on tax aggressiveness. (Purwanto, 2016). Leverage also can give a significant impact on a company's effort in conducting tax aggressiveness. (Purwanto, 2016). The company can conduct earning management for the purpose of making tax aggressiveness. (Sari, Pratomo and Yudowati, 2016).Some researches give the result of the significant impact of each variable on tax aggressiveness. This research will be conducted to know the result whether these factors can give the same result in a company's effort to conduct tax aggressiveness.

In conducting the research to know the tax aggressiveness in the company, then the writer will conduct the research with the title as follows: "**The Impact of Liquidity, Leverage, and Earning Management Towards Tax Aggressiveness in Consumer Goods Industry Company Listed in Indonesia Stock Exchange.**"

1.2 Problem Limitation

This research will be done with a focus on a certain scope. The writer determines the problem limitation in order to get the appropriate research result as follows:

1. The writer will determine consumer goods companies listed on Indonesia Stock Exchange as the research object.
2. The tax aggressiveness is determined as the variable that will be analyzed as the dependent variable. The independent variables as the factors of tax aggressiveness in this research consist of liquidity, leverage, and earning management.
3. The research is done by determining the period of research during the year 2015-2019.

1.3 Problem Formulation

The writer determines the problem in this research as follows:

1. Does liquidity partially have an impact towards tax aggressiveness in consumer goods industry companies listed in Indonesia Stock Exchange 2015-2019?
2. Does leverage partially have impact towards tax aggressiveness in consumer goods industry companies listed in Indonesia Stock Exchange 2015-2019?
3. Does the earning management partially have impact towards tax aggressiveness in consumer good industry companies listed in Indonesia Stock Exchange 2015-2019?
4. Do liquidity, leverage, and earning management simultaneously have impact towards tax aggressiveness in consumer goods industry companies listed in Indonesia Stock Exchange 2015-2019?

1.4 Research Objective

The objective of this research are as follows:

1. To know whether liquidity partially has an impact towards tax aggressiveness in consumer good industry companies listed in Indonesia Stock Exchange.
2. To know whether leverage partially has an impact towards tax aggressiveness in consumer good industry companies listed in Indonesia Stock Exchange.

3. To know whether earning management partially has an impact towards tax aggressiveness in consumer good industry companies listed on Indonesia Stock Exchange.
4. To know whether liquidity, leverage, and earning management simultaneously have an impact towards tax aggressiveness in consumer good industry companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

This research can give some benefits as follows:

1.5.1 Theoretical Benefit

1. This research can give benefit in increasing the understanding of tax, especially liquidity, leverage, earning management, and tax aggressiveness.
2. This research can be used as reading material for students and other parties in increasing knowledge of tax.

1.5.2 Practical Benefit

1. This research gives information to the company in the implementation of tax based on tax regulation
2. This research gives consideration for the investor in analyzing the consumer goods industry company listed on Indonesia Stock Exchange