

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is a source of state revenue that provides a major contribution to the Indonesian state. According to Law No.28 of 2007 article 1, written that "Tax means a payable mandatory contribution to the state of the individual or entity, which is coercive under the Law, without any direct return and shall be utilized for the need of the state for the greatest prosperity of the people". As a result, the higher the tax revenue, the more public facilities, and amenities can be installed, and the higher the standard of state services provided to the public by the government.

Indonesia's government is increasingly focusing on tax revenue optimization. Exploring tax sources of funds is one way to achieve development funding independence for a nation. As a result, the government is very worried about this tax sector and is working hard to reform the taxation system to raise more revenue. With the depletion of Indonesia's natural resources, the government would have to rely more on the taxation sector for the internal revenue state budget. Because of the importance of taxation in contributing to income, the state must make efforts to ensure that the revenue is realized.

There are conflicts of interest between the government and taxpayers. Taxation is a source of revenue for the government to fund operations and governance, but it is also a cost factor that reduces a company's profit margin.

Due to the high tax burden, many businesses are attempting to implement tax resistance strategies to reduce the amount of tax they pay.

Taxes are obtained in Indonesia through a self-assessment system. The flaw in this taxation scheme is that it can lead to tax resistance. There are two forms of tax resistance strategies: passive tax resistance and active tax resistance. Passive tax resistance in the form of obstacles which complicates tax collection and has a close relationship with economic structure. Meanwhile, active tax resistance is all efforts actions are shown to the government to avoid taxes. Or in other words, active tax resistance is a taxpayer's initiative or behavior to avoid paying taxes properly. Tax avoidance and tax evasion are examples of active tax resistance.

Legal tax resistance is called tax avoidance, while illegal tax resistance is called tax evasion. Tax avoidance is a tax resistance that is still being practiced within the tax regulatory framework. Tax avoidance is an efficient effort tax burden by avoiding taxation through transactions that are not a tax object. Understanding tax avoidance or other tax resistance is an effort to ease the tax burden by not breaking the law which exists.

In Indonesia, efforts to optimize the revenue from the tax sector create obstacles, one of which is the existence of tax avoidance by companies. According to Handayani, (M. F. Handayani & Mildawati, 2018) tax avoidance is an activity that is carried out by minimizing the tax burden based on the tax provisions of a country. Tax avoidance does not interfere with or breach tax laws

because it is believed that tax avoidance activities that allow more use of tax law loopholes will impact state revenue from the tax sector.

Tax avoidance is a legal act, however, despite the fact that tax avoidance is legitimate, the government does not support it. This is because of the direct impact of tax avoidance on the reduction in state tax revenues which can lead to injustice and a decrease in the effectiveness of the tax system. That's why this activity creates anxiety for the government because it reduces the amount of tax that must be collected while still complying with the applicable laws and regulations. Tax avoidance is usually carried out through complex schemes that are systematically designed and generally can only be carried out by large companies. This leads to a perception of unfairness, where larger companies seem to pay fewer taxes.

Several previous studies have tried to link the factors of the company's financial condition to tax avoidance, including a focus on leverage. Leverage basically shows the extent to which companies use debt to finance their companies. With a fairly large amount of debt or loan, it can cause quite large interest as well. This is what company management uses to do tax avoidance, which is by minimizing the tax payable at a company. The research conducted by Annisa (Annisa, 2017) concluded that leverage has a significant effect on tax avoidance. Meanwhile, research conducted by Vidiyanna Putri and Bella Putra (Putri & Putra, 2017) shows that Leverage has no significant effect on tax avoidance.

Apart from Leverage, sales growth also can influence tax avoidance activities. Sales growth reflects the management performance of a company because the company can increase its sales between one fiscal year and the following year. The higher the growth rate, the more profits the company will generate. In managing working capital, sales growth plays an important role. The company can predict how much profit is derived from the increase in sales. Increasing sales growth is likely to make big profits, so avoiding tax practices is a tendency. Since businesses with relatively high revenue levels can have opportunities to gain large profits and be able to make tax payments, sales growth has a major effect on ETR, which is an indication of tax avoidance behavior.

This can be proven in research conducted by Anisatuz Za'imah, Mohammad Sobarudin, Nuri Intan Permatasari, Zulfa Nur Nabilah, and Holiawati (Za et al., 2018) which shows that increase in sales growth can increase company profits, therefore, if sales growth increases then the tax avoidance increases. However, research conducted by Oktamawati (Oktamawati, 2017) shows that sales growth has no significant effect on tax avoidance.

One of the determining factors in tax avoidance action is profitability. Profitability is a measure of the performance of a company. The profitability of a company describes the ability of a company to generate profits during a certain period at a certain level of sales, assets, and share capital. Profitability consists of several ratios, one among which is a return on assets. Return on Assets (ROA) is an indicator that reflects the company's financial performance, the higher the ROA value that the company can achieve, the company's financial performance can be

categorized as good. Research conducted by Handayani (R. Handayani, 2018) also proves that profitability has an effect on tax avoidance.

In the relationship between leverage and sales growth on tax avoidance, profitability can affect the relationship between the two. This is because when profitability increases as a result of an increase in sales growth, the tax burden borne by the company can also increase (Widiyantoro & Sitorus, 2019). It was also found that profitability has a significant effect on financial leverage. Research conducted by Wulandari in Widiyantoro (Widiyantoro & Sitorus, 2019) states that sales growth does not have a significant effect on company profitability. It was found that several previous research results showed different results because they were influenced by the situation, condition, and object of research.

Table 1.1 shows the data of leverage (DAR), Sales Growth (SG), Tax Avoidance (ETR), and Profitability (ROA) in the 2 largest companies in the consumer goods industry listed on the Indonesia Stock Exchange (IDX).

Table 1.1 Data of DAR, SG, ETR, and ROA in consumer goods companies listed on the Indonesia Stock Exchange (IDX).

No	Company's Code	Year	DAR	SG	ETR	ROA
1	GGRM	2017	0.3681	0.0922	0.2569	0.1162
		2018	0.3468	0.1489	0.2563	0.1128
		2019	0.3524	0.1548	0.2490	0.1383
		2020	0.2515	0.0358	0.2086	0.0978
2	ICBP	2017	0.3572	0.0358	0.3195	0.1121
		2018	0.3393	0.0788	0.2773	0.1356
		2019	0.3110	0.1011	0.2793	0.1385
		2020	0.5142	0.1027	0.2551	0.0716

Source: Prepared by Author (2021)

We can see from the table above that both companies have a DAR value of more than 30% within four years, especially the company with code ICBP in 2020 had a fairly high increase. In terms of SG, both companies always experienced an

increase from 2017 to 2019, except from 2019 to 2020. For the value of ETR, several years in a company with code GGRM has a value of less than 25%, it can be concluded that the company performed tax avoidance. And both companies each year experienced a consistent increase and decrease in their ROA value.

Based on the background description above, the author is interested in conducting research on these companies and writes in a thesis entitled " **THE IMPACT OF LEVERAGE AND SALES GROWTH TOWARD TAX AVOIDANCE WITH PROFITABILITY AS MODERATING VARIABLE** (Empirical study of consumer goods industry in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020)."

1.2 Problem Limitation

Because of the author's time constraints and to avoid the discussion of the problem not being widespread, therefore, only part of the identifications problems that have been examined, namely:

1. There are several factors that affect Tax Avoidance, this research will only examine the effect of Leverage, Sales Growth, and how Profitability moderates them against Tax Avoidance.
2. This research was conducted on manufacturing companies in the consumer industry sector that are listed on the Indonesia Stock Exchange.
3. This research was conducted using financial reports from 2017-2020.

1.3 Problem Formulation

Based on the background as well as the limitations that have been described, the problems in the research can be formulated as follows:

1. Does Leverage have a significant effect on Tax Avoidance?
2. Does Sales Growth have a significant effect on Tax Avoidance?
3. Do Leverage and Sales Growth simultaneously have a significant effect on Tax Avoidance?
4. Does Profitability as the moderating variable have an effect on the relationship between Leverage and Tax Avoidance?
5. Does Profitability as the moderating variable have an effect on the relationship between Sales Growth and Tax Avoidance?

1.4 Objectives of the research

Based on the formulation of the problem that has been described, the objectives of this research are as follows:

1. To determine and analyze whether Leverage has a significant effect on Tax Avoidance.
2. To determine and analyze whether Sales Growth has a significant effect on Tax Avoidance.
3. To determine and analyze whether Leverage and Sales Growth simultaneously have a significant effect on Tax Avoidance.
4. To determine and analyze whether Profitability as moderating variable has an effect on the relationship between Leverage and Tax Avoidance.

5. To determine and analyze whether Profitability as moderating variable has an effect on the relationship between Sales Growth and Tax Avoidance

1.5 Benefit of the Research

The researcher expects that this research can provide not only theoretical but also practical benefits, such as:

1.5.1 Theoretical Benefits

Theoretically, the author hopes that this research can be used as library material for theoretical studies and references for other academics who wish to conduct further research on tax avoidance. The author also hopes that the results of this research can increase knowledge and insight about the effect of Leverage, Sales Growth, and how Profitability moderates them toward Tax Avoidance.

1.5.2 Practical Benefits

Practically, the author expects that this research can be used as follows:

1. For the Company

This research can provide an input and encouragement about the importance factors related to tax avoidance behavior in carrying out the company's operational business activities.

2. For Investors

The results of this research are expected to provide additional information for investors in making investment decisions in the capital market.

3. For the author

This research is to add insight and information as well as suggestions for the development and application of knowledge that has been gained during the lecture period.

4. For Further Researchers

The results of this research are expected to be a reference source for further research on the effect of Leverage and Sales Growth with Profitability as Moderating Variable toward Tax Avoidance.

