CHAPTER I

INTRODUCTION

1.1 Background of the Study

Every company will try to grow. The growth is of course to achieve the company's goals where the company is always trying to move forward, to make the company bigger, therefore the company needs a large company size as well. Company size is measured by a high total asset ratio so that the management is easy to use the assets in the company (Putra & Jati, 2018). Companies that have large company sizes certainly have a greater opportunity to manage their company's finances. Such companies will find it easier to manage these financial conditions. Obviously, the higher the business's size, the more outstanding the company's debt, since organizations with enormous company sizes tend to demand a considerable amount of cash to expand their growth; hence, the company will have large debts to fund its operations.

Debt in every company will certainly occur where debt will provide opportunities for companies to manage goods or services owned by the company for profit. Large debts do not necessarily harm a firm that needs substantial resources to grow. This significant capital might originate through the incorporation of additional capital or from the company's obligations to third parties. Debt is utilized to finance the activities of the company. The debt that exists in the company is of course used to run the company's operations where ever company's operations will certainly require these costs. The more the company's output, the greater its ability to sell its goods, affecting its return on assets.

Return on assets is one of the ratios that measure the company's income from the assets owned by the company. Companies that have a high return on assets will certainly have a very good impact on the company, considering that the company is always looking for the maximum profit to maintain and develop the company. Return on assets relies on firm's earnings that corporate management seeks to raise in order to boost the company's net income. The company will always try to maintain its profits where the company will definitely reduce the company's costs. Since it is considered as a burden, company tries to reduce it so that more net profit remains.

Taxes are an essential source of state revenue for the execution and advancement of national development, which seeks to enhance the wealth and welfare of the community. Taxes must be paid to the state for use in the government activities and for citizen's best interests. Citizens who are taxed are referred to as taxpayers. Taxpayers are individuals or business entities that are tax subjects according to the rules of law on taxation that have been determined to carry out tax obligations including as tax cutters or certain tax collections (Nursehah & Yusnita, 2019).

According to Pohan (2015:2), taxpayers are required to take an active part to assist the government to increase state revenues, so that the national development may grow smoothly for the country's progress and welfare. The compliance of citizens as individual taxpayers or corporate taxpayers is urgent to fulfill tax obligations in the context of contributing to the state which is given voluntarily in accordance with applicable tax regulations. Tax collection can be done on the government or companies. Governments and companies have different interests. The government is obliged to increase the amount of state revenue through tax because it is considered to be able to influence and increase state revenues, which are used to finance all government activities.

Meanwhile, the company is inversely proportional to the government, because if the company experiences an increase in production costs, For instance, a higher cost of raw materials will increase the company's direct tax liability. Companies as taxpayers expect low taxes because low taxes can affect the amount of profit generated (Stawati, 2018).

According to Pohan (2015:22), differences in the interests of the government and the company can result in tax resistance. The two types of tax resistance are passive resistance and active resistance. Passive resistance refers to the impediments to tax collection that are intimately tied to the economic structure of a nation, the intellectual and moral growth of the people, and the system and manner of tax collecting itself. Active resistance encompasses activities and acts that target tax officials and try to avoid paying taxes. The corporation attempts to reduce taxes either lawfully (Tax Avoidance) or illegally (Tax Evasion).

Tax avoidance is a tactic applied to lawfully and safely reduce the tax burden for taxpayers without violating tax legislation. (Arianandini & Ramantha, 2018). Tax avoidance that is carried out legally (tax avoidance) is widely used by companies. Legal tax avoidance is carried out by taking advantage of the opportunities that exist in tax regulations so that they do not violate applicable laws and are still a topic of discussion until now without finding a solution. Basically, tax avoidance can be used because it does not violate tax rules, but for this tax avoidance can have an impact on state tax revenues so that it can harm the state (Permata et al., 2018)

According to Anindyka et al. (2018), referring to Law Number 36 of 2008, if the income tax payment is at a percentage of 28%, it means that if the company pays income tax below the percentage of 28%, then the company is said to have avoided tax. There is a phenomenon of tax avoidance in Indonesia, namely: Quoted from Kompas.com in the case in Indonesia, namely, the Tax Justice Network reports that the causes of tax avoidance that occur in Indonesia are estimated to suffer losses of up to 4.86 billion US Dollars per year or equivalent to Rp. 68.7 trillion if using the rupiah exchange rate at the time of closing in the spot market of Rp. 14,149 US Dollars. The Tax Justice Network explains in its research titled The State of Tax Justice 2020: Tax Justice in the Age of Covid-19 that this amount represents 4,78 billion US Dollars or 67.6 trillion Indonesian rupiah due to corporate tax avoidance. In the meanwhile, the remaining 78.83 million US Dollars, or the equivalent in Rp, comes from individual taxes. Riri Handayani's (2018) research aims to analyze the impact of return on assets, debt to equity ratio, and company size on tax avoidance.

The findings of this research reveal that return on assets slightly influences tax avoidance, business size influences tax avoidance, but debt-to-equity ratio has no influence on tax avoidance. Factors such as a company's size, return on assets, and debt-to-equity ratio all play a role in its tax avoidance strategies. However, Andy's

(2018) research does not look at how factors like return on assets, debt-to-equity ratio, debt-to-asset ratio, business size, or deferred tax cost affect tax avoidance. Results show that business size impacts tax avoidance and deferred tax cost influences tax avoidance but that return on assets, equity debt, and debt-to-asset ratios have little to no impact.

Tax avoidance is concurrently impacted by return on assets, debt to equity ratio, debt to asset ratio, business size, and deferred tax cost. Based on the occurrences and prior investigations presented in the preceding section, the reason this research was conducted on non-cyclicals consumer sector companies as the object of research, is because the sector continues to experience the impact of growth and development over time. This non-cyclical consumer sector company has no effect on economic growth because this sector is needed for daily activities. Based on previous research with factors that affect tax avoidance, many have done but still have not shown any consistency in the problem.

Table 1.1 Financial Report Data from Consumer Goods Sector Companies

Company Code	Years	Company Size	Debt to Equity Ratio	Profitabilitas	Tax Avoidance
PT Akasha Wira International Tbk	2017	**5.924**	0.986	0.046	**0.252**
PT Akasha Wira International Tbk	2018	**5.945**	0.829	0.060	**0.244**
PT Akasha Wira International Tbk	2019	5.915	0.448	0.102	0.239
PT Akasha Wira International Tbk	2020	5.982	0.369	0.142	0.191
PT Akasha Wira International Tbk	2021	6.115	0.345	0.204	0.213
PT Cahaya Kalbar Tbk	2017	12.144	**0.542**	0.077	**0.250**
PT Cahaya Kalbar Tbk	2018	12.068	**0.197**	0.079	**0.249**
PT Cahaya Kalbar Tbk	2019	12.144	0.231	0.155	0.244
PT Cahaya Kalbar Tbk	2020	12.195	0.243	0.116	0.219
PT Cahaya Kalbar Tbk	2021	12.230	0.223	0.110	0.208
PT Delta Djakarta Tbk	2017	9.127	0.171	0.209	0.242
PT Delta Djakarta Tbk	2018	9.183	0.228	0.222	0.234
PT Delta Djakarta Tbk	2019	9.154	0.175	**0.223**	**0.229**

PT Delta Djakarta Tbk	2020	9.088	0.202	**0.101**	**0.250**
PT Delta Djakarta Tbk	2021	9.117	0.296	0.144	0.220

From table 1.1 above it can be seen that there is a discrepancy between the theory and the realization of the company's financial report data where the company size at PT. Akasha Wira International Tbk in 2018 has increased from 2017 while its tax evasion has decreased. This is of course not in accordance with the statement which states that the larger the size of the company, the higher the tax avoidance. Debt to equity ratio at PT. Cahaya Kalbar Tbk in 2018 has decreased from 2017 but tax evasion at the company has also decreased. Of course this is not in accordance with the theory which states that the higher the company's debt will make the company's tax burden lower so that the tax evasion is also less. Profitability at PT. Delta Djakarta Tbk in 2020 has decreased from 2019 but tax evasion at these companies has increased. This is not in accordance with the theory which states that the higher the company's income, the company will increase tax avoidance to maintain its profits.

From the above background, Due to the importance of firm size on tax avoidance, the researcher sought to explore the effect of company size on tax avoidance. In addition, the debt ratio unquestionably affects tax avoidance, since a corporation with a larger debt ratio would have a more significant tax burden, this will certainly reduce corporate taxes because one component of the tax deduction is the company's burden. The researcher also examines the effect of profitability on tax avoidance because companies that have increasing profits will certainly make an increase in corporate taxes so that this will be attempted by the company's management to suppress the tax rate that will be reported so that the company's net income will increase. Because management will attempt to preserve the company's profitability. According to research by Aulia and Mahpudin (2020), titled The impact of profitability, leverage, and firm size on tax avoidance, company size influences tax avoidance to some extent. This indicates that when the size of a firm increases, so will its tax avoidance operations. In addition, according to study by Robi et al. titled the influence of firm size, profitability, leverage and sales growth on tax avoidance (on trading companies listed on the IDX for the period 2014-2019), profitability has a negative and substantial effect on tax avoidance. This indicates that the company's increased success will result in less tax avoidance.

From the description above, the writer conducts research in the form of a thesis titled: "The Influence of Company Size, Debt to Equity Ratio and Return on Assets Toward Tax Avoidance in Consumer Goods Sector Companies Listed on The Indonesia Stock Exchange".

1.2 Problem Limitation

The time constraints of this investigation necessitate the following limits on the scope of the issue:

1. This research will focus on two independent variable that affecting tax avoidance, which is Company Size, Debt to Equity Ratio and Return on Assets as independent variable and Tax Avoidance as dependent variable.
2. This research is limited to Consumer Goods Sector Companies
3. The research period is restricted to 2017-2021.

1.3 Problem Formulation

This research is undertaken in light of the above-described study's context to investigate several elements that impact tax avoidance. The author has discovered the following issues:

1. Does the company size has a significant partially effect on the tax avoidance?
2. Does the debt to equity ratio has a significant partially effect on the tax avoidance?
3. Does the return on assets has a significant partially effect on the tax avoidance?
4. Do the level company size, debt to equity ratio and return on assets have a significant simultaneously effect on the tax avoidance?

1.4 Objective of the Research

The objectives of this research are as follow:

1. To analyze whether the company size has a partially effect on tax avoidance.
2. To analyze whether the debt to equity ratio has a partially effect on tax avoidance.
3. To analyze whether the return on assets has a partially effect on tax avoidance.
4. To analyze the significant effect of company size, debt to equity ratio and return on assets can effect simultaneously on tax avoidance.

1.5 Benefit of the Research

The study helps both associated and unassociated parties. Among the most prominent advantages are:

1. Investors

   The findings of this research may be utilized by investors as a resource for understanding the elements that influence tax evasion in consumer products firms listed on the Indonesian stock market.

2. Author

   It may be used to Economics majoring in Accounting, particularly the knowledge of Tax Accounting acquired throughout the lecture.

3. Academic

   This research offers empirical evidence for how firm size, debt-to-equity ratio, and return on assets all influence tax avoidance strategies. In addition, it can also enrich the material of studies or references in tax avoidance for future research. It also will help in academic development for gaining more information about the economy system.

4. Student and society

   This research may be used as educational reading material.