

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Indonesia is known as a developing country. One of the sectors that keep on growing is the consumer goods industry. Consumer goods are the basic needs which all people have to fulfill them. In addition, it is based on people's purchasing power. Due to Indonesia having a lot of population, this industry provides a lot of contribution towards economic growth and taxation fields. Therefore, in this research, the author's object research is consumer goods companies which include cosmetics and household, food and beverages, houseware, pharmaceuticals, tobacco manufacturers, and others which are PT Hartadinata Abadi Tbk, PT Sepeda Bersama Indonesia Tbk, PT Sunindo Adipersada Tbk.

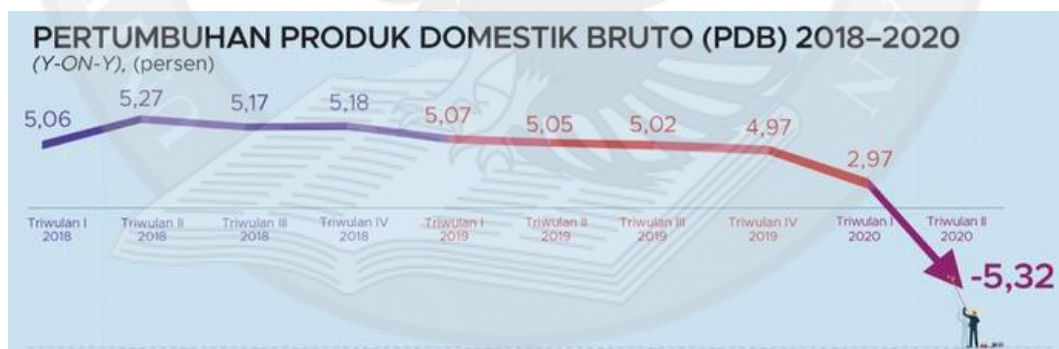


Figure 1.1 Indonesia's Economic Growth Quarter-1 2018 until Quarter-II 2020

Source: *Badan Pusat Statistik* (2020)

Based on figure 1.1 from *Badan Pusat Statistik* (BPS), the development of Gross Domestic Product (GDP) for Indonesia decreased from fourth quarter 2018 until second quarter 2020 which was around 5.18% to -5.32%. This is due to the

Covid-19 pandemic which causes a great impact mainly towards Indonesia economy. Thus, Indonesia's economic growth is disrupted.

Table 1.1 GDP Structure by Business Field in Quarter-II 2018, 2019, & 2020

Business Field	Quarter-II 2018	Quarter-II 2019	Quarter-II 2020
Industry	19.80	19.52	19.87
Agriculture	13.63	13.57	15.46
Trading	12.97	12.95	12.84
Construction	10.17	10.37	10.56
Mining	7.97	7.38	6.28
Transportation & Warehousing	5.45	5.57	3.57
Financial Services & Insurance	4.10	4.10	4.44
Information and Communication	3.69	3.89	4.66
Government Administration	3.60	3.72	3.80
Education Services	3.18	3.22	3.54
Real Estate	2.73	2.75	3.06
Accommodation & Drinks	2.77	2.74	2.28
Other Services	1.80	1.92	1.86
Company Services	1.79	1.89	1.83
Electricity and Gas Supply	1.18	1.13	1.14
Health Services and Social Activities	1.05	1.08	1.23
Water Supply	0.07	0.07	0.08

Source: Prepared by the writer (2022)

According to the table above, the industry sector gives the biggest contribution towards Gross Domestic Product which was a slight drop in 2018 to 2019 which was from 19.80% to 19.52%. After that, it was increased to 19.87% in 2020 even though the GDP growth is still minus. So, in facing the Covid-19 pandemic, the consumer goods industry still has highest contribution compared to the other sectors. Therefore, the industry sector plays an important role in contributing to GDP growth.

In implementing government activities, taxes play a significant role. Therefore, Indonesia's government expects that all of the citizens can follow and obey the taxation regulation because it is mandatory. Paying a tax is a must. Taxpayers must always maintain the rights and obligations in the balance condition.

In Indonesia, there are three types of tax system implementation namely, self-assessment system, official assessment system, and withholding assessment system. For the self-assessment system, the amount of tax payable is determined by taxpayers themselves. In other words, it indicates that taxpayers must calculate, pay, and report by themselves. This can happen because the government gives freedom and trust to them. The aim is to increase compliance to pay taxes which are voluntary for taxpayers based on their self-awareness to fulfill their obligations. Meanwhile, for the official assessment system, the amount of tax payable is not set by taxpayers, but it is decided by the tax authority. This system is intended to help taxpayers in calculating tax payable because maybe taxpayers do not have enough knowledge to compute it. For the withholding assessment system, third party like treasurers or entity tax divisions will determine taxpayers' tax payable amount. So, the main point of all those tax systems is to force taxpayers to pay taxes. Therefore, it can lead to tax aggressiveness which can be a tax avoidance or tax evasion.

Since the industry sector has the largest contribution and paying taxes is a must, the consumer goods companies might also try to apply a "loophole" to minimize the amount of tax paid which is actually legal because they expect to obtain more income after deducting tax. One example of tax aggressiveness, especially tax avoidance conducted by PT Bentoel Internasional Investama Tbk

(RMBA), in which an entity taxpayer takes benefits from loopholes in the international taxation, namely tax treaty between Indonesia and Netherlands.

PT Bentoel Internasional Investama Tbk as a subsidiary company of British American Tobacco (BAT) implements tax avoidance in payments of interest on company loans. The interest payments actually should be paid to another subsidiary of BAT in Jersey, England since the loan comes from them. However, the loan is made through another subsidiary company in the Netherlands, Rothman Far East BV, which is used as a Special Purpose Vehicle to avoid tax deductions. Because there is a regulation, the interest payments will be imposed on tax, 20%, by Indonesia's government towards other countries except with the Netherlands, 0%. By having that tax treaty between Indonesia and Netherlands, Indonesia experienced a loss on state revenue of about US\$ 11 million per year which is caused by PT Bentoel Internasional Investama Tbk (Kontan.co.id, 2019).

After that case occurred, the tax treaty between Indonesia and the Netherlands was revised. The withholding tax rate for interest payment of loans is not 0% anymore, but it is increased to 5%. So, the case of PT Bentoel Internasional Investama Tbk is categorized as tax aggressiveness especially tax avoidance.

Another case of tax avoidance conducted by PT Indosat Tbk by taking advantage of loopholes in the tax treaty between Indonesia and Netherlands. PT Indosat Tbk issued a US\$300 million bond to defray its operations in Indonesia. The withholding tax is 20% on the payments of interest in Indonesia. Nevertheless, if the bonds are issued through the Netherlands, it will be withheld by 0%. This can be applied because there is a tax treaty between Indonesia and the Netherlands.

Therefore, the company established a company, Indosat Finance Company BV, as a Special Purpose Vehicle with zero employees in Amsterdam. By doing so, PT Indosat Tbk has caused a loss on Indonesia's state revenue. (Aidha et al., 2019).

Since there is a case of taking advantage of loopholes in the Indonesia and Netherlands tax treaty, the Indonesian government has revised it. As a result, the withholding tax rate for interest payment of loans is not 0% anymore, but it is 5%. Thus, the case of PT Indosat Tbk is classified as tax avoidance.

Profitability, liquidity, and leverage give influence on tax aggressiveness. Profitability ratio indicates a firm's efficiency in utilizing and managing its assets and operations (Ross et al., 2016). Return on assets is utilized as the measurement for profitability ratio which by taking net income divides with total assets. So, a large profitability ratio indicates the more preferable performance of the company.

Liquidity ratio is used to measure the capability of an entity in paying its short-term obligation without stress (Ross et al., 2016). It shows how quickly the company's liquid assets are converted into cash within 12 months (Ross et al., 2003). The measurement for liquidity ratio is the current ratio which pays attention to current assets and current liabilities. The higher liquidity ratio indicates that the company is more liquid. As a result, the company will less face financial trouble.

Leverage ratio refers to a company's ability in fulfilling its obligations in the long-term (Ross et al., 2016). It determines financial leverage taken on by an entity (Brealey et al., 2011). Debt-to-equity ratio is utilized in calculating the leverage ratio by dividing total debt with total equity. The larger leverage ratio indicates the greater company's financing by debt compared to equity.

Tax aggressiveness can be influenced by a lot of factors such as profitability, liquidity, and leverage which can be measured by Effective Tax Rate (ETR). It is calculated by taking total tax and dividing it with earnings before tax. By looking at ETR, for those firms who perform tax aggressiveness can be known.

In the following, there are several statistics from consumer goods companies which are listed on the Indonesia Stock Exchange (IDX) regarding the phenomenon related to tax aggressiveness.

Table 1.2 The Phenomenon of Profitability, Liquidity, and Leverage on Tax Aggressiveness in Consumer Goods Companies Listed on the Indonesia Stock Exchange from 2018 to 2020

Company Name	Year	Profitability (ROA)	Liquidity (Current Ratio)	Leverage (DER)	Tax Aggressiveness (ETR)
PT Indofood CBP Sukses Makmur Tbk (ICBP)	2020	0.0716	2.2576	1.0587	0.2551
	2019	0.1385	2.5357	0.4514	0.2793
	2018	0.1356	1.9517	0.5135	0.2773
PT Unilever Indonesia Tbk (UNVR)	2020	0.3489	0.6609	3.1590	0.2219
	2019	0.3580	0.6529	2.9095	0.2534
	2018	0.4468	0.7325	1.7530	0.2525
PT Gudang Garam Tbk (GGRM)	2020	0.0978	2.9123	0.3361	0.2086
	2019	0.1383	2.0619	0.5442	0.2490
	2018	0.1128	2.0581	0.5310	0.2563

Source: Prepared by the writer (2022)

Table 1.2 presents an inconsistent phenomenon among profitability, liquidity, and leverage towards tax aggressiveness in consumer goods companies listed on the Indonesia Stock Exchange from 2018 to 2020.

For PT Indofood CBP Sukses Makmur Tbk (ICBP), the profitability is increasing in 2019 compared to 2018 and the effective tax rate is increasing as well. Meanwhile, in 2019 to 2020, the profitability is decreasing, and the effective tax rate (ETR) is decreasing too.

In the period of 2019 to 2020, the decreasing of profitability is caused by the increasing of both net income and total assets. However, the total assets are increasing significantly, mainly in total non-current assets namely, long-term investment and goodwill. Therefore, the profitability ratio is decreasing. The increase of net income is caused by increasing net sales. Due to the increase in return that is not equivalent to the increase in assets, there will be efforts to reduce the tax burden. As a result, tax aggressiveness effort will increase which makes the ETR decrease.

The liquidity for PT Unilever Indonesia Tbk (UNVR) from 2018 to 2019 is decreasing, while the effective tax rate is increasing in the same period of time. Another different condition occurs in the period of 2019 to 2020 in which the liquidity is increasing but the effective tax rate is decreasing.

In the period of 2018 to 2019, the decreasing liquidity ratio is caused by the increment in both current assets and current liabilities. However, the current liabilities increment is more significant rather than current assets, especially in short-term loans (bank borrowings). As a result, the liquidity ratio is decreasing. Higher bank borrowings cause greater interest expenses. Therefore, earnings before tax (EBT) become smaller. Then, interest expenses reduce taxable income. So, the tax burden will decrease. Thus, tax aggressiveness effort will reduce which makes the ETR increase.

Inconsistent situation happens in PT Gudang Garam Tbk (GGRM) regarding the relationship between leverage and tax aggressiveness. From 2018 to 2019, the leverage is increasing, but the effective tax rate is decreasing.

Nevertheless, for 2019 to 2020, the leverage is decreasing, and the effective tax rate is also decreasing.

In the period of 2019-2020, the decreasing of leverage is caused by decreasing in total debt but increasing in total equity. The gap differences for both total debt and total equity have almost the same amount. Decreasing in total debt is because current liabilities dropped sharply especially in short-term bank loans. Meanwhile, increasing in total equity is due to the increasing in retained earnings unappropriated. There is no cash dividend distribution because the company expects to reduce debts. So, a lower amount of short-term bank loans will lead to smaller interest expenses. As a result, EBT and taxable income will be larger. Thus, the tax burden is also larger. Therefore, the tax aggressiveness effort will increase which will make the ETR decrease.

Research done by Tampubolon (2021) and Yanti & Hartono (2019) indicated that profitability has an effect on tax aggressiveness. While Novitasari et al. (2022) showed that profitability has a negative effect on tax aggressiveness. In contrast, Fitri & Munandar (2018) and Yusuf et al. (2022) stated that profitability has no significant effect on tax aggressiveness.

The larger return on assets indicates the preferable performance of the entity. Both lower and higher company's profitability could lead to tax aggressiveness. For those companies with lower profitability would try to take advantage of loopholes in avoiding paying taxes. As for companies with larger profitability, they can increase debt-to-equity ratio in minimizing its tax paid.

Research done by Tampubolon (2021) stated that liquidity has little effect on tax aggressiveness. In contrast, Novitasari et al. (2022) showed that liquidity has no significant effect on tax aggressiveness.

If the liquidity ratio is larger, the company will tend to avoid paying tax. This can occur because companies expect to decrease the tax burden by increasing their interest expense. Thus, entities will perform tax aggressiveness.

Research done by Tampubolon (2021) stated that leverage has little effect on tax aggressiveness. While Fitri & Munandar (2018) showed that leverage has a significant and negative effect on tax aggressiveness. In contrast, Novitasari et al. (2022), Yanti & Hartono (2019), and Yusuf et al. (2022) pointed out that leverage has no significant effect on tax aggressiveness.

Companies with lower leverage ratios will gain more confidence from investors. Because greater leverage ratio indicates that the company is facing difficulties in its financials. However, companies can obtain advantages by having debt because it can increase interest expenses which will cause a smaller tax burden. So, company with lower leverage ratio will tend to perform tax aggressiveness.

According to the background that has been depicted, the research title would be **“The Influence of Profitability, Liquidity and Leverage on Tax Aggressiveness in Consumer Goods Companies Listed on the Indonesia Stock Exchange”**.

1.2 Problem Limitation

It is mandatory to have problem limitations. Since it can limit the research, the author also can pay more attention to the research problem. There are several problem limitations, such as:

1. The independent variable of profitability would be limited to Return on Assets Ratio.
2. The independent variable of liquidity would be limited to Current Ratio.
3. The independent variable of leverage would be limited to Debt-to-Equity Ratio.
4. The dependent variable of tax aggressiveness would be limited to Tax Avoidance by calculating Effective Tax Rate (ETR) as indicator.
5. The research object would be consumer goods companies which is listed on the Indonesia Stock Exchange.
6. The observation's period is start from 2018 – 2020.

1.3 Problem Formulation

There are several problems formulation which are in the following:

1. Does the profitability have significant influence on tax aggressiveness?
2. Does the liquidity have significant influence on tax aggressiveness?
3. Does the leverage have significant influence on tax aggressiveness?
4. Do the profitability, liquidity, and leverage have significant influence on tax aggressiveness simultaneously?

1.4 Objective of the Research

There are several objectives which are in the following:

1. To specify whether entity's profitability has a significant influence on the tax aggressiveness action.
2. To specify whether entity's liquidity has a significant influence on the tax aggressiveness action.
3. To specify whether entity's leverage has a significant influence on the tax aggressiveness action.
4. To specify whether entity's profitability, liquidity, and leverage have a significant influence on the tax aggressiveness action simultaneously.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The research result could be useful for people, especially readers to get knowledge about the influence of profitability, liquidity, and leverage on tax aggressiveness in consumer goods companies listed on the Indonesia Stock Exchange (IDX). Moreover, it also would be helpful for those who might use it as reference for future relevant research.

1.5.2 Practical Benefit

In practice, this study could give understanding and knowledge to especially the company's boss and investors regarding tax aggressiveness. Minimizing tax payable by having loopholes can be done as long as they obey the taxation

regulation that has been set by the government. Thus, the entity income after tax can be obtained optimally.

