

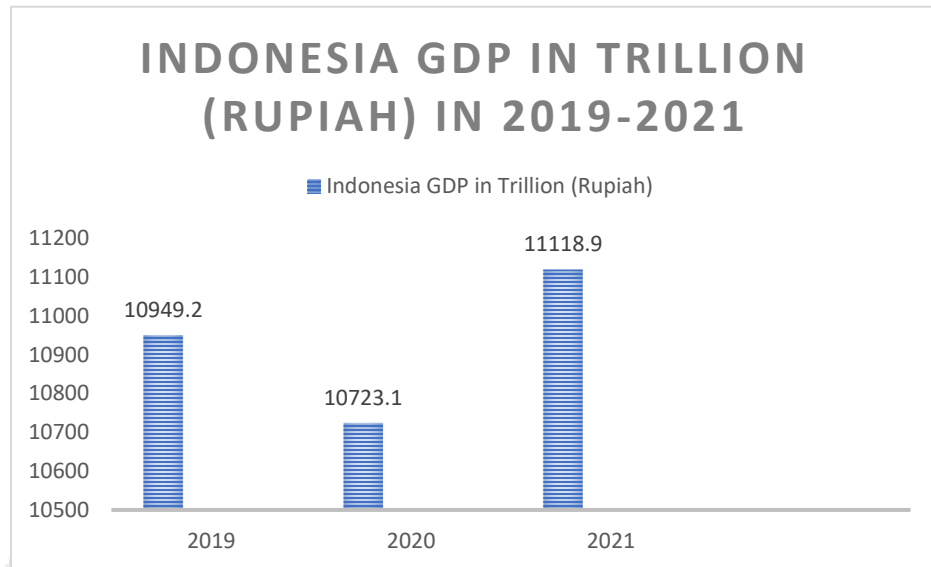
# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Since 2020, the whole world, including Indonesia, has been hit by the Corona Virus Disease 2019 (*What Is Coronavirus?*, 2022). However, the first case of Covid-19 occurred in December 2019 based on Utomo (2021), allegedly in the Wuhan wet market, China. Then, on March 2, 2020, the first case of Covid-19 appeared in Indonesia which was announced by President Joko Widodo with two patients named Sita Tyasutami and his mother, Maria Darmaningsih (Velarosdela, 2021). Of the many variants of Covid-19 in the world, there are four variants entering Indonesia until early 2022, namely Alpha (B.1.1.7), Beta (B.1.351), Delta (B.1.617.2), and Omicron (B. .1.1.529) (S. A. E. Putri, 2022). As of June 30, 2022, Covid-19 cases in Indonesia based on have reached 6,088,460 cases and patients who have recovered have reached 5,914,933.

The Covid-19 pandemic has had a huge adverse impact on the world, including in the economic field, where according to *Forecasted Global Real GDP Growth 2019-2023* (2022), global GDP decreased by 3.4% in 2020. According to the Central Statistics Agency, Indonesia's GDP in 2020 decreased by 2.07% and increased by 3.6% in 2021. As seen in the chart below, in 2019, Indonesia's GDP reached IDR 10,949.2 trillion, IDR. 10,723.1 trillion (2020), and IDR. 11.118.9 trillion (2021) (Javier, 2022).

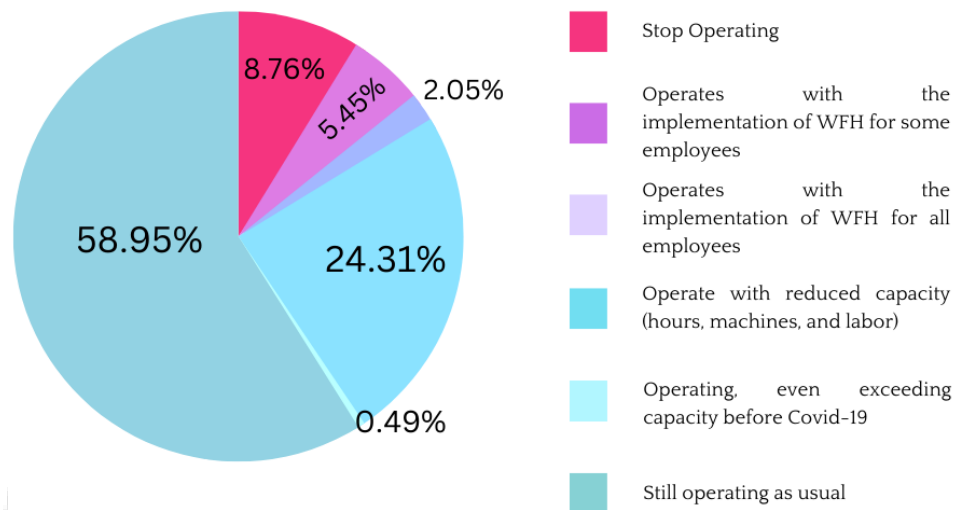


**Figure 1.1 Indonesia GDP in Trillion (Rupiah) in 2019-2021**

Source: Prepared by writer (2022)

Based on the BPS Statistical Indicators Sub-Directorate (2020:3) in Ofeser & Susbiyantoro (2021), in July 2020, around 8.46% of companies stopped operating due to Covid-19, then 24.31% of companies made capacity reductions both during hours work, machinery, and human resources, and there are 58.95% of companies that are still operating normally. The BPS Statistical Indicators Sub-directorate survey also shows three business sectors with 83% of companies experiencing a decline in income, namely the accommodation sector, the food and beverage sector, and the transportation and warehousing sector, and other service sectors.

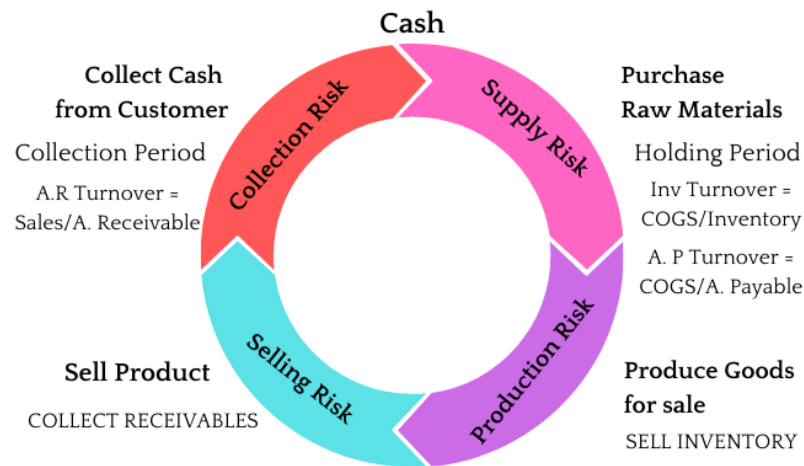
## **EFFECT OF COVID-19 TO THE COMPANIES BY OPERATIONAL STATS IN JULY 2020**



**Figure 1.2 Percentage of Companies by Operational Status in Time on July 2020**

Source: prepared by writer (2022)

One sector of the manufacturing industry is the consumer goods sector. Where based on the statement of the Head of BPS, namely Mr. Margo Yuwono, 84.93% of the National Gross Domestic Product (GDP) is assisted by this sector. Based on the Financial Services Authority, consumer goods are goods used by the public for personal or household purposes, such as food and beverages, pharmaceuticals, cigarettes, cosmetics, household necessities, and appliances. In 2021, the consumer goods sector helped Indonesia in improving the country's economy by 7.07% due to an 11.62% increase in retail sales of food and beverages, tobacco, clothing, and other consumer goods (S. Putri, 2021).



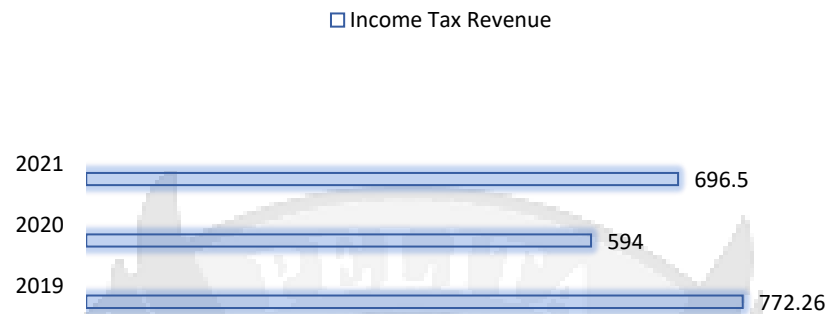
**Figure 1.3 Operational Cycle**  
Source: Prepared by writer (2022)

Companies in the consumer goods sector use the operational cycle in their company operations. As can be seen in figure 1.3, where when they get cash, they will buy raw materials. In this stage, the company needs to calculate the inventory and account payable turnover ratios by comparing COGS with the company's inventory/accounts payable. This is done to determine how effective the company is in managing its inventory and paying trade payables. After buying raw materials, the company will produce and sell its products to distributors, retailers, resellers, and end customers. When selling their products to distributors, retailers, and resellers, companies usually provide credit to them within a certain period. Hence, companies need to calculate accounts receivable turnover to determine how effectively the company receives receivables in a period. When companies receive cash from their sales, they can use it to repeat the operational or Trade Cycle.

In the early days of the Covid-19 pandemic, almost all companies struggled because their cash receipts were slow and lacking, including companies in the consumption sector. Consumer goods sector companies focusing on quantity had to experience difficulties in the early days of the pandemic because the distribution channel process was hampered, such as transportation. In addition, due to the Covid-19 pandemic, companies find it difficult to pay their debts to vendors because distributors hinder the payment of their receivables. Even though economic growth in Indonesia has declined due to the Covid-19 pandemic, companies still must pay their taxes.

Tax is one of the most important income sources in every country, including Indonesia. Every citizen who has met the criteria of a taxpayer is obliged to pay taxes to his/her country. Based on Law no. 28 of 2007, tax is a mandatory gift by every taxpayer, both individually and as an entity, to the state by the amount of their income where the money will be used for the needs of the state for the prosperity and welfare of the people, but the compensation is not obtained directly (Undang-Undang No. 28 Tahun 2007, 2007). Taxpayers are divided into two, namely individual taxpayers and entity taxpayers.

### Income Tax Revenue during 2019-2021 in Trillion (IDR)



**Figure 1.4 Income Tax Revenue during 2019-2021**

Source: Prepared by the writer (2022)

The graph above shows a decrease in tax revenue in 2020 (Nurhidayah, 2022). This was due to the Covid-19 pandemic, which caused almost the entire world to experience an economic crisis, including Indonesia, because it could not carry out many exports and imports. Not only that, many entrepreneurs have gone out of business because of this pandemic, and increased unemployment was based on the Central Statistics Agency, the unemployment rate in Indonesia in August 2020 was 7.07 percent. According to the data, it was also stated that there were 29.12 million people of working age effected by Covid-19, and the number of workers who experienced a reduction in working hours due to Covid-19 was 24.03 million people (*[REVISI per 18/02/2021] Agustus 2020: Tingkat Pengangguran Terbuka (TPT) Sebesar 7,07 Persen, 2021*).

From the explanation above regarding the COVID-19 pandemic, the company has struggled to increase or maintain its net income. One of the strategies for increasing income is Tax Avoidance. Tax Avoidance is reducing taxation without violating tax regulations so that the tax that the taxpayer must pay can be reduced, or even the taxpayer does not have to pay it. Tax Avoidance is different from tax evasion because when a company does tax evasion, it will get a criminal lawsuit from the government. The company will be said to be successful in using the Tax Avoidance strategy if the ETR is less than the tax rate.

The Leverage ratio becomes another point to maintain during an economic crisis as the impact of the COVID-19 pandemic. The Leverage ratio measures the ability of the company's assets and capital to pay the company's short-term and long-term liabilities. Usually, the capital borrowed by the company to creditors will also be accompanied by interest. Therefore, debt and interest on loans will affect the company's taxes. The more interest the company must pay, the less tax it will pay. Although some interest expenses cannot be charged in calculating the fiscal correction, if the taxpayer commits a little fraud, the company can reduce the tax burden they have to pay (Barli, 2018).

With the highest turnover of inventories and account receivables, the company can get cash to pay account payable faster. Trade Cycle is the market terms. Trade Cycle or Business Cycle is a type of broad economic activity which consists of simultaneous up and down cycles such as output, employment, income, and sales

(Achuthan, 2022). The factors that cause each Trade Cycle are the forces of supply and demand, the availability of capital, consumer, and investor confidence in the company (Amadeo, 2022)

As shown in figure 1.2, around 8.46% of companies in Indonesia have stopped operating due to the Covid-19 pandemic. One of the reasons is the Trade Cycle or Operating Cycle, where the company has difficulty paying liabilities to suppliers. This difficulty also occurred because of the disturbance in receiving receivables from their distributors. Due to Covid-19, the company's sales have also decreased, which impacts the company's performance (Profitability) and can impact Tax Avoidance (ETR).

According to Kasmir (2019:198), the Profitability ratio is a ratio used by companies to measure the company's ability to generate profits. Therefore, when the Profitability ratio increases, the possibility of Tax Avoidance also increases because companies are required to pay higher taxes when their profits increase which can be seen when the company's ETR decreases.

**Table 1.1 Leverage, Trade Cycle, Profitability, and Tax Avoidance value of some consumer goods companies listed on IDX 2019-2021**

Company Code	2019				2020				2021			
	DAR	TRADE CYCLE	ROA	ETR	DAR	TRADE CYCLE	ROA	ETR	DAR	TRADE CYCLE	ROA	ETR
ADES	0.31	4.05	0.10	0.24	0.27	4.53	0.14	0.19	0.26	6.03	0.20	0.21
DMND	0.41	3.57	0.07	0.25	0.18	3.73	0.04	0.23	0.20	5.55	0.06	0.22
GOOD	0.45	17.74	0.09	0.25	0.56	15.30	0.04	0.28	0.55	14.77	0.07	0.22
ICBP	0.31	7.12	0.14	0.28	0.51	5.60	0.07	0.26	0.54	4.92	0.07	0.20
INDF	0.44	7.83	0.06	0.33	0.51	5.37	0.05	0.30	0.52	5.33	0.06	0.22
SIDO	0.13	1.43	0.23	0.25	0.16	2.51	0.24	0.22	0.15	0.67	0.31	0.22
SKLT	0.52	3.47	0.06	0.21	0.47	1.53	0.05	0.24	0.39	3.66	0.10	0.17
STIP	0.25	2.00	0.17	0.21	0.22	7.25	0.18	0.19	0.16	7.92	0.16	0.19
TSPC	0.31	8.65	0.07	0.25	0.30	7.44	0.09	0.22	0.29	7.52	0.09	0.20
ULTJ	0.14	5.51	0.16	0.25	0.45	4.54	0.13	0.22	0.31	6.00	0.17	0.17

Source: Prepared by writer (2022)

The table above shows the Leverage (Debt-to-Assets), Trade Cycle, Profitability (Return on Assets), and Tax Avoidance (Effective Tax Rate) values of ten



(10) consumer goods companies listed on the Indonesia Stock Exchange from 2019-2021. UL TJ company or PT. Ultra Jaya Milk Industry Trading Company Tbk. in 2019 and 2020 did not carry out the Tax Avoidance strategy because the 2019 ETR value is 25% and the 2020 ETR value is 22%. However, in 2021, when the Leverage value (DAR). The company's Trade Cycle and Profitability (ROA) increased, and the company implemented a Tax Avoidance strategy where the ETR value was 0.17. As is known, based on the applicable tax regulations, namely the *Undang-Undang Cipta Kerja*, the tax rate for the entity taxpayer is 22%. Thus, the company succeeded in carrying out a Tax Avoidance strategy of 5%.

Based on the background described, the writer is interested in conducting research entitled: PROFITABILITY AS MEDIATING ON RELATION BETWEEN LEVERAGE AND TRADE CYCLE TO TAX AVOIDANCE IN THE CONSUMER GOODS SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE.

## **1.2. Problem Limitation**

The limitations of the problem from the preparation of this thesis are:

1. The data used is the financial statements of consumer goods companies listed on the Indonesia Stock Exchange for the period 2019-2021.
2. The dependent variable studied is Tax Avoidance.
3. The independent variable studied are Leverage and Trade Cycle.

4. The mediating variable studied is Profitability.

### **1.3. Problem Formulation**

Based on the background of the problem described above, the following research questions are formulated:

1. Does Leverage have a significant effect on Profitability of consumer goods companies listed on the Indonesia Stock Exchange?
2. Does Leverage have a significant effect on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange?
3. Does the Trade Cycle have significant effect on Profitability of consumer goods companies listed on the Indonesia Stock Exchange?
4. Does the Trade Cycle have a significant effect on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange?
5. Does the Profitability have significant effect on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange?
6. Does Leverage have a significant effect on Tax Avoidance through Profitability of consumer goods companies listed on the Indonesia Stock Exchange?
7. Does the Trade Cycle have significant effect on Tax Avoidance through Profitability of consumer goods companies listed on the Indonesia Stock Exchange?
8. Does Leverage and Trade Cycle simultaneously have significant effect on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange?

9. Does Leverage and Trade Cycle simultaneously have significant effect on Tax Avoidance through Profitability of consumer goods companies listed on the Indonesia Stock Exchange?

#### **1.4. Objective of the Research**

The objectives of this research based on the background and the formulation of the problem are:

1. To analyze the effect of Leverage on Profitability of consumer goods companies listed on the Indonesia Stock Exchange.
2. To analyze the effect of Leverage on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange.
3. To analyze the effect of the Trade Cycle on Profitability of consumer goods companies listed on the Indonesia Stock Exchange.
4. To analyze the effect of the Trade Cycle on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange.
5. To analyze the effect of Profitability on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange.
6. To analyze the effect of Leverage on Tax Avoidance through Profitability of consumer goods companies listed on the Indonesia Stock Exchange.

7. To analyze the effect of the Trade Cycle on Tax Avoidance through Profitability of consumer goods companies listed on the Indonesia Stock Exchange.
8. To analyze the simultaneously effect of Leverage and Trade Cycle on Tax Avoidance of consumer goods companies listed on the Indonesia Stock Exchange.
9. To analyze the simultaneously effect of Leverage and Trade Cycle on Tax Avoidance through Profitability of consumer goods companies listed on the Indonesia Stock Exchange.

## **1.5 Benefit of the Research**

This research is expected to be useful for all parties who read it. The benefits of this research are divided into two, namely:

### **1.5.1 Theoretical Benefit**

- a. This research is expected to increase knowledge and insight for the academician.
- b. This research is expected to add to the knowledge collection of other students and become a reference for conducting further research

### 1.5.2 Practical Benefit

The benefit for consumer goods companies is that it is hoped that this research can add information about the effect of Leverage and Trade Cycle to Tax Avoidance through Profitability so that it can be useful for the consumer goods companies and become even better in the future.

