

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Manufacturing businesses manage raw materials that are turned into finished products or semi-finished products, which are then processed once more so that is readily consumable by consumers. The basic and chemical industry sector, the food and beverage industry, the pharmaceutical industry, the consumer goods industry, and the cigarette business are the different categories of manufacturing companies listed on the Indonesia Stock Exchange.

In the BKPM journal entitled "*Industri Manufaktur untuk Percepatan Pertumbuhan Ekonomi Indonesia*" it is said that the consumer goods sector is one of the largest contributors to the Indonesia's economic growth. The consumer goods sector is a sector that constantly evolving all the time. Over time, the population in Indonesia is having rapid increase which causes the demand for the consumer goods to increase as well. Every consumer has their own needs and wants. So, to satisfy the needs and desires of its customers, the consumer goods sector always brings up a new innovation for the products that it sell. So that the consumers do not get bored at the same product and also at the same time the company can provide a new and different product variant to choose from for their consumers (bkpm.go.id, 2021).

With a variety of consumer goods brands emerging, consumers would always be faced with the various choices in buying the products that the company offered. Therefore, business owners in product marketing activities need consumers

to buy the products they offer. The method used by this business owner in marketing this field is by choosing a more strategic business location and provide a more satisfactory quality of service. The business location applied by the consumer goods sector, especially at this time where the information age has developed very rapidly, is something that must be considered, so that the selection of a location is an effective way for the owners of the consumer goods sector because they could develop and maintain their business much longer. The conditions that must be met by every owner of the consumer goods sector in order to be successful in competition with other sectors are to achieve this goal by implementing good service and retaining their customers by creating a good image in the minds of consumer which would later generate ongoing interest for the company.

The service quality is an effort that are made by each owner of the manufacturing sector in fulfilling the consumer expectations and providing satisfaction in serving consumers. The quality of this service is flexible and subject to change throughout time rather than being something that is fixed or inflexible. Of course, this transformation could take the form of a higher-than-before level of service quality. Several elements are required to support the process of changing the quality of the service. For instance, consumer surveys and observations that incorporate dependability and responsiveness Service quality plays a very important role because it would have a direct impact on the consumer goods sectors. By providing good service, it would be an advantage because, the company will get a positive value in the eyes of the consumers so that the consumers would provide good feedback and become regular customers (Aria and Atik, 2018:16). Therefore,

it is very important to think about aspects of customer satisfaction related to the quality of service provided. Good quality service could also help facilitate the consumer goods sector in analyzing the competitors in the face of the competition and help improve the earnings of the company.

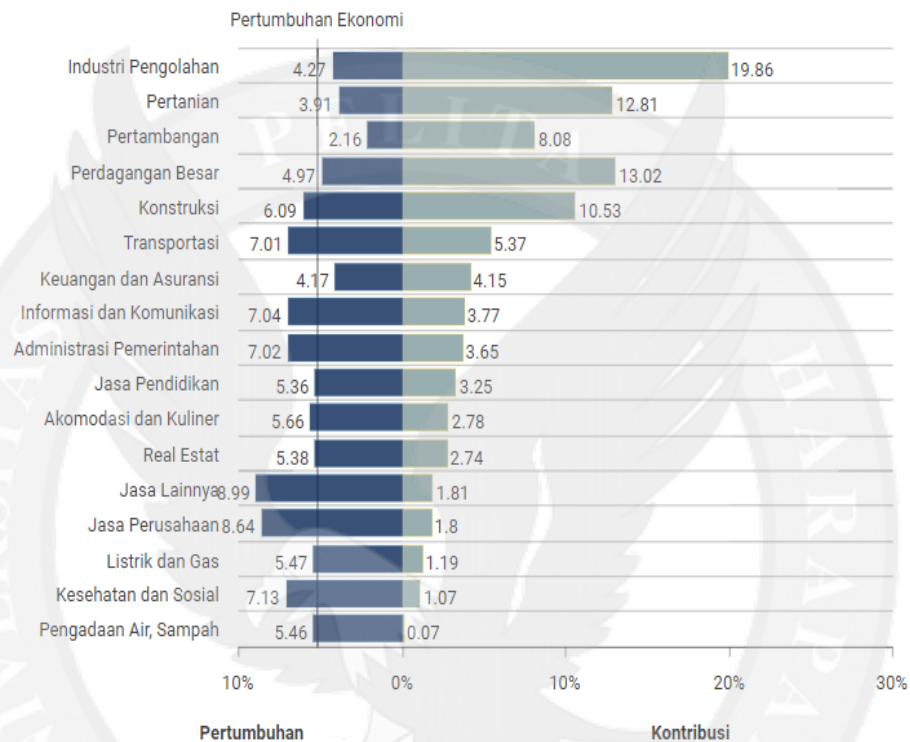


Figure 1.1 Sectoral Contribution of Indonesia Year 2018
Source: Badan Pusat Statistik (2018)

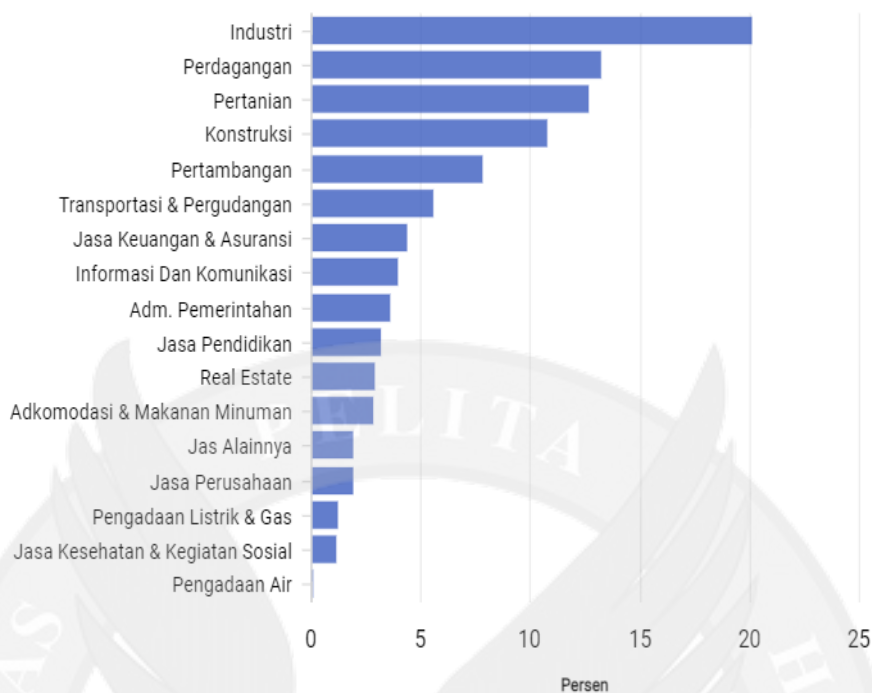


Figure 1.2 Sectoral Contribution of Indonesia Year 2019

Source: Badan Pusat Statistik (2019)

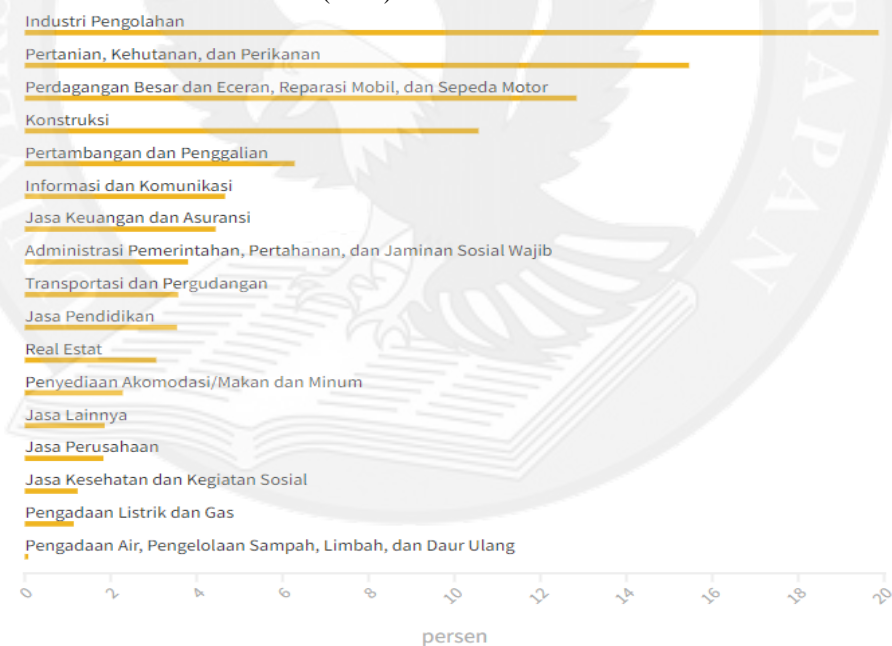


Figure 1.3 Sectoral Contribution of Indonesia Year 2020

Source: Badan Pusat Statistik (2020)

The data above shows the contribution of the industrial sector has always increase from 2018 to 2020. From the graph, the industrial sector has decreased from 20.07% in 2019 to 19.87% in 2020. Even though the industrial sector has experienced a decline, this sector still contributes the most to economic growth in Indonesia. As the number one sector that contributes the most to economic growth in Indonesia, this sector has stable income and stable expenses. Because this sector derives its income from Indonesia, this sector must follow the existing regulations in Indonesia and must comply with paying taxes to their country.

Tax is one of the most important components in building a country. The citizen who lives in the nation has an obligation to pay taxes on time in order to support the development of the nation as it is one of the main sources of income. As we know, taxes are source of income from all countries around the world, which are then used to fulfill the interests of their people. Taxes received would provide contribution to develop public facilities and services that would help in the daily operations of the citizen in the society. Although it has been stipulated in the law that everyone who earns income in Indonesia must comply with the obligations to pay taxes. However, there are still many citizens who reluctant to pay taxes. The factors that make them reluctant to pay taxes are that they still do not believe in the tax laws in Indonesia. Citizens tend not to trust the tax officials, because according to them the money is not used to develop this country, but it is used by the tax officials for their own benefit. In addition, citizens have the principle that if they are not caught, they do not need to pay taxes. So, to reduce the tax burden that must be paid, citizens take advantage of tax avoidance and tax evasion.

Tax avoidance is an action where an individual or company uses legal methods to minimize the tax obligations. So, it could be said that tax avoidance is an act of using the tax regime in an area for one's personal gain in reducing one's tax burden. Although tax avoidance is a legal method, it is not recommended because it is used for personal gain by reducing the burden of the amount of tax that must be paid (Mardiasmo, 2018). Tax evasion itself is an activity in taking unfair advantage of deficiencies in tax regulations by finding the new ways to avoid paying taxes within the limits of the laws (Siti Kurnia Rahayu, 2017:202).

Table 1.1 Table of Phenomenon

No	Company	Year	Debt to Equity Ratio (DER)	Current Ratio	Return on Asset (ROA)	Institutional Ownership	Effective Tax Rate (ETR)
1	HOKI	2018	0.347461369	2.678396129	0.118858201	0.661700211	0.253489317
		2019	0.322816552	2.985895557	0.122217583	0.660706751	0.270475435
		2020	0.368816348	2.244000841	0.041942225	0.649501438	0.2523114
2	HRTA	2018	0.406606472	3.686841194	0.080280631	0.730149492	0.255695295
		2019	0.908108131	10.07222439	0.064897578	0.761014443	0.250499558
		2020	1.086069662	12.75717573	0.060296046	0.77494379	0.216347158
3	SIDO	2018	0.149869738	4.201275856	0.198898439	0.81	0.235053357
		2019	0.154073783	4.123473431	0.22836084	0.81	0.247846271
		2020	0.194856196	3.664149003	0.242632061	0.81	0.221360046

Source: Prepared by the Author (2022)

Based on table 1.1, it can be seen that the DER of PT. Buyung Poetra Sembada Tbk (HOKI) is 0.347461369, but on 2019 the DER decreased by 7.09% to 0.322816552. Even though the company DER decreased, the ETR increased by 6.7% from 0.253489317 to 0.270475435. Then in 2020, the DER of the HOKI company increased by 14.2% from 0.322816552 to 0.368816348 but the ETR of this company decreased by 6.71% from 0.270475435 to 0.2523114. This is done by the company to avoid tax because the higher the DER, the less tax paid.

In 2018 PT. Hartadinata Abadi Tbk (HRTA) has liquidity of 3.686841194 but the liquidity of this company experienced a very large increase in 2019, which increased by 173.19% which caused the company's liquidity to become 10.07222439. Despite experiencing a large increase, the company's ETR decreased by 2.03% from 0.255695295 to 0.250499558. In 2020, the company's liquidity increased again by 26.65% from 10.07222439 to 12.75717573. However, the company's ETR continues to decline. This decrease increased by 13.63% from 0.250499558 to 0.216347158. This shows that the lower the liquidity of a company, it will cause the company cannot fulfill its short-term obligations and will end up doing tax avoidance.

In 2018 PT. Hartadinata Abadi Tbk (HRTA) has an ROA of 0.080280631 but this company's ROA decreased in 2019 which was reduced by 19.16% which caused this company's ROA to be 0.064897578. Despite the decline, the company's ETR decreased by 2.03% from 0.255695295 to 0.250499558. In 2020, the company's ROA decreased again by 7.09% from 0.064897578 to 0.060296046. Although this ROA has decreased for three consecutive years, the company's ETR

has continued to decline. This decrease increased by 13.63% from 0.250499558 to 0.216347158. This shows that the company intends to do tax avoidance because the tax paid by a company is determined by how much profit a company earns.

In 2018, PT. Industri Jamu and Farmasi Sido Muncul (SIDO) has an institutional ownership of 0.81 with a total ETR of 0.235053357. In 2019, the company still has an institutional ownership of 0.81 but its ETR has increased by 5.44% from 0.235053357 to 0.247846271. In 2020, the company maintain their institutional ownership of 0.81. However, at this year the company's ETR decreased by 10.68% from 0.247846271 to 0.221360046. This decrease occurs due to the lower institutional ownership owned by a company, the company will try to do tax avoidance. However, if the institutional ownership is high, the management cannot do tax avoidance because the management will be supervised directly by the operational party.

Tax avoidance itself is influenced by many components. Some of these component are leverage, liquidity, profitability and so on. In 2019 there was one company that carried out a tax avoidance case. PT. Adaro Energy Tbk conducts tax avoidance practices by transferring the profits they earn in fairly large amounts to other companies in countries that have low tax rates or countries that exempt taxes. This tax avoidance has been carried out by PT. Adaro Energy Tbk from 2009 to 2017. This caused Indonesia to lose US\$125 million every year (Kompasiana.com, 2019). Then in 2020, in the Tax Justice Network report entitled The State of Tax Justice 2020: Tax Justice in the time of Covid-19, Suryo Utomo as the Director General (Dirjen) of Taxes at the Ministry of Finance (Kemenkeu) said that

Indonesia suffered a loss of US\$ \$4.86 billion per year or equivalent to Rp. 68.7 trillion caused by tax avoidance practices. As much as US \$ 4.78 billion equivalent to Rp 67.6 trillion is a loss due to tax avoidance by corporations in Indonesia every year . Meanwhile, the remaining US\$ 78.83 million or around Rp 1.1 trillion is the loss suffered due to tax avoidance from individual taxpayers (Kontan.co.id, 2020).

So based on the cases and table of phenomenon that the author provided, the author become interested in choosing this title because although taxes are the backbone and one of the main sources of income of a country to be used as a source to meet the needs of the country, there are still many companies and individual taxpayers who still do tax avoidance. The consumer goods sector as one of the largest sectors will of course take advantage of the loopholes contained in the tax regulations and use tax avoidance by illegal to reduce the amount of tax to be paid. This tax avoidance phenomenon can be seen from one of the cases that has been provided by the author previously, namely the case of tax avoidance committed by PT. Adaro Energy Tbk in 2019 which caused Indonesia a loss of US\$125 million every year. For this research the object of research that the author choose are companies from the consumer goods sector listed on the Indonesia Stock Exchange with a period of 2018, 2019 and 2020. Thus, the author decided to choose the title **“The Effect of Leverage, Liquidity, Profitability and Institutional Ownership to Tax Avoidance on Consumer Goods Sector Companies Listed on Indonesia Stock Exchange”**.

1.2 Problem Limitation

The author of this research is more focus on the effect of leverage, liquidity, profitability, and institutional ownership to tax avoidance on consumer goods sector companies listed in Indonesia Stock Exchange in year 2018, 2019 and 2020. So to solve the problem limitation, the author must analyze all the component such as leverage (X_1), liquidity (X_2), profitability (X_3) and institutional ownership (X_4) to find whether the component have any effect to tax avoidance (Y) on consumer goods sector companies listed in the Indonesia Stock Exchange.

1.3 Problem Formulation

Based on the background of study, some problems formulation are founded during the research. The author formulate the following problem:

1. Is there any significant effect of leverage toward entity's tax avoidance?
2. Is there any significant effect of liquidity toward entity's tax avoidance?
3. Is there any significant effect of profitability toward entity's tax avoidance?
4. Is there any significant effect of institutional ownership toward entity's tax avoidance?
5. Is there any significant effect of leverage, liquidity, profitability and institutional ownership toward entity's tax avoidance?

1.4 Objective of the Research

The objective of this research are:

1. To determine whether the leverage of the entity has any significant effect toward its tax avoidance.

2. To determine whether the liquidity of the entity has any significant effect toward its tax avoidance.
3. To determine whether the profitability of the entity has any significant effect toward its tax avoidance.
4. To determine whether the institutional ownership of the entity has any significant effect toward its tax avoidance.
5. To determine whether the leverage, liquidity, profitability and institutional ownership of the entity has any significant effect toward its tax avoidance.

1.5 Benefit of the Research

The benefit of conducting this research are:

1.5.1 Theoretical Benefit

The author hopes that this research give knowledge to those who are interested in taxation. This research also can help people to check whether leverage, liquidity profitability and institutional ownership have any effect toward tax avoidance.

1.5.2 Practical Benefit

Practically, this research could be useful for any company. Because from the information provided by the author, the business owner could do the tax avoidance in the legal way using the component that the author discuss on the research.