CHAPTER I

INTRODUCTION

1.1 Background of Study

In the current era of globalization, capital development in Indonesia is increasing, especially the consumer goods industry, which really supports the Indonesian economy. Supported by the population in Indonesia which is quite dense, of course people need basic needs such as food, drinks, cosmetics, cigarettes, medicines and the other consumer goods subsector thus cause demand for consumer goods also increase.

This industry significantly contributes to Indonesia's economic growth and offers consistent income and spending. Since this sector generates revenue within Indonesia, it is obligated to adhere to the country's regulations by dutifully paying taxes to the government.

Taxes are one of the "backbones" of the state. Indonesia is a developing country whose biggest source of income is through tax collection. Taxes are people's money to the state treasury which is used for the benefit of the state. Tax revenue from year to year has increased, but has not yet reflected the desired condition because it is caused by taxpayers who have the potential not to be registered as taxpayers and also taxpayers who try to pay as little tax as possible.

Tax is the thing that most business owners pay attention to, because the bigger the business they run, the bigger the tax that must be paid. In fact, as we know, paying taxes is beneficial for peosple's welfare so that people can live in a more decent and comfortable country. The willingness of taxpayers to pay taxes is minimal, because the results of tax collection are not enjoyed directly by taxpayers. But without us realizing it, the smooth roads, the public facilities that are used, the construction of public schools can be enjoyed by the people from the proceeds of paying taxes. But, people do not want to pay taxes because people never know the form of an imbalance in the money spent to pay taxes. The willingness of the people to pay taxes is very important in tax revenues.

According to the Tax Justice Network Report, Indonesia suffered a loss of 68.7 trillion rupiah due to tax avoidance. The loss is caused by corporate taxpayers who commit tax avoidance in Indonesia. The amount of losses caused reached US$ 4.78 billion or the equivalent of Rp. 67.6 trillion. Meanwhile, the rest came from individual taxpayers with a total of US$ 78.83 million or the equivalent of Rp. 1.1 trillion. Based on the statement above, many taxpayers use illegal actions or tax avoidance by not paying taxes, especially corporate taxpayers trying to pay as little tax as possible so that tax avoidance occurs. In accordance with the law, tax avoidance is a legal action to reduce the amount of tax to be paid by exploiting weaknesses in the law (Kusuma & Rahayu, 2022, p. 70).

Tax avoidance is when individuals or businesses use legal techniques to pay less in taxes by exploiting gaps in tax laws. While these strategies don't break any tax rules, they can still harm the government's revenue. There are different ways to measure tax avoidance, and in this study, the Effective Tax Rate (ETR) is used. To see the company's effective tax rate by dividing the amount of tax expense divided by the income before tax. ETR aims to assess tax payments from cash flow so that it can find out how much cash actually must be issued by the company. In the consumer goods sector, cash position is a very important thing so the writer chooses ETR in this study. As we know, the consumer goods industry is an industry that everyone needs to ensure survival and continue to grow from time to time because the consumer goods industry is a very important thing. The authors choose ETR as an indicator in this study, because it can analyze tax payments made by companies from cash flow statements so that it can be used as a variable calculation of tax avoidance.

Table 1.1 Table of Phenomenon

No	Company	Year	ETR	DAR	Current Ratio	Firm Size
1.	HOKI	2020	0,252	0,269	2,244	20,625
		2021	0,303	0,558	1,602	20,712
		2022	0,863	0,781	3,269	20,515
2.	COCO	2020	0,262	0,575	1,197	19,39
		2021	0,206	0,450	1,954	19,73
		2022	0,351	0,542	1,946	19,99
3.	INDF	2020	0,295	0,514	1,373	18,910
		2021	0,224	0,558	1,341	19,005
		2022	0,253	0,781	1,786	19,011

Source: Prepared by Writer (2023)

Based on the table 1.1 leverage is calculated using the Debt To Assets Ratio (DAR) formula for the company PT. Buyung Poetra Sembada Tbk (HOKI) has increased from 0.269 to 0.558 from 2020 to 2021 whereas the ETR has increased from 0.252 to 0.303. As we know, usually tax rates will tend to be lower if a company finances more of its debt burden because the interest burden reduces the tax burden, which can lead to tax avoidance.

The liquidity calculated using the Current Ratio formula for the company PT. Wahana Interfood Nusantara (COCO) has increased from 1.197 to 1.954 from 2020 to 2021. The company's ETR has decreased from 0.262 to 0.206. As we know, usually tax rates will tend to be higher if the company's liquidity ratio is higher, it shows that the company cash flow is good so that it is able to pay taxes according to regulations

The firm size of PT. Indofood Sukses Makmur Tbk (INDF) experienced a increased from 18.910 to 19.005 from 2020 to 2021 but ETR experienced an decreased from 0.295 to 0.224. As we know, usually tax rates will tend to be higher if the company's firm size ratio is higher because it shows that the larger the company, the greater the income it earns so the greater tax that must be paid.

It is still interesting for researchers to study previous research on tax avoidance because the research results show inconsistent results (research gap). Several factors that affect tax avoidance such as leverage, liquidity and firm size. Leverage is the relationship between a company's debt and its capital and assets. Leverage is the capital used by the company so that the company can continue and reflects the risks faced by the company.

As we can see the research that has been conducted by Jasmine et al. (2017), leverage has a significant effect on tax avoidance. While in Ariska et al. (2020), leverage has no significant effect on tax avoidance.

Liquidity is the company's ability to meet its short term obligations such as monthly bills for water, electricity and so on. high or low company liquidity affects the company's ability to pay taxes Previous research that has been conducted by Febrilyanti (2018), liquidity has a significant eefect on tax avoidance. While in other research that has been done by Alam and Fidiana (2019), liquidity has no significant effect on tax avoidance.

The size of a company describes the size or size of a company which can be assessed from total assets, total sales, log size and so on. The greater the company's income, the bigger the company is. Previous research that has been done by Rosyada (2018), Firm size has no significant effect on tax avoidance. While in other research that has been done by Wardani and Puspitasari (2022), firm size has a significant effect on tax avoidance.

Based on the description above, the authors conducted a study entitled **"The Influence of Leverage, Liquidity and Firm Size Towards Tax Avoidance in Consumer Goods Company Listed on the Indonesia Stock Exchange".**

1.2 Problem Limitation

This research object is limited to :

1. The data of consumer goods company sector listed on the Indonesia Stock Exchange.
2. The independent variable of this research are leverage, liquidity and firm size.
3. This research data period is from 2020-2022.

1.3 Problem Formulation

Based on the background of study, the problem formulation of this research are ;

1. Does leverage have an significant effect towards tax avoidance of consumer goods company listed on the Indonesia Stock Exchange?

2. Does liquidity have an significant effect towards tax avoidance of consumer goods company listed on the Indonesia Stock Exchange?
3. Does firm size have an significant effect towards tax avoidance of consumer goods company listed on the Indonesia Stock Exchange?
4. Do leverage, liquidity and firm size simultaneously have an significant effect towards tax avoidance of consumer goods company listed on the Indonesia Stock Exchange?

1.4 Objective of Research

Based on the problem formulation, the objective of this research are :

1. To know whether leverage has an significant effect towards tax avoidance in consumer goods company listed on the Indonesia Stock Exchange.
2. To know whether liquidity has an significant effect towards tax avoidance in consumer goods company listed on the Indonesia Stock Exchange.
3. To know whether firm size has an significant effect towards tax avoidance in consumer goods company listed on the Indonesia Stock Exchange.
4. To know whether leverage, liquidity and firm size has an significant effect simlutaneously towards tax avoidance in consumer goods company listed on the Indonesia Stock Exchange.

1.5 Benefit of the research

The researcher expects that this study will provide benefits as follows :

1.5.1 Theoretical Benefit

Based on the objective of the research, the writer expects that this study can be used to improve the knowledge and understanding in term of taxation about the influence of leverage, liquidity and firm size towards tax avoidance in consumer goods industry.

1.5.2 Practical Benefit

The practical benefit of this research are :

1. For researchers, with this research the authors hope to add information or insight and references for other researchers who are interested in the same topic.
2. For company, with this research the authors hope to provide information that can improve company performance.
3. For other parties, with this research the authors hope to provide additional information and help people learn regarding taxation.