

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Taxes represent a societal duty to the state and signify community involvement in advancing the nation and homeland. Taxes also function as a revenue source for a nation, intended to meet the country's requirements. In Indonesia, taxes are governed by Law No. 6 of 1983 on General Provisions and Procedures for Taxes (KUP), which has been amended multiple times since then. The Directorate General of Taxes of the Indonesian government is in charge of tax collection and supervision (Reni Marlina et al., 2023). Taxation also plays a part in managing the country's economic and financial policies. Corporate tax payments indirectly impact the country's development, which is crucial in funding public services, including infrastructure, food and beverages, healthcare, national defence, and education (Lucky Kartanto et al., 2020).

Taxes are essential in influencing the Indonesian economy since they are the principal source of money for the Revenue Budget and State Expenditure (APBN), a fact supported by the data illustrated in the table below:

Table 1.1 Indonesia's Income from 2020 – 2022

	2020	2021	2022
Tax Income	1,285,136.32	1,547,841.10	1,924,937.50
Non-Taxable Income	343,814.21	458,493.00	510,929.60

Grant	18,832.82	5,013.00	1,010.70
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Source: *Badan Pusat Statistik* (2020 - 2022)

Prepared by writer (2024)

The data presented in Table 1.1 indicate that tax revenue, in contrast to other sources, dominates our national revenue system. This illustration demonstrates the importance of tax money in improving the country for everyone.

The government's attempts to increase tax revenue encounter various obstacles. This is due to taxpayers' practice of reducing tax payments through tax avoidance. According to Moeljono (2020), tax avoidance is when taxpayers legally and safely try to avoid paying taxes by following the rules set by tax regulations. This practice involves strategically utilizing methodologies and approaches that capitalize on loopholes inherent in taxation laws, thereby reducing the amount of payable taxes. Companies commonly employ tax avoidance as a strategic measure to alleviate their tax liabilities while adhering to the established tax frameworks and regulations. Tax evasion refers to the deliberate act of taxpayers intentionally understating their tax obligations. This can involve submitting fraudulent tax returns, such as inflating income or reporting lower earnings than what was actually received. In addition to ethical misconduct, tax evasion constitutes a violation of tax legislation (illicit).

Food and beverages are a consumer goods subsector categorized as the fast-moving consumer goods company classification (Viany Utami Tjhin et al., 2022). Fast-moving consumer goods (FMCG) company refers to a wide variety of items that are often eaten fast and have a relatively short shelf life. Food and beverage items, such as packaged snacks, soft drinks, canned goods, and fresh produce, are

typical examples of FMCG products. These goods are routinely purchased and constitute a considerable portion of daily consumer consumption. The margins are low in this sector, but the sales turnover is high. The contribution of Food and Beverage Companies to Indonesian tax payments can be significant and varies based on the firm size, type of operation, and various other factors (Ermadiani et al., 2023).

The food and beverages company frequently incorporates a variety of operations and company structures, such as complicated supply chains, several product brands, and varied operating locations. Due to the high sales turnover, competition in Indonesia's food and beverage companies was also getting more intense. Diversity creates a wide range of competition within the industry. They often face price competition, with consumers looking for the best deals. Competitive pressures can push companies to optimise resource allocation. To remain competitive, companies may seek ways to reduce costs, including managing taxes more efficiently through legal tax avoidance. This can involve optimising tax deductions, credits, or incentives to maintain competitive pricing.

The company aims to make sustainable profits to improve the welfare of shareholders and employees and must be well-managed to achieve business targets. The development of a company begins with the extent to which sales increase. To continuously increase sales, a source of funds is needed. Sources of these funds can come from the owner, investors, or third parties (banks). In that case, companies must maintain a good composition of internal funding sources so profits do not erode.

Leverage is the entire equity of the firm utilized for financing, and it is used to calculate the number of assets funded by debt. Companies with high debt levels demonstrate that they rely more on debt or loans from other sources to fund their assets than their capital. The amount of interest the corporation pays increases with the debt it owns. The interest expenditure may decrease the company's earnings, lowering its tax liability. The leverage ratio may influence the management to refrain from tax avoidance. Using the firm's assets, the leverage ratio may be utilized to calculate net profit. As the ratio increases, the company's asset utilisation in generating net profits improves, leading to increased efficiency..

Sales growth might persuade management to reduce taxes. Profits tend to rise due to the company's occasionally higher sales. As the corporation's revenue grows, its management is more likely to pursue tax avoidance strategies. Increased sales growth can lead to higher taxable income because of the greater reported revenues. As a result, a negative link between sales growth and tax evasion may arise. By running the company efficiently, increasing high sales and maintaining the composition of debt and assets will increase company profits.

Profitable corporations often employ tax avoidance tactics to minimize their tax obligations, as they are typically unwilling to bear significant tax loads.

Profitability is vital since tax avoidance must be accomplished without jeopardizing the company's bottom line. Businesses may actively strike a balance between profitability and tax minimization. Profitability acts as a moderator in how leverage, sales growth, and firm size impact tax avoidance. The author deliberately selected profitability as the mediating variable due to its significance as a key

measure of a company's overall performance. The aim of this choice is to explore how profitability affects and alters the relationship between leverage, sales growth, firm size, and tax avoidance tactics within the research context. Profitability evaluates a company's performance using several important metrics, with ROA being a crucial indicator. As noted by Ross et al. (2019), ROA is essential for assessing a company's capacity to generate profits from its resources.

Motivated by the above description, the researcher is keen on conducting this study. Influenced by these considerations, the research will be titled **“The Effect of Leverage, Sales Growth and Firm Size on Tax Avoidance with Profitability as Mediating Variable in Food and Beverage Companies listed on the Indonesia Stock Exchange.”**

1.2 Problem Limitation

To stay focused on the research's objectives, there are some limitations on how far the research topic is. The study will include:

1. This research will focus only on the food and beverage companies listed on the Indonesia Stock Exchange.
2. The research period is constrained from 2020 – 2023.

3. The variables being studied are leverage, sales growth, and firm size as independent variables, profitability as the mediating variable, and tax avoidance as the dependent variable..

1.3 Problem Formulation

The problem formulation-are derived from the background research stated before:

1. Do leverage have significant effect on profitability on food and beverage companies listed on the Indonesia Stock Exchange?
2. Do sales growth have significant effect on profitability on food and beverage companies listed on the Indonesia Stock Exchange?
3. Do firm size have significant effect on profitability on food and beverage companies listed on the Indonesia Stock Exchange?
4. Do leverage have significant effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange?
5. Do sales growth have significant effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange?
6. Do firm size have significant effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange?
7. Do profitability have significant effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange?

1.4 The Objective of the Research

Based on the problem formulation mentioned above, the objectives of this research are as follows:

1. To find out whether leverage has effect on profitability on food and beverage companies listed on the Indonesia Stock Exchange.
2. To find out whether sales growth has effect on profitability on food and beverage companies listed on the Indonesia Stock Exchange.
3. To find out whether firm size has effect on profitability on food and beverage companies listed on the Indonesia Stock Exchange.
4. To find out whether leverage has effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange.
5. To find out whether sales growth has effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange.
6. To find out whether firm size has effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange.
7. To find out whether profitability has effect on tax avoidance on food and beverage companies listed on the Indonesia Stock Exchange.

1.5 Benefits of the Research

1.5.1 Theoretical Benefit

This research can be beneficial in terms of theory, as this research can be a guide and reference for other researchers who will research regarding to the effect of

leverage, sales growth, and firm size on tax avoidance with profitability as mediating variable in food and beverage companies listed on the Indonesia Stock Exchange.

1.5.2 Practical Benefit

This research can be beneficial in terms of practical, as follows:

1. Benefits for Researcher

This study seeks to explore how leverage, sales growth, and firm size effects tax avoidance, with profitability as a mediating factor, within food and beverage companies.

2. Benefits for Companies

This study can provide additional insights and a clearer understanding of the factors that may affect tax avoidance.

3. Benefits for Investor

This study can offer valuable insights for potential investors considering investments in food and beverage companies listed on the Indonesia Stock Exchange.