CHAPTER I

INTRODUCTION

1.1 Background of Study

In the era of globalization and increasing competition, companies in Indonesia's food and beverage sector face complex challenges in managing their taxes. This sector not only contributes significantly to the national GDP but also operates under strict regulatory oversight. Therefore, effective tax management is crucial for maintaining business sustainability, legal compliance, and public trust. This research aims to explore how financial performance, measured through Return on Asset (ROA), and firm size influence tax management practices, with the Debt-to-Equity Ratio (DER) acting as a moderating variable.

ROA serves as a key indicator reflecting a company's ability to generate profits from its assets. Companies with higher ROA tend to exhibit greater financial stability, enabling them to meet their tax obligations more efficiently. On the other hand, firm size plays a critical role in shaping the tax strategies employed. Larger companies have more resources to implement sophisticated tax planning. However, they also encounter bureaucratic challenges and operational complexities that may affect the efficiency of their tax management.

Meanwhile, the Debt-to-Equity Ratio (DER), which reflects the proportion of debt to equity, moderates the relationship between ROA, firm size, and tax management. DER plays a crucial role in indicating how a company's capital structure impacts its tax strategies. Firms with higher DER may be more motivated to reduce tax burdens through interest deductions, as debt financing provides tax shields. In contrast, companies with lower DER might focus on compliance and sustainable growth.

This study investigates how ROA and firm size influence tax management using the Corporate Tax-to-Turnover Ratio (CTTOR) as the measurement for tax management. Additionally, it examines the role of DER in moderating these relationships, focusing on companies in the food and beverage sector listed on the Indonesia Stock Exchange (IDX). This sector plays a crucial role in Indonesia's economy, contributing significantly to GDP while operating under tight regulatory control. In this context, tax management is particularly critical, as companies must balance profitability, compliance, and public trust to sustain themselves in a competitive market.

Effective tax management becomes particularly critical as companies must balance profitability, compliance, and public trust to sustain competitiveness in the market. ROA reflects the company's ability to generate profits from its asset base, serving as a core measure of operational performance. In Indonesia's food and beverage sector, companies with higher ROA often exhibit better financial health, which positions them to handle tax obligations more efficiently. For instance, firms like PT Indofood CBP Sukses Makmur Tbk, which report stable profits, are known for maintaining transparent financial statements, reinforcing investor confidence while keeping tax liabilities aligned with turnover. The companies with strong financial performance, including high ROA, tend to adopt sustainable tax practices, focusing on long-term business goals over short-term tax savings.

Higher ROA enhances a company's financial capability to comply with tax regulations without compromising profitability (Darwanto & Chariri, 2019). In sectors like food and beverage, where profit margins are tightly linked to production efficiency and commodity prices, responsible tax management reflects a company's operational maturity. For example, companies with efficient production processes are better positioned to manage tax payments, resulting in a balanced CTTOR. This dynamic illustrates how ROA functions not only as a financial metric but also as an indicator of governance quality, given that profitable companies tend to employ transparent tax strategies that adhere to local regulations.

Firm size also plays a critical role in determining how companies manage taxes. Firms are always trying to make efficiency to generate cash, so it can be said that the firms are always in a state of financial constraints (Erhan et al., 2021). Larger firms generally have more resources, allowing them to implement advanced tax planning strategies while ensuring compliance. In Indonesia, large food and beverage corporations such as Mayora Indah Tbk are known to leverage professional tax advisory services to optimize their tax payments without violating regulations. This proactive approach ensures that larger companies maintain a favorable CTTOR, enhancing investor trust and corporate reputation.

Large-scale operations can result in coordination issues across departments, potentially leading to inefficiencies in tax management. In the food and beverage industry, which involves diverse product lines and regional operations, managing tax becomes more complicated. Firms must continuously adapt to local and international tax policies, which can directly affect their turnover and tax ratios.

This complexity underscores the importance of having robust governance mechanisms in place.

Debt-to-Equity Ratio (DER) serves as a pivotal moderating variable in the relationship between corporate tax management and financial performance metrics. Numerous studies underscore the influence of DER on corporate tax obligations and overall financial strategy. For instance, research by (Hendawati, 2017) indicates that firms with higher DERs often benefit from enhanced tax shields due to the deductibility of interest payments, which can lead to lower effective tax rates and improved profitability. This suggests that effective management of DER can play a crucial role in shaping corporate tax strategies, ultimately affecting the financial outcomes of businesses.

Further exploration of this relationship reveals that the interaction between DER and corporate tax rates can significantly impact a firm's investment decisions. As shown in the work of (Vonny, 2019), companies that maintain a balanced DER not only optimize their leverage but also enhance their ability to navigate the evolving corporate tax landscape. This research highlights how a manageable DER facilitates better capital allocation, allowing firms to reinvest in growth opportunities while minimizing tax burdens. Thus, DER acts as a moderating factor that can either amplify or mitigate the effects of corporate tax management strategies on overall performance.

Moreover, as corporate tax rates decline, the dynamics of DER become increasingly significant. (Richman et al., 2020) argue that lower tax rates compel firms to reassess their capital structures, often resulting in a decreased reliance on debt. This shift may improve operational flexibility and asset utilization, consequently enhancing turnover ratios. By effectively managing DER, companies can align their capital structures with strategic tax planning, leading to superior financial performance. Therefore, incorporating DER as a moderating variable in the study of corporate tax management reveals its essential role in influencing both tax strategies and financial outcomes for firms.

The consequences of poor tax management can be severe. In recent years, several Indonesian firms have faced public scrutiny and penalties for non-compliance with tax regulations. For example, in 2019, the Directorate General of Taxes imposed significant fines on companies in the consumer goods sector for underreporting income, which damaged their reputation and eroded investor confidence. These incidents highlight the need for effective tax management practices in the food and beverage sector, where firms are under constant pressure to balance profitability with regulatory compliance.

Table 2.1 Table of Phenomenon

Aspect	Description	Supporting Data / Indicators	Implications
Return on Assets	A measure of profitability that reflects how efficiently a company utilizes its assets to generate income	High ROA may indicate efficient operations and profitability. Firms with higher ROA may engage in effective tax planning.	Positive or negative relationship with tax management depending on tax-saving strategies
Firm Size	The scale of a company, often measured by total assets or market capitalization	Larger firms often have more resources for tax planning and compliance.	Larger firms may engage in tax management to reduce costs but face higher

		Size may correlate with tax aggressiveness.	regulatory scrutiny
Tax Management	Strategies employed by firms to reduce their tax burden, including legal tax planning or avoidance	Corporate Tax-to-Turnover Ratio as an indicator of tax management effectiveness.	Impacts firm valuation and stakeholder trust. Reflects efficiency in financial strategies
Debt to Equity Ratio	A financial leverage ratio indicating the proportion of debt used relative to equity	Firms with high DER might use interest payments as a tax shield to reduce taxable income.	Moderates the relationship between profitability, firm size, and tax management practices

The Indonesian government has introduced various tax incentives to support businesses, especially in the wake of economic challenges posed by the COVID-19 pandemic. These incentives aim to stimulate investment and maintain corporate profitability, indirectly affecting firms' CTTOR (Tumanyants, 2018). However, firms that fail to align their tax strategies with these incentives risk missing out on financial advantages, further complicating their tax management efforts. This underscores the importance of strategic tax planning in enhancing turnover and ensuring that firms remain competitive in both domestic and international markets.

The food and beverage sector is characterized by intense competition, which drives firms to focus on operational efficiency and cost reduction, including tax management. Larger firms with strong market positions often invest in digital solutions for tax compliance, while smaller firms rely on external consultants to navigate complex tax regulations. The ability to manage taxes efficiently becomes a competitive advantage, helping companies improve profitability and attract investors.

In Summary, this study aims to provide deeper insights into the interplay between financial factors and governance structures that can influence tax management in the food and beverage sector. The findings are expected to serve as valuable references for company managers, policymakers, and academics in formulating appropriate strategies for sustainable tax management while adhering to regulatory requirements.

The influence of Return on Assets (ROA) and firm size on tax management has been widely studied, with varying results across different industries and time periods. Some studies find a significant effect of these two variables on tax management, while others present different findings.

Research by (Leksono et al., 2019) shows that firm size and profitability (measured by ROA) positively influence tax aggressiveness in manufacturing companies listed on the Indonesia Stock Exchng ange (IDX). These results indicate that larger and more profitable firms tend to be more aggressive in their tax management. However, on a partial basis, both firm size and profitability exhibit a negative influence on tax aggressiveness, suggesting that the effect of these factors can change depending on the situation or other moderating factors that affect corporate tax decisions (Ari Wahyu Leksono et al., 2019).

On the other hand, a study by (Puspita, Azwardi, & Fuadah, 2020) reveals that ROA and firm size do not significantly impact tax management. They emphasize that other variables, such as the audit committee and inventory intensity, play a more crucial role in determining the extent of tax avoidance. This study suggests that firm size and profitability are not always the primary determinants of corporate tax decisions, especially when governance and operational factors like the audit committee and inventory have a greater influence (Puspita et al., 2020).

Furthermore, a study by (Agraha et al., 2020) offers a different perspective by emphasizing that firm size and ROA significantly affect tax avoidance in food and beverage companies listed on the IDX. They found that larger and more profitable companies tend to engage in more aggressive tax avoidance practices. This indicates that larger and more profitable firms have a greater capacity to exploit legal loopholes that allow for tax burden reduction.

In a more specific context, research by (Akbar & Thamrin, 2020) shows that firm size and ROA have a significantly negative effect on tax avoidance. This suggests that larger and more profitable companies may be more cautious in their tax management practices, although they still strive to minimize tax liabilities. In this study, other variables such as capital intensity and the debt-to-asset ratio do not significantly affect tax avoidance, highlighting the importance of firm size and profitability in tax-related decision-making.

Overall, the findings on the effect of ROA and firm size on tax management are mixed. Some studies show a significant relationship between these variables, while others suggest that governance or operational factors are more dominant. This indicates that the impact of firm size and ROA on tax management is highly contextual and depends on various moderating factors. The research novelty shows the focus on the food and beverages sector especially in Indonesia. This research uses the variable such as Return on Assets, Firm Size and Debt to Equity as moderating variable. This research cover the year 2019-2023. Therefore, researchers are interested in exploring how various factors, such as Return on Assets and Firm Size. This is the focus of the skripsi titled "The Influence of Return on Asset and Firm Size towards Tax Management with Debt to Equity Ratio as Moderating Variable".

1.2 Problem Formulation

The study will address the following research questions:

1. Does Return on Assets Significantly influence Corporate Tax to Turnover Ratio?
2. Does Firm Size Significantly influence Corporate Tax to Turnover Ratio?
3. Does Debt to Equity Ratio Significantly moderates the relationship of Return on Assets toward Corporate Tax to Turnover Ratio?
4. Does Debt to Equity Ratio Significantly moderates the relationship of Firm Size toward Corporate Tax to Turnover Ratio?

1.3 Objective of the Research

Objective of the Research Based on the problem formulation, the objectives of the research are as follows:

1. To analyze the influence of return on assets towards corporate tax to turn over ratio.
2. To analyze the influence of firm size ratio towards corporate tax to turn over ratio.

3. To analyze whether Debt to Equity Ratio can moderate the Return on Assets Relationship towards Corporate Tax to Turn Over Ratio
4. To analyze whether Debt to Equity Ratio can moderate the Firm Size Relationship towards Corporate Tax to Turn Over Ratio

1.4 Benefit of the Research

This research is intended to benefit readers who are interested based on the topic discussed. Here are the benefits of the research:

1.4.1 Theoretical Benefit

The research is expected to provide readers a comprehensive knowledge of the theories and supply detailed insights into the scale of return on assets, and firm size to corporate tax to turnover ratio. Furthermore, this research can become further research as a reference in the future.

1.4.2 Practical Benefit

Below are the practical benefits of the research:

1. For the government, it is expected to give feedback regarding the factors affecting corporate tax to turnover ratio, improve tax policies, strengthen legislation, enhance law enforcement and make it possible to collect a fair and efficient amount of revenue.
2. For the company, it is expected to give information and understanding regarding corporate tax to turnover ratio in several factors and hopefully the company can prevent committing tax avoidance.

3. For the writer, it is expected to give more knowledge about taxes either business or other situations and to give awareness about the duties as a taxpayer.

1.5 Problem Limitation

The following are limitations and other issues as follows:

1. The research object used is limited to food and beverage companies listed on the Indonesia Stock Exchange.
2. The variables used in this research are limited to return on assets, firm size, and corporate tax to turnover ratio.
3. The period used in this research is limited from 2019 to 2023.