CHAPTER I
INTRODUCTION

1.1 Background

Every company has a goal, one of which is to achieve profitability. Profitability is the ability of a company to generate profit. Profitability, as measured by the income made from sales gains and investment profit, also measures the effectiveness of corporate management (Kasmir, 2010, p. 121). The company uses profitability to run the company because the company must be in a state that generates profits.

The most important thing that must be considered by the company is when the company wants to achieve profitability, the company must pay attention to increasing revenue and reducing its revenue expenses (Utari et al., 2014, p. 63). Companies to get significant revenues must try and suppress the smallest expensesso that companies get profits. The higher the income, the more taxes the company must pay (Pohan, 2013: 3).

The definition of tax in the Article 1 of Law No. 28 defines, taxes are financial obligations to the state that are owed by people or organizations under the legal restraint of not being directly compensated. Referring to this understanding, taxes are levies that are required by law and are not voluntary contributions (Pohan, 2013: 4). The amount of corporate tax payable will reducethe company's profit. If the company reduces the amount of tax payable, this makes it easier for the company to achieve its goal of making a profit (Chen et al., 2010).

Company can get profits if managers can carry out their roles wisely. In carrying out its role, the manager does not only play a role in obtaining profits,but also pays attention to the company's liquidity level (Anggaraeni, 2015). Managers who play a role in paying attention to the company's liquidity mustbe able to provide funds to pay obligations that are at maturity appropriately. The company's liquidity is also shown by the liquid assets used for liabilities, namelycash and cash equivalents.

Cash is the most current asset owned by a company, which can be used to carry out transactions or carry out the company's operational activities. Cash is alsoa liquid tool that can be used to pay short-term debt, pay employee salaries, or for company investment activities. Cash affects the company's liquidity level, and if the enterprise has lots of cash, the liquidity will be high. Cash and cash equivalents in the company are called cash holdings (Brigham &Houston, 2011, p. 535).

According to Gill and Shah (2012), cash holdings are cash that can be invested in physical assets and distributed to investors. Cash holding is very important for the company in funding the company's operational activities. Determining the cash holding level is an important decision a manager must make. The higher cash holdings will create opportunity costs for asset investment opportunities that provide benefits. However, low cash holdings can also cause a company to be unable to achieve its goals and lose investment opportunities. In addition, having a large amount of cash also has a drawback in that since it is an inert fund, the corporation misses out on the chance to earn a profit.

According to Hanlon & Maydew (2013), there are four motives why companies carry out cash holding policies. They are, the transaction cost motive, prevention, agency, and tax avoidance. From a tax avoidance perspective, if the transaction is tax related, the company will put the transaction on hold, thus accumulating cash in the company (Foley et al., 2007). This is the same as the notion of tax avoidance put forward by Pohan (2013: 11), tax avoidance is an attempt to streamline the tax burden by avoiding tax imposition and directing it to transactions that are not tax objects.

Tax avoidance is usually carried out by companies that have gone public because of the distribution of shareholder authority to managers, including in making decisions. Agency theory explains that there is a difference between the interests of management and shareholders, and that management's actions do not match the wishes of shareholders (Kasmir, 2010: 11).

Managers who have better information than shareholders, this is an opportunistic action towards the company's cash holding (Kim et al., 2011). Many managers were found to take advantage of the company's cash holdings using tax avoidance used for their interests (Dhaliwal et al., 2011). Tax avoidance should benefit the company because it can increase its cash holding but cannot materialize due to the actions of managers who are only concerned with themselves (Kim et al.,2011).

Utilizing cash holdings in the company for the manager's personal interests by way of tax avoidance, does not fulfill the wishes of shareholders who also act as company stakeholders. Shareholders will not support the company if managers take tax avoidance actions that will disrupt the company's sustainability (Dhaliwal et al., 2011). This is the same as the stakeholder theory described by Donaldson and Preston (1995), companies must maintain good relations by fulfilling the wishes and needs of stakeholders so that there are no protests from stakeholders.

Dhaliwal et al. (2011) research explains a negative relationship betweentax avoidance activities and cash holding. An increase in corporate cash holdingscannot occur because tax avoidance helps managers take actions that benefit themselves, resulting in losses for shareholders. Similar to the research by Dhaliwal et al. (2011), research conducted by Dessy (2017) it also explains that there is a negative correlation between tax avoidance activity and cash holdings.

Different from the study by Hanlon et al. (2013) and Wang (2015) this explains the association between cash holdings and tax evasion behavior. This was due to increased tax avoidance activities, which increased the company's cash holdings. Therefore, more research is needed on the relationship between tax avoidance and tax avoidance activities because these two things are important for companies in making their funding policies.

This study also uses the dividend payout ratio to determine the company's cash holding policy. According to Meiganda and Tutik (2022), the dividend payout ratio (DPR) it illustrates the permissible income distribution to shareholders of a corporation. A high DPR value shows that much of the profitearned by the company is paid for dividends rather than used as retained earnings for operational activities. Companies that pay dividends to shareholders can create a reserve fund so that dividend payment needs are met, so the company must hold cash. Therefore, a high DPR value will likely lead toa low cash holding value for the company.

Meiganda and Tutik (2022) studies show a relationship between cash holdings and dividend payout ratio that is favorable. Because if the value of the DPR is high, there will be a lot of profit received by the company which is paid out as dividends to shareholders. The company distributes profits as dividends to maintain smooth dividend payments and maintain company liquidity. In addition, the company must hold its cash so that this need is met. Companies with high DPR values generally have low cash holding values.

Furthermore, this study also uses leverage, one of the determining factors for cash holding policy. Bates (2009) explains that leverage is one of the factors that can affect a company's cash holding. Leverage is defined as a tool for measuring the size of a company that depends on creditors to fund the company's assets. Using leverage is easier to use when compared to cash holding ownership because it usesinterest as a tax deduction.

Research from Al-Najjar and Belghitar (2011) discusses the negative relationship between cash holdings and leverage. Leverage is a substitute for cash holding used by companies so if the level of leverage is high, the company has a low level of cash holding. Therefore if the level of leverage islow, then the company has a high level of cash holding.

Research from Ali et al. (2016) explains that companies that have minimal cash holding on their balance sheets and excessive levels of debt. Because it must pay obligations that have not been paid in full in the past, high levels of leverage have low cash holdings. According to this explanation, the relationship between leverage and cash holdings is negative.

However, this is not the same as research conducted by Ali et al. (2016) andAl-Najjar and Belghitar (2011). Guney et al. (2007) explain that companies with large amounts of debt have high financial strength constraint modes as well because companies are faced with high external funding costs. High financial constraints onthe company have a mode to have a high level of cash holding. Following this explanation, leverage as a financial constraint has a positive relationship with cash holdings.

This study uses non-financial companies as research objects, because in previous studies generally used manufacturing companies as research objects. In addition, cash holding is considered an asset within the company to be used as an investment and will be distributed to investors (Shabbir et al., 2016). Theproblem that often occurs in companies is that companies are not optimal in managing cash,so that company activities are disrupted (Astuti et al., 2019). Incorrect calculations and estimates of cash outflows will have a negative impact on the company. As is the case with PT Sariwangi Agricultural Estate Agency and PT Indorub SumberWadung Plantation Airlines which have been declared bankrupt.

PT Sariwangi Agricultural Estate authority constructed a drainage system as an investment that uses technology to increase plantation yields. This company uses excessive cash for these investments (*Sariwangi Dinyatakan Pailit, Masa Kejayaan Perusahaan Teh Celup Hingga Gagalnya Investasi - TribunNews.Com*, n.d.). This was also reinforced by the large debt amount of PT Sariwangi, amounting to Rp1.05 trillion, and the Indorub company, which had a total debt of Rp33.71 billion in several banks in Indonesia. In October 2017, Sariwangi bills were recorded at Rp 288.93 billion and Indorub atRp33.82 billion. This default was a threat because it had beenagreed in the Postponement of Debt Payment Obligations Process (*Sariwangi Dinyatakan Pailit-Bisnis Liputan6.Com*, n.d.). Because of the high debt ratio, the two companies have to spend a lot of money to pay off their debts, so the impact of estimation and calculation of cash out is wrong, and not good for the company. Cash issuedin very large amountsposes a threat of bankruptcy for a company.

1.2 Research Problem

The research problem is formulated as :

1. Does tax avoidance have a relationship with the company's cash holdings?
2. Does the dividend payout ratio have a relationship with the cash holdings?
3. Does leverage have a relationship with the cash holdings?

1.3 Research Purposes

Based on the background and formulation of the problem above, the objectives expected in this study are as follows:

1. To assemble empirical data regarding the relationship of tax avoidance with the cash holding.
2. To assemble empirical data regarding the relationship of dividend payout ratio with the cash holding.
3. To assemble empirical data regarding the relationship of leverage withthe cash holding.

1.4 Research Benefit

1. Provide empirical data about the relationship between tax avoidance and corporate cash holdings.
2. Provide empirical evidence about the relationship between

leverage and corporate cash holdings.

3. Provide empirical evidence about the relationship between thedividend payout ratio and the company's cash holding.

1.5 Writing System

This study uses writing systematics consisting of five chapters, each chapter consisting of:

CHAPTER I **INTRODUCTION**

This chapter is the opening chapter that explains about background, problem formulation, research objectives, benefits research, and systematic writing.

CHAPTER II **LITERATURE REVIEW**

This chapter describes the basic theory and conceptsrelated to this research and reviews the previousliterature.

CHAPTER III **RESEARCH METHOD**

This chapter describes the objects and subjects of research, methods of data collection, types and sources of data, and methods of analysis.

CHAPTER IV RESULTS AND DISCUSSION

This chapter describes the research object, quantitative analysis, and explains the arguments following the research results.

CHAPTER V CONCLUSION

This chapter describes the study and lists learning limitations. To overcome the research limitations, researchers suggestions will include what will be carried out next.