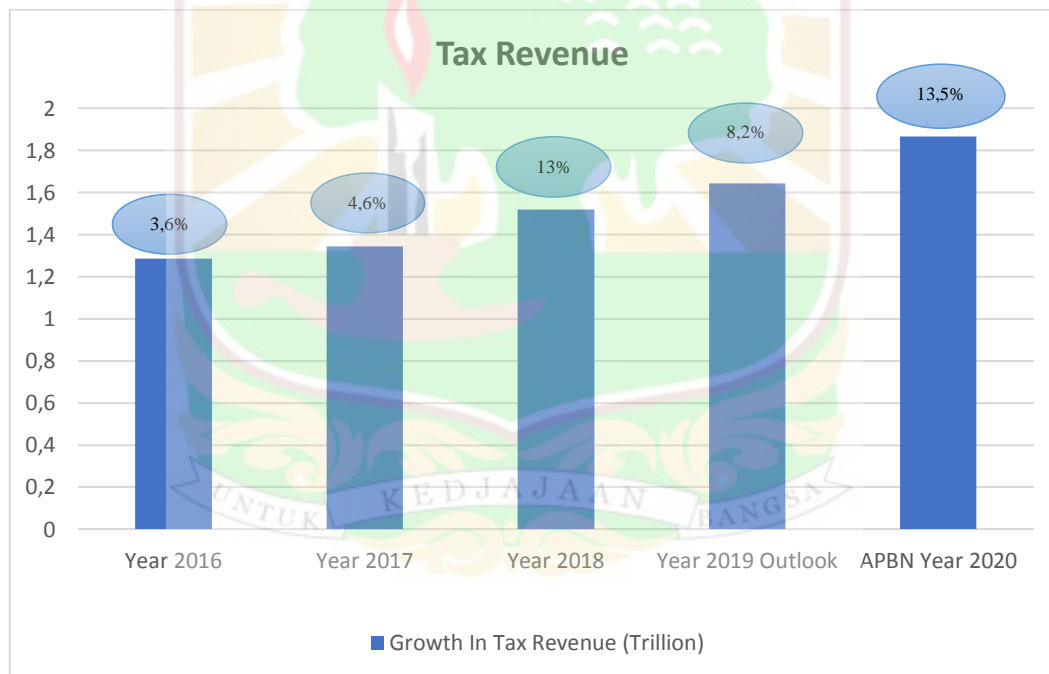


# CHAPTER I

## INTRODUCTION

### 1.1. Background

The government strives for community welfare through sustainable national development. This effort aims to improve the welfare of the community both materially and spiritually. To achieve this goal, of course, the state needs a lot of funding sources. One of the sources of funds referred to is tax. Through taxes paid by the community, the government will also return the benefit to the community, in another form through the implementation of state programs for the welfare of all people. We know that tax revenue usually increases from year to year. The figure below is the data in the State Revenue and Expenditure Budget (APBN) 2020.



**Figure 1.1 Tax Revenue**

Based on data from the State Budget (APBN), tax revenue has increased every year, and it is estimated that the 2020 State Budget will increase by 1.865.7 billion. However, contrary to reality in 2020 this year. In early 2020, a case of virus

epidemic had hit the Wuhan area in China, which can be called the Coronavirus. Coronavirus is a virus that attacks the respiratory system and can cause minor disturbances in the respiratory system, severe lung infections, and even death. A few days later the plague spread hastily to different international locations inclusive of Thailand, Europe, Japan, US, and ended in death. Then, on March 2, 2020, President Joko Widodo (Jokowi) announced the first two positive cases of the coronavirus (Covid-19) in Indonesia. In this highly connected and integrated world, the Coronavirus outbreak will not only disrupt China's economy but will also spread globally.

After the Corona Virus was confirmed in Indonesia on March 2, 2020, the world's economic conditions, including in Indonesia, slumped. For Indonesia itself, Sri Mulyani as the Minister of Finance of the Republic of Indonesia said that this had never happened and would be a breakthrough to prevent countries that previously had no problems experiencing risks from the foreign exchange and liquidity side. Based on the statement of Sri Mulyani as Minister of Finance of the Republic of Indonesia (CNN Indonesia), the impact of the spread of Covid-19 on the Indonesian economy will be more complex and exceed the crises that occurred in 1998 and 2008-2009. This happened because Covid-19 could not predict when it would subside and the decline in positive cases of infected people. Therefore, the government urges the public to carry out activities from home to reduce the risk of Covid-19 transmission. This is because economic activity is disrupted. After all, the majority of people are at home. Various shopping centers have decided to temporarily close their operations, resulting in reduced management and tenant revenues. As a result, the trade sector's tax revenue has also decreased, even though trade has the second-largest contribution to tax revenue.

Oil and gas and non-oil and gas exports have decreased due to the fact China is the most important importer of crude oil. Besides, the spread of the Coronavirus also has an impact on lowering manufacturing in China, although China is the center of global items manufacturing. If China experiences a decline in production, the global supply chain will be disrupted and it could disrupt production processes that require raw materials from China. Indonesia additionally is based closely on

uncooked substances from China, in particular plastic raw materials, textile raw materials, electronic components, computers, and furniture (Central Statistics Agency (BPS)).

In the Business record, economic performance up to the third quarter of 2020 still experienced a contraction due to the slow process of national economic recovery. The economy in the third quarter of 2020 was recorded to have contracted to 3.49%. Meanwhile, the main sectors supporting the economy contracted by 6.49% and 6.71% respectively. The downward trend in economic performance is also in line with a contraction in tax revenue, which until September 2020 is approaching 17%. The main sectors of tax revenue, such as manufacturing, trade, and construction or real estate, experienced a significant decline in performance 17.16%, 18.42%, and 19.6% respectively. Minister of Finance Sri Mulyani Indrawati has repeatedly revealed the risk of the performance of tax revenue in 2020 which has the potential to miss the outlook for the 2020 State Budget. This is due to the depressed condition of corporations and society due to the pandemic. Meanwhile, tax revenue until September 2020 reached IDR 750.62 trillion or 62.61% of the 2020 tax revenue target of IDR 1,198.8 trillion. This means that until the end of the year, the government must pursue a tax revenue target of IDR 448.18 trillion or every month IDR 149.39 trillion (APBN 2020).

Therefore, the government has formally decreased the corporate earnings tax price to 22% in 2020 and 2021, and 20% starting in 2022. This is because this year taxpayers experienced a decrease in turnover because of the Covid-19 pandemic, the amount of income tax owed also reduced. That is stated in authorities law in Lieu of law (Perppu) No. 1 of 2020 regarding country economic guidelines and financial system stability for handling the Covid-19 pandemic and also facing threats that endanger the countrywide economy monetary device balance. Article 5 of Government Regulation in Lieu of regulation No.1 of 2020 states that the 22% company income tax adjustment applies in the 2020 tax year and 2021 tax year. Then it will likely be 20%, to be able to come into effect in the 2022 tax year. As for the calculation of income tax for the tax year 2019 uses the prevailing rate for the 2019 tax year, which is 25 percent. Thus, the calculation and payment of

underpaid income tax reported in the 2019 Annual SPT (Income Tax Article 29) still use a rate of 25 percent.

Even though the government has lowered the corporate income tax rate, the tax is still a mandatory contribution to the country which becomes indebted to compel individuals or entities. The activities to increase tax revenue carried out by the Directorate General of Taxes are activities that benefit the state, not companies. This is because for tax companies it is a burden that must be borne by the company so that it may add to the element of decreasing corporation earnings that have been done by the company manager. Company entities are one of the largest contributors to tax revenue in Indonesia when compared to individual taxpayers. However, on the other hand, the objective of establishing a business entity or company is one of which is to be able to increase the value of the company, because the high share price which is reflected in the company value can increase the company's achievement, company owners and shareholders of the company. This has an impact on shareholders to maintain their investment and attracts new investors to invest in the company. The company's objective turned out to be at odds with the government's goal of maximizing revenue from the tax sector. The fact that the government and company management hold contrasting opinions on the causes of certain companies' taxes allows management to deal with it in a number of ways, one of which is by manipulating company income. (Wulandari, et al., 2004 in Halim, 2016). Therefore, many companies carry out tax planning to minimize current and future tax burdens, such as tax avoidance and tax evasion.

According to Mangoting & Onggara (2019) management companies takes various ways to increase company profits, one of which is by controlling actions to avoid unwanted tax consequences, but still within the corridor of laws and regulations or what is often called Tax Avoidance. Tax avoidance is an important corporate strategy (Cai & Liu, 2009). Tax avoidance is an action that is carried out without breaching a country's tax laws. Meaning that it is a legal and safe activity for a taxpayer due to activity. This is done by taking advantage of the weaknesses contained in tax laws and regulations, this activity is carried out to reduce the amount of corporate tax to boost business income and increase the valuation of the

company as seen from the stock market price. So by enabling tax avoidance, many companies are taking advantage of this loophole to reduce the deferred burden on the individual or corporate taxpayers. On the other hand, tax avoidance activities can cause losses to the state if these activities lead to tax avoidance actions that are too aggressive, thus reducing state revenues.

Regarding Covid-19 in its current condition, even though the government has lowered the corporate income tax rate, it does not mean that all taxpayers will obey and report taxes accordingly, there is still a possibility for taxpayers to do tax avoidance due to current weak economic conditions. The impact of Covid-19 on household consumption has decreased purchasing power, even though 60% of the consumption is the pillar of the economy. Accompanied by uncertainty and weak investment. Also, the weakening of the export sector and falling commodity prices have affected Indonesia's economic base. As a result, at this time many companies went bankrupt or downsized so that many employees were laid off. Meanwhile, for other companies that are in the midst of this epidemic, there are still companies that are in good health, then some are in a liquid financial condition but are not profitable, and some are in an unhealthy condition and have no profit. So, the company's current focus is first to regulate cash flow by restructuring credit and secondly to reduce financial burdens that are not urgent, can be postponed or corrected, such as delays in payment of all taxes, levies, and other fees. This study aimed to determine the impact of corporate risk and inventory intensity on tax avoidance for the 2 quarters before and after Covid-19 was confirmed in Indonesia and wanted to test whether there were differences in companies that avoided taxation in the period before Covid-19 and after Covid-19 is currently confirmed.

This study takes the independent corporate risk variable because company risk is a reflection of the policies taken by the company. The policies taken by the company's leadership can determine whether the leadership is risk-taker or risk-averse. A leader or company executive who is a risk-taker is an executive risk-taker who dares to make business or management decisions. Meanwhile, executives who are risk-averse to executives do not dare to make business decisions. Companies with high-risk companies or risk-takers tend to avoid taxes. Executives who have a

risk-taking nature will not be afraid when making high-risk decisions. The more daring to take risks, the higher the executive action in tax avoidance. Fluctuations incorporate risk reflect a tendency towards an executive character. Dyreng et al., (2010) on the effect of individual executives on corporate tax avoidance stated that in avoiding corporate tax, individuals have a very significant role. In current conditions, executives who dare to take risks will be very likely to do tax avoidance to save the condition of their company.

In terms of the inventory intensity vector, companies in different industries are, on average, businesses that produce raw materials, semi-finished materials, and finished goods on a large scale. Inventory and the organization are inextricably linked. The company's inventory is a valuable asset. Inventory strength is one type of investment form possessed by a company (Richardson & Lanis, 2007). When committing to inventory, on the other hand, an organization must consider a variety of risks. One of the threats that the company could face is inventory destruction, which will result in a loss for the company. A large amount of inventory intensity is expected to change tax avoidance. Many inventories can cause additional costs that made the company reduce profits.

The number of additional costs that arise as a result of the company's inventory will have an impact on this decline in profit, which causes the intensity of the inventory to possibly reduce the amount of taxes that the company must pay. Muzakki (2015) in his research explains that inventory intensity affects the effective tax ratio where the effective tax ratio is used as a proxy to measure tax avoidance. Companies that have a high inventory intensity usually have a high cash effective tax rate (CETR), because companies that invest in inventories cannot do the same thing when the company has a high capital intensity, meaning that depreciation can be used as a deduction from taxable income. And associated with the current condition of Covid-19, the average amount of inventory intensity at the company will be very high due to decreased demand from consumers so that it may cause the company to incur additional costs, that will be reducing income.

Because there is still little research on the influence of several independent variables on tax avoidance, with a comparison of two different times due to the impact of an event globally, this research is one of the few studies that discuss the influence of several independent variables on tax avoidance in the time series 2 quarters before and after Covid-19 was confirmed in Indonesia. Previous studies have not used this time series in the tax avoidance category. Meanwhile, this research was conducted to determine and examine the effect of several independent variables, there are company risk and inventory intensity on tax avoidance. With a sample of Consumer Goods Industry Sector Companies listed on the Indonesia StockExchange(IDX).

Researchers choose Consumer Goods Industry Sector Companies because their sales tend to always increase. However, the company's output is needed for people's daily consumption. From year to year, there have been developments in line with the high needs and demands of the community. Thus, it can be assumed that the company will place more emphasis on paying taxes through tax avoidance.

## **1.2. Problem Statement**

The decline in state tax revenues was quite significant after the Covid-19 confirmation period and the application of tax regulations regarding the reduction of Article 25 income tax installment incentives, so this study wants to discuss the measurement whether there are any influences of several independent variables (corporate risk and inventory intensity) on tax avoidance and if there is any significant difference in tax avoidance pre and post of the Covid-19 Pandemic was confirmed in Indonesia. Therefore, the main problem formulations of this study are:

1. How did corporate risk affect tax avoidance pre and post of Covid-19 Pandemic was confirmed in Indonesia?
2. How did inventory intensity affect tax avoidance pre and post of Covid-19 Pandemic was confirmed in Indonesia?
3. Is there any significant difference between tax avoidance pre and post of Covid-19 Pandemic was confirmed in Indonesia?

### **1.3. Research Objective**

The aim of this research is to see how was the effect of many independent variables interacts (company risk and inventory intensity) on its dependent variable (tax avoidance) before and after the confirmation of Covid-19 to answer the problem statement, the expected objectives of this study are:

1. To find out how was the influence of corporate risk on tax avoidance pre and post of Covid-19 Pandemic was confirmed in Indonesia
2. To find out how was the influence of inventory intensity on tax avoidance pre and post of Covid-19 Pandemic was confirmed in Indonesia
3. To find out whether there is a significant difference in tax avoidance pre and post of Covid-19 Pandemic was confirmed in Indonesia

### **1.4. Research Contribution**

This research is expected to provide benefits and contribution for the future and also interested parties :

#### **1. Theoretical**

This research is expected to add and develop insights, information as well as a framework of thought and can be used as a reference to further studies related to tax avoidance, the difference between before and after the Covid-19 pandemic was confirmed in Indonesia. So that, it can provide a new theory on the current phenomenon regarding the state of the company in carrying out its specific tax obligations against tax avoidance in the period 2 quarters before and after Covid-19 was confirmed in Indonesia. Besides that, this research is expected to provide academic insight for all students as additional knowledge, input, and reading sources as well as new information regarding the field of taxation.

#### **2. Empirical**

This study uses a measurement method with two independent variables (corporate risk and inventory intensity) in which these variables cannot be estimated whether they affect tax avoidance or not. And also increase the generalization of research through sampling procedures with a selection of research before and after the confirmation of Covid-19 in Indonesia in the consumer goods business sector industry on the Indonesia Stock Exchange.

### 3. Practical

The findings of this study are intended to educate tax policymakers about the factors that affect corporate tax avoidance so that they can strengthen tax regulations and also the loopholes for tax avoidance can be suppressed. Besides that, it can also be used by taxpayers in tax planning.

## 1.5. Writing Systematics

This research study consists of five parts of the chapter to deliver systematic discussions and simplify research understanding. **Chapter I** is an introduction chapter, it explains the research background, problem statement, research objectives, research contribution, and writing systematically. **Chapter II** talks about the literature review that provides the supporting theory which is presented in this research, including the definitions and literature explanation regarding the topic used. This chapter will explain the literature review, the concepts and theories of taxation-related variables regarding research, previous research, and the last conceptual framework to develop the hypothesis. **Chapter III** explains the research methodology, which contained all methods that can be used in developing this research. It explains the research design, the type, and source of data, and then sample, population, and sampling methods. This chapter also explains data collection methods, research variables, and data analysis methods. **Chapter IV** is the result of the research that has been done based on data and information which has been gathered, and analysis of this study that explains the hypothesis testing to answers the hypotheses developed and discussed. It starts from the analysis of each variable based on the data. **Chapter V** is the last chapter that provides the

conclusion of the study, research limitation, implication of the research that has been done, as well as the recommendation for future study

