






Tax Avoidance During the Covid-19 Pandemic in Manufacturing Companies

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Abstract. Companies take advantage of tax avoidance by deviating or taking advantage of loopholes in the tax law to minimize taxes that must be paid to increase revenue, especially during the Covid-19 pandemic. This study aims to prove the effect of profitability, leverage, and firm size on tax avoidance. This study is quantitative, the population of this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample was taken using purposive sampling, and the sample companies were 28 companies from 2019 to 2021, with 84 units of analysis in the form of financial statements, analyzed using SPSS. The results showed that profitability as proxied by Return on Assets (ROA), and firm size affect tax avoidance, while leverage as proxied by the Debt to Assets Ratio (DAR), does not affect tax avoidance.

Keywords: Profitability · leverage · company size · tax avoidance · Covid-19 pandemic

1 Introduction

One indicator of a good citizen is obedience in paying taxes, which is a manifestation of compliance in carrying out the obligations and participation of taxpayers directly and jointly for state financing and national development. Taxes are people's contributions to the state which are deposited into the state treasury as regulated in Article 1 of the Law of the Republic of Indonesia Number 28 of 2007. In practice, non-compliance in paying taxes is still common, whether carried out by individual taxpayers or companies or entities. Individuals or companies do tax evasion to get a significant increase in profits or income. Tax avoidance itself is a legal action taken by the company is looking for loopholes to reduce revenue recording, to reduce the tax liability that must be paid. Tax Avoidance is legal and does not violate the law. However, taxpayers sometimes take advantage of irregularities or loopholes in tax laws to reduce the amount of tax that must be paid.

The Coronavirus Disease (Covid-19) pandemic forced the Government to limit social mobility in all circles of society, the impact of this policy was based on BPS (Central Statistics Agency) saying that Indonesia was experiencing a significant economic recession. In this case, the tax sector also experienced a significant decline because many companies suffered losses. As a rule of the Indonesian economy that cannot be separated from the role of taxes, taxes make a major contribution to the country, because of its strategic geographical location, Indonesia is a means of world trade and transportation, and the status of Indonesian people is very consumptive [1]. In this case, the tax sector is quite profitable for Indonesia [2].

In addition to the above, tax supervision has also decreased due to the work-from-home policy being a factor for tax avoidance so supervision is a little looser than usual, in this case, the tax-intensive provision will be completed as soon as possible and will increase tax avoidance from many companies. This situation is supported by the company's internal motivation which assumes that taxes are a burden, consuming large profits, and encouraging shareholders to take tax avoidance actions and increase company value [3].

Efforts to avoid tax during the Covid-19 pandemic are carried out by companies to get big profits but do not contribute to public services. This condition occurs in Indonesia, India, Brazil, Nigeria, and Bangladesh [4]. Many companies in Indonesia have taken tax avoidance measures. The action is influenced by several factors, these factors have been proven by several studies, namely research conducted by [5–8], which states that tax avoidance can be influenced by several factors, including profitability and leverage.

The greater the tax burden will have an impact on the decrease in the net profit of the company. Therefore, the company tries to minimize the tax burden so that the company's net profit does not decrease. This shows that the greater the company's ability to generate profits at high-profit levels encourages management to practice tax avoidance [6].

The second effect of companies to practicing tax avoidance is leverage. Leverage aims to show how much debt the company has to finance its operating activities. Companies that have a high level of debt will endanger the company because the company has a very high burden and is difficult to get out of the debt burden, it can be categorized as extreme leverage [9].

Large companies are more likely to use their resources rather than using debt financing. Large companies will be in the government's spotlight so it will create a tendency for company managers to act aggressively or comply [10]. The larger the size of the company, the company will consider the risk in terms of managing its tax burden. Companies that are included in large companies tend to have greater resources than companies that have smaller scales to manage tax. Human resources who are experts in taxation are needed so that the tax management carried out by the company can be maximized to reduce the company's tax burden. Small-scale companies cannot optimally manage their tax burden due to a lack of experts in taxation [11]. The more resources owned by large-scale companies, the greater the tax costs that can be managed by the company.

This tax avoidance costs the state an estimated US\$ 4.86 billion per year or equivalent to Rp 68.70 trillion rupiahs. Corporations in Indonesia contributed US\$ 4.78 billion or Rp 67.60 trillion in losses from tax evasion, and the remaining US\$ 78.83 million or Rp 1.10 trillion came from individual taxpayers. Compliance with paying taxes can be

measured and compared with the amount of tax savings from tax evasion to reduce the tax burden [12].

The industry can use two ways to minimize the value of taxation but still follow the rules regarding taxes that are enforced by avoiding taxes. Second, by minimizing the value of taxation through the implementation of actions that are not in line with the law on taxes, namely tax evasion. To deal with the current pandemic conditions, the government does not turn a blind eye to the situation, the government makes policies regarding tax revenue as attached to the PMK or called the regulation of the minister of finance regarding the provision of tax incentives for those affected by COVID-19. The incentives are given for 6 months from April to September 2020. Tax collection in a pandemic situation is a problem for the company, most of the tax authorities or the government cannot tolerate this collection, while the tax for the company is mandatory as a deduction from net income, from this case the company usually looks for ways to make the company tax as small as possible. This has been considered natural for companies and considered legal, so the company managers took advantage of the government's tax incentives for tax avoidance during the Covid-19 pandemic. The government through the tax authorities is trying to reduce losses from tax evasion by monitoring transactions with unique relationships both at home and abroad [13]. To increase tax payment receipts, the government continues to strive to improve the tax system for the better because taxes are a source of financing in the administration of government, including currently one of them for financing the handling of COVID-19. However, by optimizing the government's way of optimizing tax revenue, the company will remain on its goal, namely minimizing the tax burden because the greater the profits obtained by the company, the greater the tax burden that must be paid by the company. This is a problem for companies and triggers companies to practice tax avoidance.

2 Theoretical Basis and Hypotheses Development

The macroeconomic theory focuses on the behavior of the economic agents related to the structure, performance, behavior, and decision-making of the economy as a whole (aggregate). This macroeconomic theory aims to provide an overview of how an economy functions and carries out its activities. Economic actors make decisions to improve company performance which is influenced by the overall situation. Likewise, in making tax decisions, companies try to make decisions to minimize tax costs by avoiding tax. In some companies, tax avoidance is carried out by taking advantage of loopholes in tax regulations, some even bypass and violate tax regulations. Tax avoidance by companies in the aggregate causes a decrease in state income from taxes.

The amount of tax to be paid is calculated based on Profitability describing the company's ability to earn profits through all existing capabilities and sources such as sales, cash, capital, and other asset management [14]. Profitability can be defined as a description of the company's financial performance in generating company profits from asset management [15]. Profitability can be measured using Return on Assets (ROA). ROA describes the ability of a company to earn a profit (see Formula 1). According to [14], the higher the profitability of a company, the higher the profit generated by the

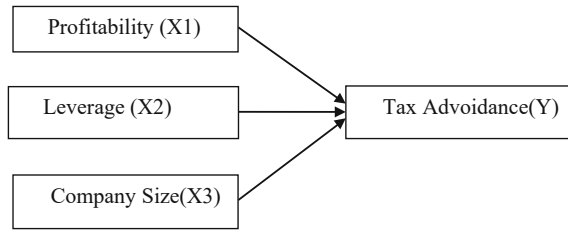


Fig. 1. Research Model

company. If the profit generated is more significant, then the tax to be paid is also higher.

$$\text{Return on Assets} = \frac{\text{Net Sales}}{\text{Total Assets}} \tag{1}$$

In addition to paying attention to profits, companies must also pay attention to the level of solvency/leverage. According to [15], solvency/leverage is the company’s ability to pay the long-term debt. Solvency can be calculated by comparing the company’s debt with capital and assets. A good company must have more capital than debt. The higher the level of leverage of a company, the greater the agency costs. Investors will consider this ratio because the high leverage value will affect the number of funds obtained by the company. The measurement of solvency/leverage uses the Debt to Assets Ratio (DAR) which is stated by [14] as follows:

$$\text{Debt to Assets} = \frac{\text{Total Debt}}{\text{Total Assets}} \tag{2}$$

The size of the company is suspected to affect tax avoidance. Company size can be interpreted as the size of the company seen from the amount of equity value, sales value, or asset value [16]. Company size is the size, scale, or variable that describes the size of the company based on several conditions, such as total assets, log size, market value, shares, total sales, total income, total capital, and others. Companies that have reached the maturity stage are companies that have large total assets, positive cash flows, and good prospects for a relatively long period time. The larger the size of the company, the greater the opportunity for tax avoidance [17].

Tax avoidance is a situation when a company takes certain tax policies that are considered legal by law or the action is risky if the tax action violates the law. In general, company owners tend to prefer to act aggressively in avoidance [18]. Several ways are carried out in the context of tax avoidance, namely, 1) taking advantage of regulations that ignore tax factors, and 2). Exploit legal loopholes for personal gain, and 3). Consult a tax consultant to get input on how to avoid tax, which then becomes a secret between the taxpayer and the tax consultant [17]. The Company Size formula is as follows (Fig. 1).

$$\text{Company size} = \text{Total assets} \tag{3}$$

2.1 Hypothesis

The greater the profit earned by the company, the greater the income tax that must be paid. Management and company owners tend to reduce tax costs, tax avoidance is carried

out by making good tax planning so that it does not conflict with tax rules, as stated by [19] companies will try to reduce or minimize tax obligations carefully be careful by taking advantage of loopholes in tax provisions. Based on the description above, the hypotheses made are:

H1: Profitability has a positive effect on tax avoidance in manufacturing companies.

Debt is used in tax avoidance practices because loan interest can be used as a tax deduction [20]. The higher the amount of funding from third-party debt used by the company, the higher the costs incurred from debt, which will have an impact on reducing the company's tax burden. The higher the value of the leverage ratio, the higher the amount of funding from third-party debt used by the company, and the higher the interest costs arising from the debt. Research conducted by [21] and [22] finds evidence that leverage affect on tax avoidance. Besides that [23] found evidence that companies with low financial performance and low leverage ratios tend to do tax avoidance, while research conducted by [24] concluded that leverage is not related to tax avoidance. The results of this study contradict previous research; therefore, the researcher intends to repeat by proposing the following hypothesis:

H2: Leverage has a significant positive effect on tax avoidance

Research conducted by [23], concluded that larger firms with lower financial performance tend to evade tax. The results of this study are in line with research conducted by [25], which states that firm size increases corporate tax aggressiveness, and [17], who found evidence that firm size did not affect on reducing tax avoidance. Based on the research above, the researcher makes the following hypothesis:

H3: Firm size has a positive effect on tax avoidance in manufacturing companies

3 Research Method

This study uses quantitative analysis methods, the population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX), and samples were taken using purposive sampling. Sampling uses the purposive sampling method, which is a sampling technique for data sources with certain considerations (Sugiyono, 2018). The criteria used in determining the sample this time are the first manufacturing companies listed on the Indonesia Stock Exchange (IDX). Second; companies that present financial reports during the pandemic, namely 2019–2021. The data used is secondary data, in the form of financial statements. The sample used in this study was 28 companies, with 84 units of analysis.

4 Results and Discussion

Table 1 shows eighty-four data for each variable (N). The ETR variable (Y) with eighty-four data as samples reached a minimum value of -3.2511 and a maximum value of 3.1349 . During the period 2019–2021, the average value is $2.7769E0$, and the standard deviation is 0.8197050 . The mean value which is smaller than the standard value indicates that there is a divergence so that the spread of the data shows abnormal results and causes

Table 1. Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std.Deviation |
|--------------------|----|---------|---------|--------|---------------|
| ETR | 84 | -3.251 | 3.134 | 2.776 | 0.819 |
| ROA | 84 | -3.746 | 1.926 | -0.102 | 0.812 |
| DAR | 84 | -3.121 | 1.901 | -0.655 | 0.924 |
| UP | 84 | 2.075 | 3.134 | 2.916 | 0.217 |
| Valid-N (listwise) | 84 | | | | |

Table 2. Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|-------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -0.853 | 1.169 | | -0.730 | 0.467 |
| | ROA (X1) | 0.035 | 0.107 | 0.034 | 1.322 | 0.048 |
| | DAR (X2) | 0.071 | 0.093 | 0.080 | 0.761 | 0.449 |
| | UK (X3) | 1.260 | 0.400 | 0.334 | 3.151 | 0.002 |

bias. The ROA variable (X1) with a sample of eighty-four data reached a minimum value of -3.7465 and a maximum value of 1.9264. During the 2019–2021 period, the mean value is -0.101815, and the standard deviation is 0.8119774.

The mean value which is lower than the standard value indicates that the data deviation is high and the data distribution is uneven. The DAR variable (X2) with a sample of eighty-four data reached a minimum value of -3.1213 and a maximum value of 1.9016. During the 2019–2021 period, the average value is -0.654620 and the standard deviation is 0.924 1857. A lower mean value than the standard value indicates that the data deviation is high and the data distribution is uneven. The UK variable (X3) with a sample of eighty-four data reached a minimum value of 2.0759 and a maximum value of 3.1349. During the period 2019–2021, the mean value is 2.9161E0, and the standard deviation is 0.2173389. The mean value which is higher than the standard value indicates that the data deviation is low and the data distribution is even.

4.1 Multiple Linear Regression Analysis

The regression equation in this study serves to see how significant the independent variable is Return on Assets (X1), Debt to Assets Ratio (X2), and Company Size (X3) to the dependent variable, namely Tax Avoidance (Y). Based on the analysis using the SPSS version 17.0 program, the results (outputs) are shown in Table 2.

The analysis of Table 2 above produces multiple linear regression equations from the study as follows:

$$Y = -0.853 + 0.035 X 1 + 0.071 X 2 + 1,260 X 3 + e \quad (4)$$

Table 3. Coefficient of Determination Test

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | 0.351 | 0.123 | 0.091 | 0.217 |

Table 4. ANOVA

| Model | | Sum of Squares | df | Mean Square | F | sig |
|-------|----------|----------------|----|-------------|-------|-------|
| 1 | Regressi | 6.887 | 3 | 2.296 | 3.757 | 0.014 |
| | Residual | 48.882 | 80 | 0.611 | | |
| | Total | 55.769 | 83 | | | |

The regression equation can be explained as follows:

- 4.1.1. The constant has a negative value of -0.853, meaning that if the three variables are constant or zero then the value of Tax Avoidance is -0.853
- 4.1.2. The regression coefficient of Return on Assets is 0.035, which means that if the Return on Assets variable increases by one unit, then Tax Avoidance will increase by 0.035 units, assuming other independent variables remain.
- 4.1.3. The regression coefficient for the Debt to Assets Ratio is 0.071 which means that if the Debt to Assets Ratio increases by one unit, Tax Avoidance will increase by 0.071 units, assuming the other independent variables remain.
- 4.1.4. The regression coefficient for Company Size is 1.260, meaning that if the Company Size variable increases by one unit, then Tax Avoidance will increase by 1.260 assuming the other independent variables remain.

4.2 Coefficient of Determination Test (R²)

The coefficient of determination (R²) test assesses how accurately the model describes the dependent variable. The value ranges from zero to one. If the value is low, then the independent variable hardly explains the variation of the dependent variable. However, if the value is close to one, then the independent variable provides almost all the information needed to estimate the dependent variable. The results of the Adjusted R Square test can be seen in Table 3.

Table 3 shows that the coefficient of determination is found in the Adjusted R Square value of 0.123 or 12.3%. This result means that the accuracy of the independent variable in explaining the dependent variable is 12.3%, while the remaining 87.7% is explained by other variables not discussed in this study.

Based on the test results in Table 4 above, it can be seen at the significance level value of 0.014 < 0.05. This means that Ho is accepted and Ha is rejected, it can be concluded that the variables ROA (X1), DAR (X2), and Company Size (X3) together have no significant effect on tax avoidance.

Table 5. t-Test

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|-------|
| | | B | Std. Error | B | | |
| 1 | (Constant) | -0,853 | 1.169 | | -0.730 | 0.467 |
| | ROA (X1) | 0.035 | 0.107 | 0.034 | 1.322 | 0.048 |
| | DAR (X2) | 0.071 | 0.093 | 0.080 | 0.761 | 0.449 |
| | UK (X3) | 1.260 | 0.400 | 0.334 | 3.151 | 0.002 |

The T-test shows how significant the influence of the independent variable on the dependent variable is individually or partially. If the significance value is less than 0.05 and T count > T table, then the independent variable has a partial effect on the dependent variable. The results of the T-Test can be seen in Table 5.

Based on Table 5, the T-Test value is obtained as one of the results of the study. The significance value obtained by the Return on Assets (X 1) variable is $0.048 < 0.05$ and T count $-1.322 > T$ table 1.291. This result means that H_0 is rejected and H_a is accepted. Therefore, the Return on Assets partially has a significant effect on Tax Avoidance. The significance value obtained by the Debt to Assets Ratio (X2) variable is $0.449 > 0.05$ and T count is $0.761 < T$ table 1.291. This result means that H_0 is accepted and H_a is rejected. Thus, the Debt to Assets Ratio partially dose no affect on Tax Avoidance. The significance value obtained by the Firm Size variable (X3) is $0.002 < 0.05$, and the T count is $3.151 > T$ table 1.291. This result means that H_0 is rejected and H_a is accepted.

4.3 Discussion

Based on the test results that the significance value obtained by the Return on Assets variable ((X1) is $0.748 > 0.05$ and T count is $1.322 > T$ table 1.291. This result means that H_0 is rejected and H_a is accepted. Therefore, Return on Assets has a partial effect. Significant effect on Tax Avoidance. The results of this study are in line with research conducted by [6, 19] ROA, variable test results the results obtained to state that Return On Assets affects tax avoidance in manufacturing companies listed on the Indonesian stock exchange in 2019–2021, this can occur because the higher or increasing the profitability value of manufacturing companies, the greater the dominant cause of tax avoidance committed by the company. Companies with high profits should be able to pay more taxes than companies with low taxes, therefore companies with high profits will commit fraud against corporate tax payments.

The significance value obtained by the Debt to Assets Ratio (X2) variable is $0.449 > 0.05$ and T count is $0.761 < T$ table 1.291. This result means that H_0 is accepted and H_a is rejected. Thus, the Debt to Assets Ratio partially does not affect on Tax Avoidance. The results of this study are in line with the research of [6, 24], and [10]. This means that the higher the level of debt in manufacturing companies, the less likely the company is to do tax avoidance. This is because the company's debt to finance the company's operations is still on a normal scale.

The significance value obtained by the Firm Size variable (X3) is $0.002 < 0.05$, and T count is $3.151 > T$ table 1.291. This result means that H_0 is rejected and H_a is accepted. Therefore, firm size partially affects Tax Avoidance. Research result in line with research [6, 10, 25, 23, 17]).

The size of the company in manufacturing companies affects on tax avoidance, this means that the larger the size of the company, the greater the tax avoidance activity, because companies that have large assets are relatively large tend to be more profitable so they try to minimize the need for taxes.

5 Conclusions

This study tries to identify numerous elements that influence tax evasion during the Covid-19 pandemic. The analysis results demonstrate that Profitability proxied by ROA and Company Size has an effect on Tax Avoidance, but Leverage proxied by Debt to Assets Ratio has no effect on Tax Avoidance. These findings suggest that the higher the amount of profitability, the larger the probability of tax evasion by the corporation. Based on these findings, it is possible to conclude that the level of profitability is a significant element that favors corporate tax avoidance. This study shows that during the Covid-19 pandemic, entrepreneurs' motivation for tax avoidance increases. In practice, the findings of this study can serve as a guide for the government in conducting audits and urging corporate actors to comply with applicable tax rules.

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