Journal of International Conference Proceedings (JICP) Vol. 4 No. 3, 527-538, December, 2021
P-ISSN: 2622-0989/E-ISSN: 2621-993X
Https://www.ejournal.aibpm.org/index.php/JICP

The Relations between Labor Investment Inefficiency and Tax Avoidance: The Covid-19 Pandemic as a Moderating Variable

Achyar[1], Yulianti[2]
Universitas Indonesia[1,2]
Jl Prof. Dr. Sumitro Djojohadikusumo, Depok, Jawa Barat, 16424, Indonesia
Correspondence Email: achyar@ui.ac.id
ORCID ID: https://orcid.org/0000-0001-9807-5016

ARTICLE INFORMATION

Publication Information

Research Article

HOW TO CITE

Achyar., & Yulianti. (2021). The Relations between Labor Investment Inefficiency and Tax Avoidance: The Covid-19 Pandemic as a Moderating Variable. *Journal of International Conference Proceedings*, *4*(3), 527-538.

DOI: https://doi.org/10.32535/jicp.v4i3.1356

Received: 2 November 2021
Accepted: 6 December
Published: 28 December 2021

ABSTRACT

This study aims to (1) analyze the relations between labor investment inefficiency and tax avoidance and (2) whether the COVID-19 pandemic moderates the relations between labor inefficiency and tax avoidance behavior in manufacturing companies in Indonesia. By using a sample of 110 manufacturing companies listed on the Indonesia Stock Exchange (www.idx.co.id) in the 2016-2020 period and processed using the Ordinary Least Squares (OLS) method, this study finds that labor investment inefficiency has a significant negative effect on tax avoidance. Moreover, Covid-19 has also strengthened the relations between labor investment inefficiency and tax avoidance.

Keywords: Covid-19 Pandemic, Labor Investment Inefficiency, Tax Avoidance

JEL Classification: H20, H26, H29

INTRODUCTION

Tax plays an essential role and becomes the main source income for Indonesia. In In 2019, 60.76 percent of the state income is expected from tax revenue. In order to achieve the tax revenue target that has been set, one of government's effort is by extending the submission of the 2019 Corporate Income Tax Return until the end of June 2020. However, tax revenue target has always not been achieved in recent years. According to the Tax Authorities reports, tax revenue in 2019 was 8 percent lower than 2018. Compared to other industrial sectors, manufacturing sector contributes 20.8 percent to tax revenue. In January 2019, the overall tax revenue grew by 8.82 percent, but tax revenue from manufacturing sector decreased. Tax revenue which has negative growth in the manufacturing sector indicates the existence of tax avoidance behavior of companies in the manufacturing sector. One of the main reasons for companies in the manufacturing sector to avoid tax is the high operating costs of companies such as salaries or wages of labor. (Taylor et al., 2019) stated that apart from being an input for production factors, labor also plays a role as a cost for the company which is financed from the company's current income. Moreover, according to (Pinnuck & Lillis, 2007); (Jung et al., 2014), labor investment inefficiency is a consequence of the company's operational, investment and financing activities. Labor is generally financed through cash that comes from the company's operational activities, not from debt or the issuance of shares. Therefore, it is necessary to invest efficiently in labor to achieve optimal output so that could maximize revenues and profits. If the company experiences a financial distress, the company will have the motivation to involve in tax avoidance. It is also supported by previous research which said that the higher the inefficiency of the labor in a company, the greater the potential for the company to be involved in tax avoidance, (Taylor et al., 2019) and (Zheng, 2019).

The outbreak of Covid-19 pandemic since early 2020 not only disrupted the health sector, but it also disrupted the economy. Companies in various sectors are experiencing financial distress due to declining revenues. This is proved by the decline in Indonesia's economic growth in the first quarter of 2020 to 2.97 percent from the previous position of 4.9 percent in the fourth quarter of 2019. When the financial distress is experienced by the company, it caused tax avoidance rates higher, (Richardson et al., 2015). Even, the corporate taxpayers have implemented tax avoidance strategies since the 2019 fiscal year. This is due to the extended submission of the 2019 Corporate Income Tax Return until the end of June 2020. This study aims to (1) analyze the relations between labor investment inefficiency and tax avoidance, and (2) whether the COVID-19 pandemic moderates the relations between labor inefficiency and tax avoidance behavior in manufacturing firms in Indonesia.

LITERATURE REVIEW

Neoclassical Economics

This study uses agency and neoclassical economics theories. Financial distress is also used to describe the effects of the Covid-19 pandemic. In the neoclassical perspective, the core problem of economics is to manage the labor efficiently, so it is the most relevant evaluation criterion, (Boerger, 2016). Companies are required to produce a certain amount so as to produce optimal output and profit. The decrease of company's income indicates that labor investments made are inefficient (Pinnuck & Lillis, 2007). As a result, companies will tend to reduce the relatively large investment costs. One of the investments that cost money significantly is labor. However, investment in labor is also liquid and can produce maximum output (Pindyck, 1988) so that the reduction in labor will have an impact on the company's production capability. The output of the resulting production cannot be separated from the costs incurred for labor. Therefore, labor

investment inefficiency must be avoided because it can affect a company's cash flow. If the company underinvests in labor, the expected output will not be optimal so that it cannot generate maximum operating cash flow. Meanwhile, excessive investment in labor will lead to an increase in operational costs. This motivates managers to do tax avoidance in order to cover the company's cash shortage. Vice versa, investment in labor that is carried out efficiently will result in maximum company performance and reduce the potential for tax avoidance (Taylor et al., 2019). This is also supported by previous research which stated that labor investment inefficiency has an impact on the tendency of companies to avoid tax, (Balakrishnan et al., 2019). Even more specifically, overinvestment in labor is positively and significantly related to tax avoidance, (Zheng, 2019).

Agency Theory

Agency theory is used to understand the relations between principal and agent. (Deegan, 2014) revealed that there is information asymmetry between the principal and the agent. This is because the agent has more information than the principal. Information asymmetry and agency conflict are important factors affecting investment efficiency, (Zheng, 2019). The information asymmetry is then used by agents to avoid tax. (F. Chen et al., 2011) revealed that the higher the corporate tax avoidance, the lower the transparency of information. Tax avoidance also not only exacerbates the level of corporate information asymmetry, but also causes the incentive mechanism to be less optimal. Agents tend to increase the company's income by avoiding taxes so that they get incentives at the end of the year. Giving high compensation to executives can motivate executives to take riskier actions, namely reducing the tax burden that must be paid by the company through tax avoidance (Armstrong et al., 2015).

Financial Distress

The Indonesian government has begun to make policies to be able to break the chain of transmission of Covid-19 by implementing social distancing, physical distancing and Work Form Home (WFH) since early March 2020 (WHO, 2020). This policy resulted in a decrease in community activities which also resulted in a decrease in company income. According to (Platt & Platt, 2002) financial distress is the stage of decline in the financial condition of a company that occurred before bankruptcy or liquidation. Financial distress occurs because the company is not able to manage and maintain the stability of the company's financial performance which stems from the failure to promote the products. It causes a decrease in sales resulted in the decreased revenue. From a small revenue, it allows the company to experience operating and net losses for the current year (Brahmana, 2007). During the global financial crisis, access to external finance will be difficult to obtain (Edwards et al., 2013). Previous research stated that companies experiencing financial distress is significantly associated with tax avoidance, (Richardson et al., 2015). (C. Chen & Lai, 2012) also revealed the same thing, namely that companies experiencing financial distress were involved in higher tax avoidance than those who were not. Meanwhile, (Law & Mills, 2015) said that financial distress made companies do more aggressive tax planning.

Therefore, this study propose the following hypotheses:

H1. The higher the labor inefficiency, the higher the level of corporate tax avoidance.

H2. The COVID-19 pandemic has strengthened the influence of the inefficiency of labor investment on tax avoidance.

RESEARCH METHOD

Sample Selection and Data Source

This study uses panel data to accommodate a larger number of observations and also for a longer time span. The data is sourced from the Thomson Reuters Eikon database and Annual Report. The research samples are all manufacturing companies listed on the Indonesia Stock Exchange from 2016-2020. Manufacturing companies were chosen because they are the sector that absorbs the largest workforce in Indonesia so that the effects of labor investment inefficiency will be more visible. This study uses a purposive sampling technique for data collection where the population to be sampled must meet predetermined criteria. Companies in the mining, shipping, construction, real estate, and property industries were excluded from this study because they used special tax regulations. Companies that were delisted from the stock exchange in 2016-2020 were also excluded from this study. The final sample of this research is 550 samples with details of 110 companies that will be tested using data for 5 years.

Table 1. Sample Description

Description	Obs
Manufacturing companies listed on the IDX 2016-2020	281
Reduced the existing companies in the following sectors:	
• Mining Industry	47
• Construction, real estate, and property industries	65
• Shipping Industry	17
Reduced the company with the following criteria:	
• Earnings before tax is negative	36
• Do not have data on the number of workers	0
• Delisting from IDX in 2016-2020	6
Total companies	110
Research year (2016-2020)	5
Final samples	550

Dependent Variable

The dependent variable of this research is Tax Avoidance (TA). Researchers use the Current Effective Tax Rate (Current ETR) to measure the level of tax avoidance. According to (Salihu et al., 2013), Current ETR can be used to detect tax deferral strategies. Previous studies such as (Taylor et al., 2019) used the GAAP ETR to measure the level of tax avoidance. However, GAAP ETR cannot detect deferred tax expense, (Dyreng et al., 2008), (Hanlon & Heitzman, 2010). The results of calculating tax avoidance using GAAP ETR can also be influenced by accounting estimates so that temporary differences arise between commercial and fiscal. The use of pre-tax income as the denominator also causes the GAAP ETR to be unable to detect the tax effect of interest deductions (Hanlon & Heitzman, 2010). This study also considers Cash ETR as a tool to measure the level of tax avoidance. However, the taxes presented in the company's cash flow are not entirely corporate income taxes, but there are other elements such as customs duties and deferred taxes so that the research results are not strong. This is also supported by the statement (Zimmerman, 1983) that there should be an adjustment to deferred tax.

Independent Variable

The labor investment inefficiency which is the independent variable in this study is measured using net hire. Labor investment inefficiency is the use of human resources in a certain numbers that makes the output not optimal. This study uses a model developed by (Pinnuck & Lillis, 2007) and also used in research (Jung et al., 2014), and (Taylor et

al., 2019) as a proxy for labor investment by calculating the number of labor recruitment (NET_HIRE_{it}) as reflected in the change in its labor. NET_HIRE_{it} is the regression result of the percentage change in the labor obtained from several variables that can detect the company's economic condition fundamentally.

NET_HIRE_{it} has a positive relations with sales growth ($SALES\_GROWTH_{it-1}$, $SALES\_GROWTH_{it}$), profitability (ΔROA_{it}), stock returns ($RETURN_{it}$), firm size ($SIZE_{it-1}$) and liquidity ($QUICK_{it-1}$, $QUICK_{it-1}$). This positive relations shows that managers' decisions to recruit workers are influenced by increased demand for products and services, higher profits, higher future demand, firm size, and better liquidity. Among these variables that influence a manager to recruit workers, sales growth is the most influential variable (Jung et al., 2014). This study also expects a negative relationship between NET_HIRE_{it} and changes in profitability for the year (ΔROA_{it-1}, ROA_{it}) and losses (all LOSSBIN variables). (ΔROA_{it-1}, ROA_{it}) and all LOSSBIN variables are used to control for the effect of demand for other firms' products and services on the manufacturing industry in the past and present. NET_HIRE_{it} will increase if the sales growth of other companies in the manufacturing industry decreases and vice versa. This study does not make predictions related to changes in current year liquidity ($\Delta QUICK_{it}$) or leverage (LEV_{it-1}) because there are potential competitive effects. For example, the relationship between changes in liquidity for the year and changes in net hiring in the same year could be negative because an increase in hiring could increase the burden of salaries and wages. This study also includes the variable $OTHER\_INVEST_{it-1}$ to mitigate the correlation between labor investment and non-labor investment, such as capital expenditure and R&D costs. This is because companies usually increase labor investment and non-labor investment at the same time. $OTHER\_INVEST_{it-1}$ is the sum of capital expenditures, acquisitions, and R&D expenditures, less cash receipts from the sale of property, plant and equipment, which is scaled by lagged total assets in year t-1. The coefficient $OTHER\_INVEST_{it-1}$ is estimated to be positively and significantly associated with NET_HIRE_{it}. To improve the quality of the NET_HIRE_{it} calculation results, this study also uses alternative proxies to calculate expected net hiring in sensitivity analysis.

The inefficiency of labor investment in this study is abnormal net hiring ($AB\_NET\_HIRE_{it}$) which is also the independent variable of this study. $AB\_NET\_HIRE_{it}$ is used to calculate workforce inefficiency because it can represent the difference between the actual change in the number of employees and the change in the ideal number of employees as generated from the analysis of fundamental economic factors with the formula abnormal net hiring = actual net hiring – expected net hiring. Labor investment efficiency in this study is expressed as LIE (Labor Investment Efficiency). The LIE value is obtained from the abnormal change in net hiring ($AB\_NET\_HIRE_{it}$) multiplied by -1. Abnormal net hiring is the absolute value of the residual regression between actual net hiring and expected net hiring according to the model developed by (Pinnuck & Lillis, 2007) which was also used in research (Jung et al., 2014) and (Taylor et al., 2019) as follows:

$$NET\_HIRE_{it} = \alpha_{0it} + \beta_1 SALES\_GROWTH_{it-1} + \beta_2 SALES\_GROWTH_{it} + \beta_3 \Delta ROA_{it} + \beta_4 \Delta ROA_{it-1} + \beta_5 ROA_{it} + \beta_6 RETURN_{it} + \beta_7 SIZE\_R_{it-1} + \beta_8 QUICK_{it-1} + \beta_9 \Delta QUICK_{it-1} + \beta_{10} \Delta QUICK_{it} + \beta_{11} LEV_{it-1} + \beta_{12} OTHER\_INVEST_{it-1} + \beta_{13} LOSSBIN1_{it-1} + \beta_{14} LOSSBIN2_{it-1} + \beta_{15} LOSSBIN3_{it-1} + \beta_{16} LOSSBIN4_{it-1} + \beta_{17} LOSSBIN5_{it-1} + \varepsilon_{it} \quad (1)$$

Where: NET_HIRE_{it} is the percentage change in the number of employees; $SALES\_GROWTH_{it}$ is the percentage change in sales (total revenue); ROA_{it} is the Return on Assets calculated by (net income/lag(total assets)); ROA_{it} is the Change in Return on Assets in year t in company i; ROA_{it-1} is the Change in Return on Assets; $RETURN_{it}$ is the total return on shares during the fiscal year; $SIZE\_R_{it-1}$ is the log of the

market value of equity at the beginning of the ranking year into percentiles; $QUICK_{it-1}$ is the Quick ratio ((cash+account receivable)/current liabilities; $QUICK_{it-1}$ is the percentage change in the quick ratio at the end of t-1; $QUICK_{it}$ is the percentage change in the quick ratio; LEV_{it-1} is the ratio of total liabilities to total assets at the beginning of the year; $OTHER\_INVEST_{it-1}$ is the sum of capital expenditures, acquisitions, and R&D expenditures, minus cash receipts from the sale of property, plant and equipment, which is scaled by lagged total assets; $LOSSBIN_{it-1}$ is five dummy variables showing every 0.005 interval ROA from 0 to 0.025.

A positive result of residual actual net hiring minus expected net hiring, indicates overinvestment, while a negative result will indicate underinvestment. This study only considers the absolute value of the residual actual net hiring and expected net hiring, so that the positive or negative values have no effect. If $AB\_NET\_HIRE_{it}$ is getting smaller, then the company will be more efficient in investing in labor.

Control Variable
This study uses several control variables to ensure that the regression results between labor investment inefficiency and tax avoidance are not influenced by other factors that cannot be explained in the research model. Consistent as previous research conducted by (Rego, 2003), (S. Chen et al., 2010), (Agnes Cheng et al., 2012), and (McGuire et al., 2012), this study uses firm size ($SIZE_{it}$), leverage (LEV_{it}), cash balance ($CASH_{it}$), return on equity (ROE_{it}), and sales growth ($SALES\_GROWTH_{it}$) as control variables.

SIZE is used as a control variable because large companies usually get economic benefits from the results of tax planning carried out (Rego, 2003). Meanwhile, LEV is included as a control variable because companies with high leverage have a greater incentive to engage in tax avoidance (Gupta & Newberry, 1997). Cash is used to determine the company's cash needs that have the potential to be an incentive to avoid tax (McGuire et al., 2012). While ROE is used to determine the company's financial performance (Agnes Cheng et al., 2012). Sales growth is used as a control variable because companies with very fast growth have the potential to engage in tax avoidance practices (McGuire et al., 2012).

Research Model
This study uses STATA SE 14 to perform calculations and analyze the research data. The data is then processed using Ordinary Least Square Regression (OLS) to examine the impact of the independent variable on the dependent variable. The regression model used is as follows:

$$TA_{it} = \alpha_{0it} + \beta_1 AB\_NET\_HIRE_{it} + \beta_2 COVID\text{-}19_{it} + \beta_3 AB\_NET\_HIRE_{it} * COVID\text{-}19_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 CASH_{it} + \beta_7 ROE_{it} + \beta_8 SALES\_GROWTH_{it} + \varepsilon_{it} \quad \text{.....} \quad (2)$$

RESULTS

Descriptive Statistics
Descriptive statistical analysis was conducted to provide an overview of the research data that can be seen from the average value (mean), standard deviation, variance, maximum and minimum. Table 2 contains descriptive statistics of the variables used in this study.

Table 2. Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Current ETR	0.2202366	0.127941	0.0000499	1.102627
Abnethire	0.2359415	0.8054303	0.0000005	17.84503
Covid-19	0.2040816	0.4034033	0	1
Abnethirexcovid19	0.0170369	0.0540235	0	0.5609174
Cash	0.1222306	0.1163776	0.0008642	0.6518638
ROE	-0.0080744	2.156283	-49.65713	1.307616
Salesgrowth	0.0416945	0.1934087	-.6951419	1.101892
Size	29.09515	1.533261	25.66354	33.49453
Leverage	0.4715382	0.1983019	0.0650551	0.9895793

The current ETR variable which is the dependent variable of this study has an average value of 0.2202366. This means that the companies in the research sample avoid tax because the average value is below the statutory tax rate of 25%. This variable also has a standard deviation of 0.127941, which means that the distribution of the data to the average value is not wide. The variable Current ETR has a max value of 1.102627 because the company PT Astra Otoparts Tbk has a share in joint venture losses. In 2019, PT Astra Otoparts Tbk recorded a profit on joint ventures of 522,555,000,000, while in 2020 there was a very sharp decline that recorded a loss on joint ventures of 76,932,000,000. The sharp decline in income caused pre-tax income to be greater than the current tax burden so that the max value increased to 1.102627.

The independent variable of this study is the inefficiency of labor investment which is calculated using abnormal net hiring (Abnethire). This variable has an average value of 0.2359415. This value indicates that the average company in the research sample invests labor inefficiently at 0.2359415. However, there are also companies that are close to efficient in labor investment. This can be seen from the minimum value of 0.0000005. This value indicates that there are companies that are close to efficient in investing in labor. The higher the value of the absentee variable, both in the form of minus and plus, indicates that the company is increasingly inefficient in investing in manpower. Conversely, if the minimum value is zero or close to zero, then the company is efficient in investing in labor. The standard deviation value of the Abnethire variable is 0.8054303, indicating that the data distribution is no outlier. The maximum value of 17,84503 came from PT Island Concepts Indonesia Tbk which reduced employees in 2018 to 516 from the previous year of 1483 employees.

The moderating variable in this study is Covid-19. This variable is calculated using a dummy variable. A value of 1 represents the Covid-19 period, which is 2020 while a value of 0 represents a year that is not affected by Covid-19. The average value of the Covid-19 variable is 0.2040816.

This study used several control variables which were also used in previous studies. The first control variable used in this study is cash. Cash value is obtained from the company's total cash divided by total assets. This variable has an average value of 0.1222306 and a standard deviation of 0.1163776. The next control variable is Return on Equity (ROE). The ROE value is obtained from the operating income value divided by the book value. This variable has an average value of -0.0080744 and a standard deviation of 2.156283. Sales growth is also used as a control variable which has an average value of 0.0416945 and a standard deviation of 0.1934087. This variable is calculated by the value of sales growth in the current period minus the sales growth of the previous period and divided by the value of the sales growth of the previous period. Another control variable is the size which has an average value of 29.09515 and a

standard deviation of 1.533261. Variable Size is calculated with the natural log of the market value. The last control variable is leverage (lev). This variable is calculated by the number of current liabilities plus long-term debt and divided by total assets. This variable has an average value of 0.4715382 and a standard deviation of 0.1983019. Overall, the average value and standard deviation of each variable used in this study were quite good and were able to describe the data as a whole.

Model Feasibility Test

The model feasibility test was conducted to measure the accuracy of the function of the regression model so that it could predict the actual value statistically. P-value < 0.05 indicates that the research model is feasible to use. On the other hand, if the P-value > 0.05, the research model is not feasible to use. From table 3, it can be seen that the P-value <0.05, which means that the research model can be used. The value of R2 in this study shows the number 0.0363. This means that the dependent variable can be explained by 3.63% by the independent and control variables. While other variables are not included in the model

Regression Results

a. The Relations between Labor Inefficiency and Tax Avoidance

After conducting the F-test, this study further tested the coefficient of determination. The test was conducted to determine the degree of variation of the labor investment inefficiency variable which can be explained by the tax avoidance variable and the control variable in this study. Table 4.3 shows the R-square value of 0.0261 which means that the independent variable and control variable can explain the dependent variable by 2.61%, and the rest is explained by other variables not included in this research model.

Table 3. Regression Results

Dependen Variable (Tax Avoidance)	Coef	Prob
Abnethire	-0.0051344	0.032**
Covid-19	-0.0061547	0.716
Abnethire x Covid-19	-0.1305741	0.089*
Cash	0.0426303	0.529
ROE	0.0043671	0.000***
Salesgrowth	0.0060611	0.853
Size	0.0040961	0.446
Leverage	-0.0469612	0.363
R2	0.0261	
Prob > Chi2	0.0000	

* Significant at α 10%
** Significant at α 5%
*** Significant at α 1%

Note: **Tax avoidance** = calculated by Current ETR; **Abnethire** = absolute value of residual regression actual net hiring and expected net hiring; **Covid-19** = dummy variable, 1 for the Covid-19 period and 0 for the non-Covid-19 period; **Abnethirexcovid-19** = abnormal net hire and Covid-19 interaction variables; **Cash** = Cash and marketable securities compared to total assets; **ROE** = Company's operating income compared to book value of equity; **Salesgrowth** = percentage change in sales; **Leverage** = Total debt compared to total assets

Furthermore, a t-test was conducted to see the impact of the independent variable on the dependent variable. Table 4.3 shows the t-statistic probability value of 0.032 with a variable coefficient value of -0.0051344. The t-statistic value which is smaller than the alpha value of 0.05 indicates that absnethire has a significant negative relationship with

tax avoidance. This indicates that companies with a higher level of labor inefficiency have a smaller current ETR value. In other words, labor inefficiency is associated with higher levels of tax avoidance. Each addition of 1% abnethire value will increase tax avoidance by 0.0051344. The results of this study are in line with previous studies such as (Taylor et al., 2019), and (Zheng, 2019). Both studies found that investment inefficiency in labor resulted in higher levels of tax avoidance. The results of the study (Taylor et al., 2019) show that the inefficiency of labor investment has an effect of 0.037 on tax avoidance.

The results of this study are in accordance with the theory used. According to neoclassical economic theory, the inefficiency of labor investment has an impact on the company's ability to continue to run (Veblen, 1900). Investing in an inefficient workforce will have an impact on reduced company revenues and profits so that companies fail to meet expenditure needs such as paying salaries, interest, and also taxes. If this happens, then the company will have an incentive to engage in money-saving behavior and one way is through tax avoidance practices.

Meanwhile, agency theory which is also used in this study shows that it is necessary to separate the management of the company from the owner. In this relationship, the manager has more information about the company than the owner of the company so that information asymmetry arises, which is a situation where there are parties who have more information from outside parties so that it benefits them (Deegan, 2014). Information asymmetry is then used by managers to take actions that can benefit them. One of the expected benefits is getting compensation. The results of this study indicate that labor inefficiency affects the company's decision to do tax avoidance. When the company is not efficient in investing in labor, the company's income and profits will also decrease so that management has an incentive to increase company profits in order to get compensation from the company owner. On the other hand, company owners also seek to compensate management to act in accordance with their wishes so as to maximize the value of the company (Dyreng et al., 2008). However, the provision of high compensation can motivate executives to take riskier actions, namely reducing the tax burden that must be paid by the company through tax avoidance measures (Armstrong et al., 2015). Other research also reveals that providing additional incentives to corporate executives makes executives willing and motivated to engage in risky activities, namely carrying out tax strategies with the aim of meeting shareholder expectations (Ohnuma, 2014).

The control variable ROE shows a significant positive relationship to the Current ETR. The greater the ROE value, the lower the level of tax avoidance. While other variables, namely cash, sales growth, size, and leverage are not related to current ETR so that these variables have no effect on tax avoidance.

b. The Effect of the Covid-19 Pandemic on the Relationship between Labor Investment Inefficiency and Tax Avoidance

Just like testing the first hypothesis which first tested the right type of regression model, testing the effect of the Covid-19 pandemic on the relationship between labor investment inefficiency and tax avoidance also tested the model used. Table 4.3 shows the F-test value of 0.0000. This value is smaller than the P-value of 0.05, indicating that the research model is feasible to use. Furthermore, the coefficient of determination is tested. The R2 value of 0.0261 indicates that the dependent variable, namely tax avoidance moderated by Covid-19 and the control variable, can explain the variation of the independent variable by 2.61%, and the rest is explained by other variables not included in this study.

After the determination test has been completed, then a t-test is carried out to see the impact of the moderating variable on the relationship between labor investment inefficiency and tax avoidance. The probability value of the Covid-19 variable t-statistic is 0.716 and the coefficient is -0.0061547. A t-statistic value greater than 0.05 indicates that Covid-19 is not associated with tax avoidance. However, the interaction variable, namely Abnethirexcovid-19, has a t-statistic value smaller than 0.05, which is 0.089. This shows that the Covid-19 variable which is a pure moderator in this study strengthens the relationship between labor investment efficiency and tax avoidance. In other words, the effect of Covid-19 exacerbates the relationship of labor investment inefficiency to tax avoidance.

When Covid-19 began to hit Indonesia, the government made policies aimed at breaking the chain of Covid-19 spread such as Large-Scale Social Restrictions (PSBB), physical distancing, and also Work From Home (WFO). These policies have an impact on reducing community mobility, purchasing power, and also economic activity. This then resulted in reduced company income. The company's declining revenue due to the impact of Covid-19 has made the company experience financial difficulties. According to (Brahmana, 2007), financial difficulties are the impact of the company's inability to manage and maintain the stable financial performance that stems from the failure to promote the product, causing a decrease in sales and an impact on operating losses and net losses for the current year. The financial difficulties experienced by the company due to the decline in the company's economic and financial conditions resulted in an increased risk of bankruptcy. These conditions have an impact on increasing the potential of companies to engage in tax avoidance practices so that companies can continue to run (Brondolo, 2009), and (Campello et al., 2012). The global financial crisis has also made access to external finance difficult to obtain. Therefore, companies will look for the cheapest internal funding sources and this can be obtained from tax savings practices (Edwards et al., 2013).

The financial difficulties experienced by companies due to the Covid-19 pandemic were also exacerbated by investment in an inefficient workforce. The number of workers who are not ideal causes the company to be unable to maximize the production capacity and also the sales of the products they produce. As a result, the company's revenue is reduced. The Covid-19 pandemic, which has an impact on purchasing power and economic activity, has further exacerbated the financial condition of companies that are inefficient in investing in manpower. To mitigate the possibility of bankruptcy, companies experiencing financial difficulties tend to do tax avoidance. This is in accordance with previous research which says that companies experiencing financial difficulties are more involved in tax avoidance practices than those that are not experiencing financial difficulties (C. Chen & Lai, 2012). Financial difficulties make companies do more aggressive tax planning (Law & Mills, 2015).

DISCUSSION

The results of this study indicate that there are tax avoidance actions when companies invest in labor inefficiently. Meanwhile, Covid-19 does not have a different effect for companies that are affected and those that are not. To improve the quality of the results of this study, further research is needed so that it can provide stronger evidence about tax avoidance by companies that over or underinvest in labor.

CONCLUSION

This study aims to prove that labor investment inefficiency is related to tax avoidance and that Covid-19 moderates this relationship. The research objects are all

manufacturing companies listed on the Indonesia Stock Exchange from 2015-2020. By using panel data of 110 companies, this study succeeded in proving that labor investment inefficiency has a negative effect on tax avoidance. This means that hypothesis 1 is accepted. If the labor investment made by the company is increasingly inefficient, the level of tax avoidance will be higher. The Covid-19 pandemic which is a moderating variable is calculated using a variable. The results of the study prove that Covid-19 also has a negative effect on the relationship between labor investment inefficiency and tax avoidance. This means that the Covid-19 Pandemic strengthens the relationship. When companies experience a financial crisis caused by Covid-19, the incentive to avoid tax is even greater.

LIMITATION

This research has several limitations as follows:

a. This study only uses samples from manufacturing companies so that the research results cannot be generalized. Further research is expected to include all companies from various industrial sectors.
b. This study only uses Current ETR as a proxy to calculate tax avoidance. Further research should be able to use various other proxies so that the research results become stronger.

ACKNOWLEDGMENT

This research is one of the requirements for graduation from the master of science accounting program at the University of Indonesia. I would like to thank Mrs. Yulianti, PhD as the supervisor of this research who has contributed a lot to the completion of this thesis.

DECLARATION OF CONFLICTING INTERESTS

Researchers do not have any interest with parties related to this research such as government and companies in the manufacturing sector. This research was conducted independently and can be accounted for.

REFERENCES

Agnes Cheng, C. S., Huang, H. H., Li, Y., & Stanfield, J. (2012). The effect of hedge fund activism on corporate tax avoidance. *Accounting Review*, *87*(5), 1493–1526. https://doi.org/10.2308/accr-50195

Armstrong, C. S., Blouin, J. L., Jagolinzer, A. D., & Larcker, D. F. (2015). Corporate governance, incentives, and tax avoidance. *Journal of Accounting and Economics*, *60*(1), 1–17. https://doi.org/10.1016/j.jacceco.2015.02.003

Balakrishnan, K., Blouin, J. L., & Guay, W. R. (2019). Tax aggressiveness and corporate transparency. *Accounting Review*, *94*(1), 45–69. https://doi.org/10.2308/accr-52130

Boerger, L. (2016). Neoclassical economics. *Exploring Economics*, *18*.

Brahmana, R. K. (2007). *Identifying Financial Distress Condition in Indonesia Manufacture Industry*. 1–19.

Chen, C., & Lai, S. (2012). Financial Constraint and Tax Aggressiveness. *Working Paper, University of Auckland*, 1–41.

Chen, F., Hope, O. K., Li, Q., & Wang, X. (2011). Financial reporting quality and investment efficiency of private firms in emerging markets. *Accounting Review*, *86*(4), 1255–1288. https://doi.org/10.2308/accr-10040

Chen, S., Chen, X., Cheng, Q., & Shevlin, T. (2010). Are family firms more tax aggressive than non-family firms? *Journal of Financial Economics*, *95*(1), 41–61. https://doi.org/10.1016/j.jfineco.2009.02.003

Deegan, C. M. (2014). *Financial Accounting Theory* (4th ed.). McGraw-Hill Education

(Australia).

Dyreng, S. D., Hanlon, M., & Maydew, E. L. (2008). Long-run corporate tax avoidance. *Accounting Review*, *83*(1), 61–82. https://doi.org/10.2308/accr.2008.83.1.61

Gupta, S., & Newberry, K. (1997). Determinants of the variability of corporate effective tax rates: Evidence from Longitudinal Data. *Journal of Accounting and Public Policy*, *50*, 113–131. https://doi.org/10.2753/REE1540-496X5004S4007

Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, *50*(2–3), 127–178. https://doi.org/10.1016/j.jacceco.2010.09.002

Jung, B., Lee, W. J., & Weber, D. P. (2014). Financial Reporting Quality and Labor Investment Efficiency. *Contemporary Accounting Research*, *31*(4), 1047–1076. https://doi.org/10.1111/1911-3846.12053

Law, K. K. F., & Mills, L. F. (2015). Taxes and Financial Constraints: Evidence from Linguistic Cues. *Journal of Accounting Research*, *53*(4), 777–819. https://doi.org/10.1111/1475-679X.12081

McGuire, S. T., Omer, T. C., & Wang, D. (2012). Tax avoidance: Does tax-specific industry expertise make a difference? *Accounting Review*, *87*(3), 975–1003. https://doi.org/10.2308/accr-10215

Pindyck, R. S. (1988). Irreversible Investment , Capacity Choice , and the Value of the Firm. *The American Economic Review*, *78*(5), 969–985.

Pinnuck, M., & Lillis, A. M. (2007). Profits versus losses: Does reporting an accounting loss act as a heuristic trigger to exercise the abandonment option and divest employees? *Accounting Review*, *82*(4), 1031–1053. https://doi.org/10.2308/accr.2007.82.4.1031

Platt, H. D., & Platt, M. B. (2002). Predicting corporate financial distress: Reflections on choice-based sample bias. *Journal of Economics and Finance*, *26*(2), 184–199. https://doi.org/10.1007/bf02755985

Rego, S. O. (2003). Tax Avoidance of U.S. Multinational Corporations. *Contemporary Accounting Research*, *20*, 805–833.

Richardson, Taylor, G., & Lanis, R. (2015). The impact of financial distress on corporate tax avoidance spanning the global financial crisis: Evidence from Australia. *Economic Modelling*, *44*, 44–53. https://doi.org/10.1016/j.econmod.2014.09.015

Salihu, I. A., Obid, S. N. S., & Annuar, H. A. (2013). Measures of corporate tax avoidance: Empirical evidence from an emerging economy. *International Journal of Business and Society*, *14*(3), 412–427.

Taylor, G., Al-Hadi, A., Richardson, G., Alfarhan, U., & Al-Yahyaee, K. (2019). Is there a relation between labor investment inefficiency and corporate tax avoidance? *Economic Modelling*, *82*(September 2018), 185–201. https://doi.org/10.1016/j.econmod.2019.01.006

WHO. (2020). *Coronavirus Disease 2019 (COVID-19) Situation Report - 2* (Vol. 2, Issue April).

Zheng, M. (2019). *Tax Avoidance Activities and Investment Efficiency*. *334*(Hsmet), 330–335. https://doi.org/10.2991/hsmet-19.2019.59

Zimmerman, J. L. (1983). TAXES AND FIRM SIZE * Previous accounting studies hypothesized that large firms are subjected to greater government scrutiny and wealth transfers than smaller firms and therefore to reduce these political costs , large firms choose income reducing account. *Journal of Accounting and Economics*, *5*(June), 119–149.