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Tax Avoidance During a Pandemic

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ABSTRACT

This research empirically want proves that leverage and transfer pricing affect tax avoidance. The phenomenon of tax revenue from the mining sector has been volatile for the past five years so mining companies become the object of research with a research period of 2019 to 2021. This research uses quantitative methods with a causal relationship approach. The sampling technique is purposive sampling by setting several criteria. Based on the established criteria obtained, a sample of 16 companies with the number of data processed was 48 data. The data were analyzed using multiple regression analysis tools with the help of the SPSS 27 application. The results showed that leverage and transfer pricing do not influence tax avoidance. This is due to the research period used by the Covid-19 pandemic which caused restrictions on activities by the government and had an impact on low tax avoidance activities.

Keywords: Leverage; Transfer Pricing; Tax Avoidance; Mining Sector; Pandemic.

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INTRODUCTION

Taxes are a source of revenue for Indonesia that finances government administration (Noviyani & Mu'id, 2019). However, taxpayers in Indonesia do not welcome tax collection (Cahyono et al., 2016). The tax to be paid tends to be reduced by the taxpayer (Ramdhani et al., 2021). Taxpayers who consider taxes as a burden will try to minimize the cost of taxes paid both legally and illegally (Sari et al., 2020). One of the efforts to minimize tax paid is tax avoidance.

Tax avoidance is one way for companies to minimize taxes owed by not going against tax provisions, but taking advantage of gray area provisions (Ramdhani et al., 2021). For companies, tax avoidance is an effort to minimize the cost of taxes paid and increase the company's cash flow. However, for the state, tax avoidance makes the state lose potential tax revenue (Gazali et al., 2020). During the Covid-19 pandemic, many companies faced cash flow constraints for the continuity of their business. The COVID-19 pandemic requires companies to develop and set strategies to save and make money. This condition causes the company as a taxpayer to make transfer pricing (Navarro, 2020). Transfer pricing is a transaction between the parties that is related to setting a reasonable price as part of business and taxation activities (Utari et al., 2019). Transfer pricing is a tax avoidance tool used by multinational companies. More and more multinational companies are showing that there are more and more international investment and trade transactions. A large number of international transactions will have an impact on increasing transfer pricing manipulation which means an increase in tax avoidance (Irawan et al., 2020).

There are differences in research that uses the independent transfer pricing variable. Previous research by Ramdhani et al (2021) stated that transfer pricing affects tax avoidance. This means that the more transactions that occur between affiliated companies, the more influential the tax avoidance will be. Research by Amidu et al (2019) supports research by Ramdhani et al (2021). The results of research by Amidu et al (2019) show that transfer pricing affects tax avoidance. Multinational companies carry out transfer pricing to avoid taxes paid. In contrast, the research by Napitupulu et al (2020) and Nadhifah & Arif (2020) show that transfer pricing has not to affect tax avoidance.

The manager of the company who powers the company for decision-making as an agent has an interest in maximizing his profits with the policies issued, including the leverage policy. The policies taken by the company will affect the level of tax avoidance that occurs in determining the company's financing in the form of debt or leverage. Leverage can also be interpreted as the ratio of debt owed used in financing activities of the enterprise (Mahdiana & Amin, 2020). Companies can choose funding with debt because of interest costs as a tax shield so that the company's tax burden becomes smaller. The greater the leverage ratio of the company will increase the interest charges, thereby increasing the tax avoidance (Gazali et al., 2020).

In line with the Trade-off theory by Modigliani & Miller (1958) assumed that the company would maximize its value of the company through the use of debt to some degree. As a result of the use of debt, there are tax benefits. The use of debt causes interest charges that must be paid on a fixed basis. Large interest charges will minimize the profit of the company so that the tax paid by the company becomes small.

There is a research gap regarding the results of the study using leverage as an independent variable. Previous research conducted by Gazali et al (2020) stated that leverage has a significant effect on tax avoidance. Meanwhile, research by Arianandini & Ramantha (2018) shows that leverage does not have a significant effect on tax avoidance.

According to the finance ministry, mining is a sector whose tax revenue growth has fluctuated over the past five years. This can be seen in the chart below:

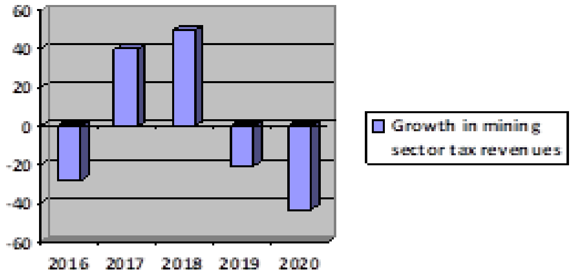

Figure 1. Growth of Revenues of Added Tax 2016-2020

From the chart above, it can be seen that in 2016 from the mining sector the growth of tax revenues was -28%, and in 2017 there was an increase in tax revenue growth of 40.2%. Then in 2018, it experienced an increase in tax revenue growth to 49.4%. In 2019 tax revenues from the mining sector decreased to -20.6% and in 2020 the decrease in tax revenues again decreased to -43.7%. This phenomenon reflects the low level of compliance and awareness of taxpayers in the mining sector, so in the end, it has a huge impact on tax revenues in the mining sector.

In this study, there are differences from previous studies such as the research of (Gazali et al., 2020). First, in addition to the leverage variable, researchers add another variable, namely transfer pricing. The reason is that transfer pricing is a special selling price between related companies to divert company revenue (Nadhifah & Arif, 2020). So related companies often apply transfer pricing as a tax avoidance tool. Second, the object of this study is a mining company with a new period and sample year, namely 2019 to 2021. The year of the sample was taken during the Covid-19 pandemic because researchers wanted to see if during the pandemic the company did tax avoidance. Third, the existence of a research gap from the results of the study that uses leverage and transfer pricing as independent variables against tax avoidance as dependent variables which is the opposite of some researchers as previously mentioned is the reason, these two variables are to be re-examined. This study aims to empirically prove that leverage and transfer pricing affect tax avoidance.

LITERATURE REVIEW

Leverage against Tax Avoidance.

Leverage is the relationship between total assets and ordinary share capital or indicates the use of debt to increase profits. The Leverage Ratio shows a company's financing of debt reflecting the higher interest expense due to debt. Therefore, the higher the leverage ratio, the higher the interest expense due to debt which has an impact on the

small profit received by the company. So, companies will use high leverage ratios for tax avoidance practices (Dewinta & Setiawan, 2016). This is in line with the trade-off theory by Modigliani & Miller (1958) who said that companies would use leverage to some degree to maximize the value of the company due to the tax benefits due to the use of leverage. Factors can save companies in paying taxes because debts give rise to interest payments that will reduce the amount of taxable income. Research conducted by Gazali et al (2020) states that leverage has a positive effect on tax avoidance. The higher the leverage ratio, the higher the tax avoidance practice.
H1: Leverage affects tax avoidance

Transfer Pricing and Tax Avoidance.
Transfer pricing is the price determined by a company to be used in transactions between members of a group of companies, where the specified transfer price can deviate from the fair market price as long as it is appropriate for the group (Ramdhani et al., 2021). According to Herianti & Chairina (2019), management uses transfer pricing, either through transactions with special parties (Related Party Transaction), transfer of profits to business groups that have suffered losses, or making transactions to companies in tax-free countries or tax rates the usual low called tax haven country. Therefore, the more transfer pricing activity, the higher the tax avoidance activity.
H2: Transfer pricing influences tax avoidance

RESEARCH METHOD

This study uses quantitative research methods to test causal relationships. The data used is the annual report from mining companies during 2019-2021. Samples are taken based on established criteria. Therefore, according to the existing sample criteria, 16 companies meet the criteria with the number of data processed being 48. The data is taken from the annual report of the company.

This study used tax avoidance as a dependent variable. The business used by mining companies to minimize the taxes paid to the government is tax avoidance. In this study, tax avoidance proxies were measured using Cash Effective Tax Rate (CETR) proxies. CETR is defined as the ratio of the total tax burden of a company to the total income before tax of accounting income to know how much the percentage of change in paying taxes is against the commercial profit earned. As small as the value of CETR, tax avoidance is higher, and vice versa.

Leverage is a financial ratio that shows a comparison between debt and capital. Leverage is measured using the debt-to-equity ratio (DER). Transfer pricing is a transaction that occurs between related companies. Transfer pricing can be measured by the number of receivables that occur between parties related to total receivables. Transfer pricing measurement based on research (Ramdhani et al., 2021).

Multiple regression analysis is used to analyze data with the help of SPSS 27. Before conducting multiple regression analysis, a test of classical assumptions is carried out. Classical assumption tests are necessary to obtain the best unbiased linear estimator. For this reason, in hypothesis testing, it must be avoided the occurrence of deviations in classical assumptions. The relationship between independent variables and dependent variables can be described through the following linear regression equation:

$$Y = a + b1X1 + b2X2 + e$$

Where:
Y = Tax avoidance
a = Constant
b = Regression coefficient
X1 = Leverage
X2 = Transfer pricing
e = error

RESULTS

This research has met the classical assumption test so that it can be continued on the hypothesis test. The data is taken from the annual report of mining companies through www.IDX.co.id. The number of processed data is 48.

The descriptive statistical results of each independent variable and dependent variable, namely leverage, transfer pricing, and tax avoidance presented in table 1 are as follows:

Table 1 Descriptive Statistics with Data Count 48

Construct	Min	Max	M	SD
Leverage	0.10	1.95	0.72	0.52
Transfer Pricing	0.00	0.96	0.21	0.29
Tax Avoidance	0.06	6.16	0.40	0.86

(Source: SPSS 27 Processed Results)

From table 1, it can be seen that the minimum values, maximum, average or mean, and standard deviations of the variables in this study are as follows. The lowest value of the leverage variable with a data count of 48 is 0.10 on PT. Harum Energy, Tbk, and the highest value of variable leverage is 1.95 on PT. Radiant Utama Interinsco, Tbk. The average leverage with 48 data amounts is 0.72 with a standard deviation of 0.52. Thus, there is no data deviation for the leverage variable.

The transfer pricing variable has the lowest value of 0.00 in several companies and the highest value is 0.96 in Myoch Technology, Tbk. The value of rata-average transfer pricing is 0.21. The standard deviation value is 0.29. Thus, the data on the transfer pricing variable does not occur deviations because the standard deviation value is low and does not differ much from the average value of the variable.

The minimum value of the tax avoidance variable with the amount of data 48 is 0.06 and the highest value is 6.16. Tax avoidance has an average value of 0.40, with a standard deviation of 0.86. Thus, there is no data deviation for the tax avoidance variable because the standard deviation value is still low and does not differ much from the average value of the variable.

Hypothesis Testing Results

This statistical test is carried out to examine the influence of leverage and transfer pricing as independent variables on dependent variables, namely tax avoidance. Table 6 below will be presented the results of the statistical test that has been carried out.

Table 2 Hypothesis Test Results

Model	Coefficient	t	Sign
(Constant)	0.209	0.867	0.391
Leverage	0.207	0.839	0.406
Transfer Pricing	0.193	0.432	0.668
R Square		0.019	

(Source: SPSS 27 Processed Results)

The regression equation of the study contained in the table above is:
Y = 0.209 + 0.207 X1 + 0.193 X2

A constant value of 0.209 means that if the independent variable of leverage and transfer pricing is equal to 0.209 then the value of the bound variable will be worth 0.209. The leverage coefficient of 0.207 means that if the variable leverage increases by 1% then the tax avoidance will increase by 0.207. The transfer pricing coefficient is 0.193, which means that if transfer pricing increases by 1%, will increase tax avoidance by 0.193.

The results of the statistical test of the leverage variable against tax avoidance showed counts and significant values of 0.839 and 0.406. The calculated t value of 0.839 is less than t table 1.67722. The significance value of 0.406 is greater than 0.05. Thus, leverage does not affect tax avoidance in mining companies. This means that the first hypothesis is rejected.

Meanwhile, the statistical test of the effect of transfer pricing variables on tax avoidance showed a calculated t value and a significant value of 0.432 and 0.668. The value of t counts 0.432 < t table 1.67722 and the sig. 0.668. It can be concluded that transfer pricing does not influence tax avoidance. It can be concluded that the second hypothesis is rejected. The r square value in table 2 of 0.019 or 1.9% of the independent variable can describe the dependent variable. In other words, 99.1 % of variables are outside the model.

DISCUSSION

Effect of Leverage and Tax Avoidance

Based on the results of hypothesis tests that have been carried out, it is known that the leverage variable does not affect tax avoidance in mining companies. This means that the greater the leverage ratio does not indicate any tax avoidance. A large leverage ratio indicates that the company has large debts so that the interest expense due to debt is also large. The amount of interest expense due to debt makes the management more cautious and will not take high risks to carry out tax avoidance activities to reduce the tax burden. If the debt is used in large amounts, it can cause losses to the company. In line with the trade-off theory by Modigliani & Miller (1958) which states that the company will experience bankruptcy due to increased interest expenses due to funding derived from debt.

In addition, leverage does not affect tax avoidance because the level of debt owed to mining companies has a small debt ratio. This means that mining companies in the 2019-2021 period reduce the use of funds from debt. During that period, there was a covid-19 pandemic, where many companies reduced the company's operations. The reduction in the company's operations makes the company reduce the level of the company debt

The results of this study are supported by the research results of Arianandini & Ramantha (2018). According to Arianandini & Ramantha (2018), leverage does not affect tax avoidance because it is not possible to avoid financing derived from 100% debt, it also takes into account the cost of debt or financial distress which is also called the cost of bankruptcy which causes the company to not be able to achieve optimal profits from financing 100% of the debt. Companies with high levels of leverage have high-interest expenses and high risks as well so if you use a lot of debt from outside the company, the company's profit will not be optimal.

Effect of Transfer Pricing and Tax Avoidance

The results of the transfer pricing variable statistical test do not affect tax avoidance. This means that transactions between related companies do not affect tax avoidance. In addition, in descriptive statistics, it can be seen that the minimum value of 0.00 and the maximum value of 0.96 indicate that the decrease and increase in transfer pricing transactions do not influence tax avoidance. In 2019-2021 there was a Covid-19 pandemic where there were restrictions on activities by the government, thus affecting transactions between related companies and tax avoidance. The Covid-19 pandemic has made companies more focused on how to maintain company continuity compared to doing tax avoidance.

The results of this study are the same results of the study by Napitupulu et al (2020) which states that transfer pricing does not influence tax avoidance. Transfer pricing does not affect tax avoidance because financial accounting standards in Indonesia do not regulate in detail matters related to relationships with relationships, especially regarding transfer pricing transactions. The difference in disclosures between companies regarding transfer pricing will cause a biased assessment of transfer pricing.

CONCLUSION

The study concludes that the partial variable leverage does not affect the company's tax avoidance. This means that mining companies do not use debt as a tool for tax avoidance purposes. For mining companies, the use of large debts will increase the interest burden on debt so that it can have an impact on company losses. In addition, during 2019-2021 there was a Covid-19 pandemic where there were restrictions on activities by the government so the company's operations were also limited. The transfer pricing variable does not affect tax avoidance in mining companies. During the Covid-19 pandemic, there were very few activities between related companies, due to restrictions on activities by the government.

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DECLARATION OF CONFLICTING INTERESTS

The researcher declared that in the preparation of this article there was no coercion from any party. This article was written of the own accord of the researcher.

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