# Firm Specific and Tax Avoidance before and during the Covid-19 Pandemic

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**Abstract**
This study aims to analyze the Influence of Firm Specific on Tax Avoidance in the Manufacturing Industry Comparative Study before and during the Covid-19 Pandemic. In this study, firm specific proxied by liquidity (CR), profitability (ROA) and leverage (DER). The sample in this study as many as 193 companies obtained by using purposive sampling method. This study is a comparative descriptive study with a quantitative approach and uses secondary data collected from the Indonesia Stock Exchange for the period 2019 and 2020. Furthermore, these ratios were tested differently using a paired sample t test with the help of SPSS 25. The results showed that there was no difference. which is significant from the firm specific ratio which includes CR, ROA, and also CETR in manufacturing companies. Meanwhile, DER in manufacturing companies experienced significant differences between before and during the Covid-19 pandemic. This showed the impact of the COVID-19 pandemic on Leverage.
**Keywords:** *firm specific,* liquidity, profitability*, leverage*, tax avoidance
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## 1. Introduction
Since Covid-19 was discovered in Wuhan, China in October 2019 and then spread widely throughout the world and became a pandemic that brought many companies' revenue dropped then collapsed and many countries went into recession. Indonesia itself infected the Covid-19 virus in February 2020. The media said that the impact of the corona virus outbreak (Covid-19) hit many business sectors in Indonesia. Some business sectors that had the potential to experience a decline in sales were workshops, restaurants, salons, spas, properties, mice, tour & travel, hotels, transportation, flights, malls, fashion, and several other business sectors.

The impact of the Covid-19 pandemic slapped almost all sectors in Indonesia, including the manufacturing industry sector, with a decrease in production capacity from 75.35% to 67.60. And the decline in the production index from 148 to 131 (Warta Ekonomi).

The news that were widely discussed's how a giant manufacturing company such as Unilever Indonesia has stated that it will lay off approximately 1500 employees worldwide. And on April 4, 2022, termination for employees of PT. Unilever Indonesia on a large scale. Then big cosmetic companies like Revlon declared bankruptcy. Many facts show that the impact of the Covid-19 pandemic has also hit the manufacturing industry.

Based on several previous studies that the results of research on the effect of liquidity, profitability, leverage, on tax avoidance there are still inconsistencies. So that is the reason for the author to research further. In this study, the author will use a sample of the manufacturing industry listed on the Indonesia Stock Exchange for the 2019-2020 period.

## 2. Literature Review
### 2.1. Agency Theory
According to Jensen and Meckling (1976) agency theory is a contract between the manager as the agent and the owner of the company as the principal. In order for this contractual relationship to run smoothly, the owner will delegate decision-making authority to the manager.

An agency relationship is a contract in which one or more (employer or principal) employs another person (agent) to perform a number of services and delegates decision-making authority to the agent (Jensen and Meckling, 1976). In the financial management framework, the agency relationship exists between shareholders and managers. Managers of the company may make decisions that are contrary to the company's goal of maximizing shareholder wealth. In this case, managers are assisted by employees to make decisions. Decisions to expand the business may be driven by managers' desire to make their own division expand with a view to greater responsibility and compensation. This conflict is called the agency conflict.

### 2.2. Tax Avoidance

Tax avoidance is an effort to ease the tax burden by not violating the law. Tax avoidance is a tax strategy and technique that is carried out legally and safely for taxpayers because it does not conflict with tax provisions.

In this study, the estimation model for measuring tax avoidance uses the Cash Effective Tax Rate (CETR) model, namely cash spent on tax costs divided by profit before tax, Dyreng et al (2010).

### 2.3. Liquidity

Current ratio is a comparison between current assets and current liabilities, Brigham (2014). This ratio shows the company's ability to pay its short-term obligations using its current assets. The current ratio is a liquidity indicator that is widely used, with the reason that the difference in excess of current assets over current liabilities is a guarantee against possible losses arising from business by converting non-cash current assets into cash. The greater the amount of collateral available to cover possible losses, the more financial difficulties will be avoided.

### 2.4. Profitability

Profitability ratio is a ratio to assess the company's ability to seek profit or profit within a certain period. This ratio also provides a measure of the effectiveness of the profit generated from sales or investment income, Kasmir (2017).

The measurement of profitability in this study uses the ROA (Return On Assets) proxy. Because ROA shows the company's effectiveness in managing assets, both own capital and borrowed capital, investors will see how effective the company is in managing assets, ROA describes the company's ability to earn profits.

### 2.5. Leverage

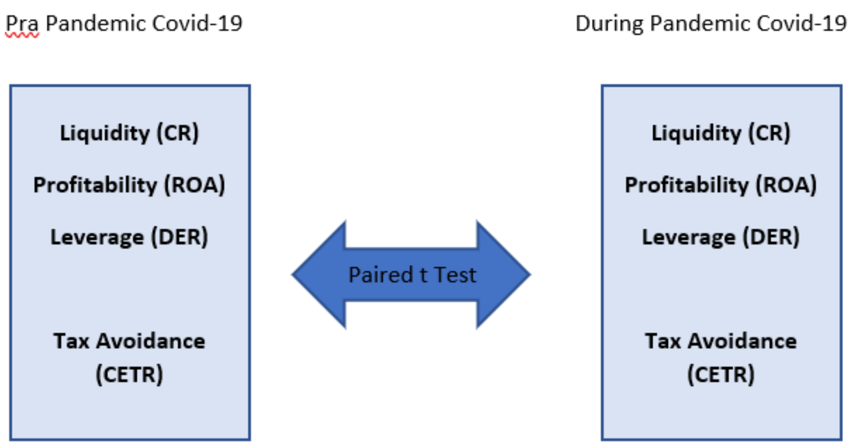
Debt to Equity Ratio (DER) is the balance between the debt owned by the company and its own capital. The higher this ratio means that the own capital is less than the debt. For companies, the amount of debt should not exceed their own capital so that the fixed burden is not too high.

## 3. Sample and Descriptive

The sample in this study is a manufacturing company listed on the Indonesia Stock Exchange in the 2019-2020 period which was selected by the purposive sampling method.
Some of the criteria used in the sampling of this research are as follows:
a. Manufacturing companies listed on the Indonesia Stock Exchange for the period 2019–2020.
b. Manufacturing Companies that Earn Profits and showed on Financial Statements During the 2019-2020 Period.

| No | Criteria | Total |
|---|---|---|
| 1 | Manufacturing companies listed on the Indonesia Stock Exchange for the period 2019-2020 | 193 |
| 2 | Manufacturing Companies that Publishing Financial Statements During the 2019-2020 Period in Inconsistent or Incomplete. | (16) |
| 3 | Manufacturing Companies That Suffered Losses During the 2019-2020 Period. | (72) |
| | **Number of samples (Company)** | 105 |
| | **Data to be analyzed** | 210 |

## 4. Hypotheses Development



Based on the literature review and the framework of thought described earlier, the hypothesis in the study can be explained according to the picture above.
1. Are there significant differences in the CR (Current Ratio) of manufacturing companies before and during the Covid-19 pandemic,
2. Are there significant differences in the ROA (Return on Assets) of manufacturing companies before and during the Covid-19 pandemic.
3. Are there significant differences in the DER (Debt to Equity Ratio) of manufacturing companies before and during the Covid-19 pandemic,
4. Are there any significant differences in the CETR (Cash Effective Tax Rate) of manufacturing companies before and during the Covid-19 pandemic.

## 5. Research Methods

Paired t-test is one method of testing the hypothesis where the data used are not independent (pairs). Paired T Test is used as a comparative or difference test if the data scale of the two variables is quantitative, namely Interval or Ratio. In this sense, we will compare whether there is a difference in the mean or between two groups that are paired. If the data is ordinal data, it must use the Mann Whitney U test or also known as the Wilcoxon Rank Sum Test.
Paired t-test gives three tables: 1. Paired Samples Statistic, 2. Paired Samples Correlations and, 3. Paired Sample Test (Sig. 2 tailed).
Paired samples statistic gives information about statistic descriptive.
Paired Samples Correlations to see whether or not there is a relationship between before and during the pandemic.
The basis of decision making on the paired samples correlations:
1. If the value of Sig. < 0.05, then there is a significant relationship between the data before and during the pandemic
2. If the value of Sig. > 0.05, then there is no significant relationship between the results before the pandemic and during the pandemic

Paired sample t test. This table shows whether there are differences before and during the pandemic.
The basis of decision making on the paired t test:
1. If the value of Sig. (2 tailed) < 0.05, then there is a significant difference between the data before and during the pandemic. Shows that there is a significant effect on the difference in treatment given to each variable.
2. If the value of Sig. (2 tailed)> 0.05, then there is no significant difference between the results before the pandemic and during the pandemic.

## 6. Result and Discussion

### 6.1. Descriptive Statistical Analysis

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| CR | 210 | .6528 | 303.2819 | 5.2397 | 25.2153 |
| ROA | 210 | .0004 | .6351 | .0666 | .0752 |
| DER | 210 | .0034 | 10.2805 | .9591 | 1.0430 |
| CETR | 210 | .0016 | 8.4450 | .4900 | .8615 |
| Valid N (listwise) | 210 | | | | |

The minimum value of CR is 0.6528 at the company PT. Unilever Indonesia, Tbk (UNVR) in 2019 occurred because there was an increase in short-term debt in 2019. While the maximum value of CR is 303.28 at PT. Buana Artha Nugraha, Tbk or previously known as PT. Star Petrochem (STAR) in 2019, a fairly high CR value occurred due to a fairly high increase in current assets in Rp. 579,107 million (2019) compared to Rp. 332.865.million (2018) as well as a decrease in short-term debt in 2019.

The minimum ROA value of 0.0004 at the company PT.Cahayaputra Asa Keramik Tbk (CAKK) in 2020 scored a net profit of Rp. 144,403,412. Net profit during the 2020 pandemic fell by 93% compared to the previous year. Meanwhile, total assets are quite high at Rp. 354,900,568,484. For the maximum value of 0.6351 at PT. Solusi Bangun Indonesi (SMCB), formerly known as PT. Holcim Indonesia in 2020. This shows that the total net profit earned was Rp. 13,171,946 million compared to total assets of Rp. 20,738,125 million.

The minimum DER value of 0.0035 at the Star Petrochem Tbk (STAR) company in 2020 shows that the company has very low liabilities compared to high equity. The maximum value of 10.2805 at the Saranacentral Bajatama Tbk company in 2019 shows that the company has high debt compared to equity.

The minimum CETR value of 0.0017 at the Star Petrochem Tbk company in 2020 explains that the amount of STAR tax payments is very low when compared to profit before tax. The maximum value of 8,4450 at the

Voksel Electric Tbk company in 2020 because the tax payment is very high compared to the profit before tax.

The normality test in this study uses the Kolmogorov Smirnov test which aims to test whether the distribution of the data used is normal or not.

**One-Sample Kolmogorov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 210 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | .83028807 |
| Most Extreme Differences | Absolute | .281 |
| | Positive | .281 |
| | Negative | -.222 |
| Test Statistic | | .281 |
| Asymp. Sig. (2-tailed) | | .000[c] |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

The results of SPSS data processing are not normally distributed. Then the Outlier step was carried out and the Kolmogorov-Smirnov test result was described as follows.

**One-Sample Kolmogorov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 152 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | .70436805 |
| Most Extreme Differences | Absolute | .055 |
| | Positive | .043 |
| | Negative | -.055 |
| Test Statistic | | .055 |
| Asymp. Sig. (2-tailed) | | .200[c,d] |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Research Result

| | | | | Paired Samples Correlations | | Paired Samples Test |
|---|---|---|---|---|---|---|
| | N | Mean | Std Deviation | Correlation | Sig. | Sig. (2-tailed) |
| CR | 152 | 0.01815 | 1.0531532 | 0.654 | 0.000 | 0.881 |
| ROA | 152 | 0.0070421 | 0.0318031 | 0.713 | 0.000 | 0.057 |
| DER | 152 | 0.0566434 | 0.2160987 | 0.896 | 0.000 | 0.025 |
| CETR | 152 | 0.0828934 | 0.4677815 | 0.172 | 0.137 | 0.127 |

The significance value of CR, ROA revealed 0.000 < 0.05, as the basis for decision making in the correlation test, indicates that there is a relationship between before and during the pandemic. Only variable of tax avoidance (CETR) showed 0.137 > 0.05.

Based on the results of this paired t test of CR, the value of Sig. (2 tailed) 0.881 > 0.05. It can be resolved that there was no significant difference between before and during the Covid-19 pandemic. It exposed that there was no difference in liquidity ratio before and during the Covid-19 pandemic. We can see mostly CR ratio in manufacturing companies that listed in BEI are above 1 before and during Covid-19

The results of this paired t test of ROA, the value of Sig. (2 tailed) 0.057 > 0.05. It can be concluded that there was no significant difference between before and during the Covid-19 pandemic. It showed that there was no difference in profitability ratio before and during the Covid-19 pandemic.

The results of this paired t test of DER, the value of Sig. (2 tailed) 0.025 < 0.05. It showed that there was a significant difference between before and during the Covid-19 pandemic. Showed a significant difference in the

DER variable because there are differences in treatment before and during Covid-19. The result indicated that the Covid-19 pandemic had affected the DER variable.

The results of this paired t test of CETR, the value of Sig. (2 tailed) 0.127 > 0.05, showed that there was no significant difference between before and during the Covid-19 pandemic. It revealed that there was no difference in tax avoidance ratio before and during the Covid-19 pandemic.

## 7. Conclusion

### 7.1. Conclusion

Based on the research that has been done, the following conclusions can be drawn:

1. There is no significant difference in the liquidity of manufacturing companies between before and during the Covid-19 pandemic.
2. There is no significant difference in the profitability of manufacturing companies between before and during the Covid-19 pandemic.
3. There is significant difference in the leverage of manufacturing companies between before and during the Covid-19 pandemic.
4. There is no significant difference in the tax avoidance of manufacturing companies between before and during the Covid-19 pandemic.

### 7.2 Suggestions

1. Further research is needed for industries that are directly affected by Covid-19, such as transportation, tourism.
2. It is necessary to do research with different variables such as ROE (Return on Equity), DAR (Debt to Total Asset Ratio), and Size of the company.

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