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The Effect of Leverage on Tax Avoidance in Hospitality Companies During COVID-19 Pandemic

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ABSTRACT

The effect of leverage on tax avoidance has been studied before, but there has been no research for this to Covid and the hotel industry. The lack of tourism activities, company trips resulted in the hotel industry experiencing to deficit. At the time of COVID-19 it is suspected that it will influence tax avoidance behavior that occurs in the hotel industry. So, the purpose of this study is to investigate the impact of leverage on tax avoidance in the hotel business during the COVID-19 pandemic as well as covid moderation on the effect of leverage on tax avoidance. The research was conducted using quantitative analysis regression. The data that we examined were 17 companies in the hotel industry that were listed on the IDX. Data analysis was performed using the Gretl application and using multiple linear regression techniques. The results of the study show that the more debt a company has, the more that company did the tax avoidance. Due to limited data on companies that experience profits in 2019, before covid until 2021, after covid which was registered on the IDX, the research failed to prove that COVID-19 affected tax avoidance behavior in the hotel industry

Keywords: COVID-19, Hotel Industry, Leverage, Tax Avoidance.

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INTRODUCTION

In the hierarchy of a country, taxes play a critical part in the country's sustainability. Taxation is regarded as a watershed moment and the state's primary source of revenue. Taxes collected by the state are obligations and responsibilities that people of the state must fulfill as a manifestation of the role of citizenship that can be used to improve social development. According to Article 1 of the Constitution of the Republic of Indonesia No. 28 of 2007, taxes are contributions made either personally or by coercive institutions, and taxes are utilized for governmental purposes in order to support people's prosperity. According to Sibarani and Tarigan (2018), taxes play a significant part in a country's development and growth. Every person who is able to meet his or her tax obligations will enable the state to manage and accelerate the growth of national development. Taxes are essentially donations from, by, and for the people. As a result, a country's development and growth are heavily reliant on how well people can meet their requirements through paying taxes.

According to Maulani et al., (2021), there were enterprises who engaged in tax evasion during the COVID-19 epidemic. Permatasari et al., (2022) also underlined that tax evasion is common during pandemics due to a fall in corporate income. The goal of tax avoidance is because the firm believes that its profit revenue is falling, hence the company attempts to maintain its riches through tax avoidance. Companies may participate in tax evasion for a variety of reasons, including the desire to decrease overall tax liability, boost profits, and remain competitive in their industry. Companies can keep more of their profits and reinvest them in their firm or distribute them to shareholders if their tax liability is reduced. While tax evasion is lawful, it can be considered unethical, especially if it entails exploiting loopholes or engaging in aggressive tax planning that may be perceived as taking advantage of the tax system.

Tax avoidance, according to Alkurdi and Mardini (2020), is an endeavor by businesses to limit obligations as effectively as feasible while maximizing the benefits that businesses might derive from the obligation to make tax payments. Tax evasion includes, but is not limited to, taking advantage of tax advantages, deductions, and income exclusions. Tax avoidance is a legal deduction in the taxpayer's annual tax bill to reimburse the taxpayer for specified actions. Tax avoidance, as opposed to tax evasion, which entails dishonest activities such as undeclared income, is entirely legal (Alstadsaeter, 2022). The company's purpose in running a business is to maximize profits. Meanwhile, in the order of a country, one of the company's obligations is to fulfill its obligations in paying taxes. In this case it can be observed that there are different interests between business people and also the government in looking at taxes.

Many businesses, particularly those in the tourism and hotel accommodation industries, are finding it difficult to continue operations in the midst of the COVID-19 outbreak. According to Jatengdaily (2021), at least 46.7% of Indonesia's total 3,516 hotels have been declared bankrupt and closed owing to pandemic conditions. Bankruptcy in the hotel business was caused by government laws that curtailed travel and communal activities in order to prevent the spread of COVID-19. As a result, some hospitality organizations are struggling to fund their operational expenditures, while their company income has plummeted. In this situation, the hospitality industry takes every attempt to cut costs in order to stay in business. Research by Septyanto (2022) found that pandemic conditions can influence companies to have the possibility of carrying out tax avoidance.

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This research was conducted with the aim of analyzing the effect of leverage on tax avoidance in companies engaged in the hospitality sector during a pandemic. The novelty of the research is shown through the analysis of tax avoidance which is specifically devoted to analyzing businesses engaged in the hospitality industry during the COVID-19 pandemic. Therefore, the researcher proposed the research title "The Effect of Leverage on Tax Avoidance in Hospitality Industry during the COVID-19 Pandemic"

LITERATURE REVIEW

Tax avoidance, according to Wang et al. (2020), is a company's attempt to legitimately evade taxes by taking advantage of leniency in tax regulatory regulations. The company's purpose in operating its business is to maximize profitability. However, the corporation must also fulfill its commitments to the state by paying taxes on the income earned. Companies frequently regard efforts to pay taxes as incompatible with their primary purpose, which is to generate a profit. Paying corporate taxes, according to Jiang et al., (2022), reduces the share of overall earnings obtained by the company. As a result, many businesses engage in tax evasion in order to reduce the amount of tax paid.

Leverage is the use of debt by a business to carry out its operational activities. According to Acosta-Smith et al., (2020), leverage in businesses is managed as operational funds that are used to cover the company's costs. The company's operational expenditures and expenses are intended to manage the company's finances, which ultimately aim to generate profits. Pratiwi et al., (2021) discovered that leverage had a beneficial impact on tax evasion. The high value of leverage demonstrates that the company is substantially larger in terms of debt financing than equity financing. According to Sanchez et al. (2020), increasing the proportion of debt used causes enterprises to pay debt burdens and can be deducted fiscally. Other studies by Setiawan (2021) support the hypothesis of Sanchez et al., (2020) and Pratiwi et al., (2021), where research findings show that leverage has a positive effect on tax avoidance.

The COVID-19 pandemic, as used in the business world, refers to the global health catastrophe caused by the spread of the SARS-CoV-2 virus, which has had a substantial impact on business and the economy. The epidemic has resulted in extensive business closures, interruptions in supply chains, decreased consumer demand, and increased unemployment. Many organizations have had to adapt their operations to changing conditions, such as implementing remote working, modifying their products or services, or finding new ways to communicate with clients. Permatasari et al., (2022) discovered that the COVID-19 condition had a positive effect on tax avoidance behavior in businesses. This premise explains why the COVID-19 pandemic has a beneficial influence on tax avoidance. Research by Sundari and Afiqoh (2022) says that pandemic conditions affect tax avoidance. Other research by Amalia et al., (2022) also corroborates the findings of Permatasari et al., (2022) and Sundari and Afiqoh (2022) that the COVID-19 pandemic was able to encourage efforts to make Tax Avoidance.

RESEARCH METHOD

The offered phrase indicates that the research in question is descriptive with a quantitative methodology. The primary goal of this research appears to be to investigate the hypothesis regarding the influence of leverage on tax evasion during the COVID-19 pandemic. The information in this study was derived from the financial statements of companies listed on the Indonesia Stock Exchange in the hospitality industry from 2019 to 2021. In this study, the target population characteristics are Indonesian Stock Exchange firms in the hotel industry from 2019 to 2021. The selected company works in the hospitality industry. The purposive sampling methodology was used for the sampling. Purposive sampling is a data collection technique carried out based on the suitability of the sample character against predetermined research criteria:

(1) Indonesian companies who are listed on the Indonesia Stock Exchange and publish financial reports for the 2019-2021 fiscal year
(2) Indonesian companies who are listed on the Indonesia Stock Exchange and produce sustainability reports for the 2019-2021 fiscal year
(3) In the 2019-2021 fiscal year, the corporation in question does not have any negative income on its income statement before computing tax payments.
(4) The corporation has complete data in financial reports released between 2019 and 2021 to perform more study.

RESULTS

The hotel industry is one of the sectors that has been significantly affected by the COVID-19 pandemic. The pandemic has led to travel restrictions, hotel closures, a drop in tourist demand and changes in consumer behavior. The research was conducted on 17 companies engaged in the hospitality industry.

Table 1. Descriptive Statistics of Data

Variable	Mean	Median	S.D.	Min	Max
Leverage	0,32	0,30	0,14	0,03	0,63
Covid	0,588	1,00	0,492	0,000	1,00
TA	0,19	0,12	0,20	0,00	0,81
Size	26,5	26,8	2,33	21,0	31,0
Age	16	19	10,8	1,00	32,0
CI	11,38	9,47	37,4	-182,29	70,21

In table 4.1 the descriptive analysis above shows an average leverage value of 0.32 with a standard deviation of 0.14. The highest leverage value is 0.63 while the lowest is 0.03. The average COV value is 0.588 with a standard deviation of 0.492. The highest covid 19 value is 1.00 while the lowest is 0. The average value of tax avoidance is 0.19 with a standard deviation of 0.20. The highest tax avoidance is 0.81 while the lowest is 0.00. Firm size average value is 26.5 with a standard deviation of 2.33. The highest firm size value is 31 while the lowest is 21. Firm age average value is 16 with a standard deviation of 10.8. The highest firm age value is 32 while the lowest is 1. The average value of capital intensity is 11.38 with a standard deviation of 37.4. The highest capital intensity value was 70.21 while the lowest was -182.29

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Table 2. Multiple Regression Test

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	0,518786	0,496416	1,045	0,3053	
LEV	−0,843213	0,381636	−2,209	0,0358	**
COV	−0,298415	0,177621	−1,680	0,1045	
LevxCov	0,670938	0,515432	1,302	0,2040	
Size	−0,00450675	0,0183225	−0,2460	0,8076	
Age	0,00757662	0,00376937	2,010	0,0545	*
CI	−0,00117322	0,000971558	−1,208	0,2377	

i. The significance value (sig) of the leverage variable is 0.035 which is smaller than α (0.05), therefore it is obtained that the leverage variable decision has a significant effect on increasing Tax Avoidance.
ii. The significance value (sig) of the COVID variable is 0.1045 greater than α (0.05), therefore it is concluded that the covid 19 variable has a non-significant effect on increasing Tax Avoidance
iii. The significance value (sig) of the interaction variable between Leverage and COVID is 0.2040 greater than α (0.05), therefore it is concluded that the interaction variable between leverage and Covid 19 has a non-significant effect on increasing Tax Avoidance
iv. Because the significance value (sig) of the firm size variable is bigger than (0.05), it is assumed that the business size variable has no meaningful effect on lowering Tax Avoidance.
v. Because the firm age variable's significance value (sig) is bigger than (0.05), it is determined that the firm age variable has an inconsequential influence on decreasing Tax Avoidance.
vi. Because the capital intensity variable's significance value (sig) is 0.2377 larger than (0.05), it is inferred that the capital intensity variable has no meaningful influence on minimizing Tax Avoidance.

Table 3. F Test

Mean dependent var	0,192941	S.D. dependent var	0,211252
Sum squared resid	1,100842	S.E. of regression	0,201921
R-squared	0,252504	Adjusted R-squared	0,086394
F (6, 27)	1,520098	P-value(F)	0,209428
Log-likelihood	10,07094	Akaike criterion	−6,141879
Schwarz criterion	4,542645	Hannan-Quinn	−2,498150

The f test in Table 3 reveals a significance value (sig) of 0.2094 greater than (0.05), implying that the variables leverage, covid 19, firm size, firm age, and capital intensity have no significant joint effect toward Tax Avoidance variable. The coefficient of determination above has a R Square value of 0.252, implying that the variables leverage, covid 19, firm size, firm age, and capital intensity can influence the Tax Avoidance variable by 25.2%, while the remaining 74.8% is influenced by variables outside of this study.

DISCUSSION

In companies, leverage is used to encourage the company's operational activities to run well through financing. Companies that use leverage means using debt to run their companies. Leverage refers to the use of borrowed funds to finance business operations or investment activities. One of the benefits of leverage is that the interest paid on borrowed funds is tax deductible. This creates incentives for companies to borrow as much as possible to maximize reduced interest costs and reduce their taxable income. By reducing taxable income through reducing interest expense, a company can lower its effective tax rate and reduce its overall tax liability. Pratiwi et al., (2021) found that leverage has a positive effect on tax avoidance. The high value of leverage proves that the company is proportionately larger in financing from debt than equity. According to Sanchez et al., (2020) the use of a higher proportion of debt causes companies to pay debt burdens and can be deducted fiscally. Other findings by Setiawan (2021) corroborate the findings of Sanchez et al., (2020) and Pratiwi et al., (2021), where research findings show that leverage has a positive effect on tax avoidance. Interest paid on debt is often deductible as a tax expense. In this situation, companies may use leverage to fund their operations in low-tax countries, while interest charges from debt can reduce taxable income in other countries. It is important to note that while leverage can assist in tax avoidance practices, it does not necessarily mean that companies automatically engage in unethical or illegal actions. The use of leverage and lawful tax avoidance practices are part of a financial strategy that companies can take to optimize their spending and maximize shareholder value. the higher the company's debt ratio, the greater the potential for tax avoidance through reducing the tax burden resulting from debt interest. Highly leveraged companies often have more flexibility in managing their financial structure to take advantage of existing tax loopholes. In these situations, they may use complex strategies and take advantage of tax laws that differ between countries or jurisdictions to minimize the taxes they have to pay. By having high leverage, companies can allocate more resources to study and implement complex tax strategies.

Discussion about the influence of COVID-19 on tax avoidance behavior in the hotel industry requires more complete data and in-depth analysis. However, based on the argument that the study failed to prove the effect of COVID-19 on tax avoidance behavior, several things can be noted. The period covered by the research may not cover the direct impact of COVID-19 on the hospitality industry. COVID-19 has significantly disrupted the hospitality industry worldwide, including travel restrictions, hotel closures, and reduced tourist demand (Şengel et al., 2022). In such situations, rapid changes in a company's business and financial environment can impact their tax strategy. Therefore, taking more recent post-COVID-19 data may be more relevant to understanding its effect on tax avoidance in the hospitality industry. Changes in tax policies implemented by the government during the COVID-19 period may affect corporate tax avoidance behavior (Wei and Han, 2021). Many countries have faced a decline in tax revenues during the pandemic, prompting governments to tighten tax regulations and supervise tax avoidance practices more strictly. There are significant changes in tax regulations, this can affect company behavior in avoiding taxes, especially in industries affected by COVID-19 such as the hospitality industry (Zulkarnaen et al., 2020). It is important to consider other factors that also affect tax avoidance behavior besides COVID-19. For example, tax regulations that existed before the pandemic, general economic conditions, and specific industry factors can have an impact on corporate tax avoidance practices. Isolating the direct impact of COVID-19 as the only factor influencing tax avoidance behavior can be too simplistic. Limited company data available may also be an obstacle in this research. Sometimes it is difficult to collect complete and precise data about corporate tax behavior, especially in very dynamic situations such as the COVID-19 pandemic. In this case, more extensive studies with larger samples and more comprehensive data may be needed to gain a better understanding of the impact of COVID-19 on tax avoidance behavior in the hospitality industry. It is important to realize that the impact of COVID-19 on tax avoidance cannot be measured solely based on company data listed on the Indonesia Stock Exchange (IDX).

Research on the relationship between leverage and tax avoidance during the COVID-19 pandemic shows that there is no evidence to suggest that there is a significant effect between the two factors. Several previous studies have shown that companies with high levels of leverage tend to have higher levels of tax avoidance as well. However, during times of crisis such as the COVID-19 pandemic, this connection is not apparent. During the COVID-19 pandemic, many companies experienced financial difficulties and decreased revenue. This makes companies focus more on recovering their finances and pay less attention to tax avoidance practices (Athira and Ramesh 2023). Leverage, although it has the potential to influence tax avoidance, may not be a top priority for companies facing the financial challenges faced during the pandemic. Stimulus measures and government assistance provided during the pandemic may also affect the relationship between leverage and tax avoidance. Many companies benefit from various stimulus programs, which can reduce the need for companies to avoid taxes (Olivia et al., 2020). Companies may be more focused on taking advantage of this government assistance than engaging in complex tax avoidance practices. During the pandemic, environmental regulations and tax compliance may also change (Disemadi and Shaleh, 2020). Governments can adopt different tax policies or adopt more aggressive tax avoidance. In this context, caution may be exercised in engaging at personal risk in practices that may pose reputational or legal risks. Changes in behavior and ethics may also play a role in the relationship between leverage and corporate tax avoidance during the pandemic. Public awareness and pressure to act ethically can make companies more careful about avoiding practices that are seen as trying to avoid paying fair taxes. Overall, the relationship between leverage and tax avoidance during the COVID-19 pandemic did not prove to be significant. Factors such as financial recovery, government stimulus measures, changes in environmental regulations, and changes in corporate behavior may explain why this relationship is not apparent. However, it is important to remember that this research is based on the context of the pandemic and results may differ beyond this period.

CONCLUSION

Based on the results of the research conducted, the results that can be concluded are as follows:

1. Leverage has a significant effect on Tax Avoidance. This shows that increasing debt will potentially make companies do tax avoidance.
2. COVID-19 has not been proven to have an effect on Tax Avoidance
3. Leverage has not been proven to have an effect on Tax Avoidance during the COVID-19 pandemic.

ACKNOWLEDGMENT

This research may include case analyses, longitudinal studies, or surveys to collect relevant data and identify factors influencing tax avoidance behavior during a pandemic. During the pandemic, many countries have implemented tax policy changes to overcome

the economic crisis caused by COVID-19. Analyzing the impact of these changes on tax avoidance practices in hospitality companies can provide insight into whether companies are using leverage as a strategy to avoid taxes in this new context. The study could involve further investigation of the tax planning strategies used by hospitality companies during the pandemic. In situations where companies face significant financial challenges, it is important to understand how they use leverage and other financial instruments in order to manage their tax obligations

DECLARATION OF CONFLICTING INTERESTS

Given the complexity of tax regulations that differ in each country and the changes that may occur during a pandemic, it is highly recommended for hotel companies to consult a competent tax expert. This expert can assist companies in designing tax strategies that comply with applicable law and optimize available tax benefits. Hospitality companies should carry out a risk analysis of the taxation strategies they use during the pandemic. It is important to understand the potential legal and reputational risks associated with unethical or illegal tax avoidance. In a complicated situation like a pandemic, maintaining company compliance and ethics is a very important aspect. Apart from leverage, there are other factors that can affect tax avoidance in hotel companies during the COVID-19 pandemic. For example, changes in customer demand, financial restructuring and government incentives can also impact a company's tax practices. Therefore, hotel companies must pay attention to all these aspects and integrate them into their tax strategy in a holistic manner.

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