

ANALYSIS OF THE EFFECT OF TAX INCENTIVES ON *TAX AVOIDANCE*
(Empirical Study of Manufacturing Companies in the Health Sector Listed on the
Indonesian Stock Exchange for the 2018 – 2022 Periode)

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Abstract: This study aims to conduct an analytical study that tests and analyses that the provision of tax incentives has an effect on company Tax Avoidance, especially manufacturing companies in the health sector on the Indonesia Stock Exchange in 2018- 2022. The sampling technique used is purposive sampling based on predetermined criteria. The test results show that tax incentives have a positive effect on tax evasion, significantly by using the GAAP ETR but not by using the Current ETR. Debt to equity ratio and Return on Assets have a significant effect on tax avoidance using GAAPETR, while company size has no effect on tax avoidance when using the GAAP ETR proxy and the test results when viewed using the Current ETR proxy found that return on assets has a significant effect on tax evasion, while the Debt to Equity Ratio and firm size (size) have no effect on tax avoidance.

Keywords: Tax Incentives, Tax Avoidance

1. INTRODUCTION

The existence of the Covid Pandemic¹⁹ The government provides tax incentive facilities as stipulated in the Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 concerning Decrease in Income Tax Rates for Domestic Corporate Taxpayers in the form of Public Companies, this is stated in the Minister of Finance Regulation (PMK) Number 82 / PMK.03 / 2021 concerning Amendments to PMK No. 9 / PMK.03 / 2021 concerning Tax Incentives for WP Affected by Coronavirus Disease Pandemic 2019. This is a way taken by the government to revive the economy, but it becomes a dilemma if this is used as a loophole for tax avoidance. Tax incentives are one of the state expenditures given to taxpayers which are generally not given in the form of money, but in the form of reduced tax obligations. The incentive is a fiscal instrument commonly used by the government to ease the tax obligations of certain sector taxpayers, which is expected to have a positive impact on tax avoidance. In this study, the author seeks to understand the tax incentive policy that has been determined until the end of 2021 on tax avoidance.

Rego (2017) states that tax avoidance is carried out to make taxes efficient legally and has an impact on tax reporting cases and according to Pohan, (2017) tax avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to take advantage of the weaknesses (grey areas) contained in the tax law itself to reduce the amount of tax payable. The issue of tax avoidance is a complicated and unique issue because on the one hand tax avoidance does not violate the law (legal), but on the other hand tax avoidance is not desired by the government. According to Deputy Director, Fiscal Affairs Department IMF Michael Keen said (DDTC News, 2017) Tax avoidance practices currently continue to be a threat to all countries in the world. In fact, taxes are one of the keys and hopes of the government to carry out development in a country. The eradication of this tax avoidance practice has also become a joint work internationally. However, the efforts made are not easy. For this reason, cross-country cooperation is needed in avoiding this tax avoidance practice. Tax rate competition between countries also needs to be a concern. If not, there is still a possibility that domestic companies will return to tax avoidance.

This study continues previous research in the Journal of Contemporary Accounting by Astriditta Rombe, Hartono Rahardjo, Susanna Hartanto (2017), the test results show that tax incentives have a positive effect on tax avoidance, significant using GAAP ETR but no effect using Current ETR. Debt to equity ratio has a significant effect on tax avoidance, while return on assets and company size (size) do not affect tax avoidance when using GAAP ETR proxies. The test results when viewed using the Current ETR proxy found that return on assets has a significant effect on tax avoidance, while the debt to equity ratio and company size (size) have no effect on tax avoidance. The purpose of this study is to descriptively analyse the effect of Tax Incentives on Tax Avoidance in a company, as it is known that tax incentives have a major effect on state revenue, so it is expected to be an insight to sharpen fiscal policy strategies related to providing tax incentives.

2. Literature Review

2.1 Agency Theory

The concept of *Agency Theory* is a contract between *principal* and *agent* (developed by Jensen and Meckling, 1976; and Fama and Jensen, 1983). Agency theory arises as a reaction to the separation in modern companies between the interests of management and the interests of owners outside the company and not included in different management decisions. The relationship between agency theory and tax avoidance behaviour occurs in the interest of corporate profits which causes a conflict between the tax collector (taxpayer) and the taxpayer (taxpayer). conflict between tax collectors (tax authorities) and taxpayers (company management). Where the tax authorities expect a large income from tax collection while company management views that the company must generate significant profits with a low tax burden. The above conflict between the tax authorities and company management based on *agency* theory will lead to non-compliance by taxpayers or company management that will lead to tax evasion. taxpayers or company management which will impact on the company's efforts to conduct tax avoidance (Dewinta & Setiawan, 2016). To optimise the interests of each party, a tax avoidance method is used which is considered capable of solving the agency problem.

2.2 Tax Incentives

Company management does tax planning so that the tax burden obtained is lower. (Farouq, 2018: 166) explains that: "Tax avoidance, namely tax avoidance actions taken are still within the limits that are in accordance with the provisions of the applicable tax legislation". Meanwhile (Pohan, 2019: 370) states that: "*Tax avoidance* is a tax avoidance effort that is carried out legally and safely for taxpayers without contradicting the applicable taxation provisions. provisions that apply (*not contrary to the law*) where the methods and techniques used tend to take advantage of the weaknesses (*grey areas*) contained in the Tax Law and Regulations themselves to reduce the amount of tax payable". tax payable." According to Latief et al (2020) Tax incentives are the government's partiality towards taxpayers with the aim of national interest. The following are tax incentive facilities in accordance with Government Regulations, namely: Government Regulation on Reducing Income Tax Rates for Domestic Corporate Taxpayers in the Form of Public Companies;

The income tax rate applied to taxable income for domestic corporate taxpayers and permanent establishments is equal to:

- a. 22% (twenty-two per cent) applicable in Fiscal Year 2020 and Fiscal Year 2021; and
- b. 20% (twenty per cent) which will come into effect in Fiscal Year 2022.

2.3 Tax Avoidance

Tax avoidance is an arrangement to minimise or eliminate the tax burden by considering the consequences. Minimise or eliminate the tax burden by considering the consequences. Tax avoidance is not a violation of the tax law because the taxpayer's efforts to reduce, avoid, minimise and ease the tax burden are carried out in a way that is permitted by the tax law (Nurfadilah, 2016). (Farouq, 2018: 166) explains that: "Tax avoidance, namely tax avoidance actions taken are still within the limits that are in accordance with the provisions of the applicable tax legislation". Meanwhile (Pohan, 2019: 370) states that: "Tax avoidance is a tax avoidance effort that is carried out

legally and safely for taxpayers without contradicting the applicable tax provisions (not contrary to the law) where the methods and techniques used tend to take advantage of the weaknesses (grey areas) contained in the Tax Law and Regulations themselves to reduce the amount of tax payable." In contrast to (Suandy, 2016: 8) which explains that tax avoidance is engineering "tax affairs" that are still within the framework of tax provisions (lawful). Tax avoidance can occur in the provisions or written in the law and is in the spirit of the law or can also occur in the sound of the provisions of the law but contrary to the spirit of the law, so it can be concluded that tax avoidance is an attempt by

Tax payers to minimise the tax burden they will bear by taking advantage of the weaknesses of tax laws and regulations without violating these laws and regulations.

2.4 Hypothesis Development

Effect of Tax Incentives on Tax Avoidance

The provision of tax incentives carried out by the government has a national goal, namely increasing state revenue from the number of taxpayers who report their business income because they have been given tax incentive facilities, as well as providing taxpayer awareness of the importance of reporting their business taxes so that they can also improve the country's economy because Indonesia is still a developing country that is actively developing in various sectors. The provision of incentives such as a reduction in income tax rates on public company corporate obligations results in companies that get incentives allowing tax avoidance actions. The company wants high profits with low taxes so that it can allow tax avoidance. Aldaester and Jacob (2013) revealed that tax incentives are used as a loophole by companies in conducting tax avoidance. Research by Astriditta Rombe, Hartono Rahardjo, Susanna Hartanto (2017), the test results show that tax incentives have a positive effect on tax avoidance, significant using GAAP ETR but no effect using Current ETR. Debt to equity ratio has a significant effect on tax avoidance, while return on assets and company size (size) do not affect tax avoidance when using GAAP ETR proxies. The test results when viewed using the Current ETR proxy found that return on assets has a significant effect on tax avoidance, while the debt to equity ratio and company size (size) have no effect on tax avoidance.

Companies that receive these tax incentives should have a lower effective tax rate than before receiving incentives and also compared to companies that do not receive incentives. Nuritomo and Martani (2014) say that tax incentives have a positive effect on corporate tax avoidance practices. Based on this explanation, the hypothesis developed is:

H1a: Tax incentives have a positive effect on Tax Avoidance (GAAP ETR)

H1b: Tax incentives have a positive effect on Tax Avoidance (Current ETR)

3. Research Methods

3.1 Research Mode

There are 2 models in this study and the following is a picture of this research model

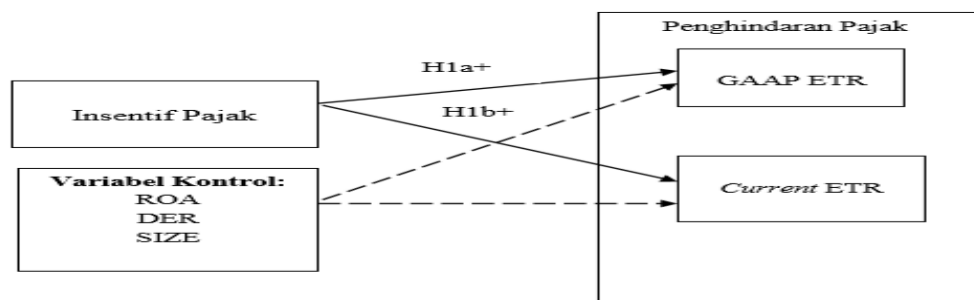


Figure 1. Analysis Model of the Effect of tax incentives on Tax Avoidance

3.2 Research Design

The research design used is quantitative research with hypothesis testing. Quantitative research with hypothesis testing aims to test and analyse the effect of tax incentives, ownership and tax avoidance on health sector manufacturing companies listed on the Indonesia Stock Exchange with the selection period 2018 - 2022.

Variable Identification, Operational Definition, and Variable Measurement

Tax Avoidance

Pohan (2019) states that tax avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to take advantage of the weaknesses (*grey areas*) contained in the tax laws and regulations themselves, to reduce the amount of tax payable. In this study, tax avoidance uses the *GAAP Effective Tax Rate (GAAPETR)* and *Current Effective Tax Rate (CuRETR)* proxies which are expected to identify a company's tax avoidance. The higher Cash Effective Tax Rates and *GAAP Effective Tax Rate values* indicate a lower level of tax avoidance, otherwise if the *Cash Effective Tax Rates and GAAP Effective Tax Rate values* are smaller, it will indicate higher tax avoidance.

$$\text{GAAP Effective Tax Rate} = \frac{\text{Total Tax Expense}}{\text{Pre - Tax Income}}$$

$$\text{Current Effective Tax Rate} = \frac{\text{Current Tax Expense}}{\text{Pre - Tax Income}}$$

Tax Incentives

Tax incentives are a tax policy that provides convenience to related parties with the aim of increasing national progress in terms of investing. Tax incentives are used for taxpayers to increase company revenue and it is hoped that taxpayers can be motivated to comply with paying taxes. In this study, tax incentives are measured by dummy variables, namely: If the company uses tax incentives with Government Regulation in Lieu of Law Number 1 of 2020, PMK number 23 of 2020, PMK No. 82/2021, it is given a value of 1 and if the company does not use tax incentives in accordance with Government Regulation in Lieu of Law Number 1 of 2020, PMK number 23 of 2020, PMK No. 82/2021 for the period it is given a value of 0.

Control Variable

There are 3 control variables in this study, namely profitability, leverage and company size. Each control variable measurement is as follows:

1. Return on Asset (ROA) is calculated based on the comparison of net profit after tax to total assets owned by the company.
2. Leverage is measured using the Debt to Equity Ratio (DER) which is calculated based on the ratio of total liabilities to total equity owned by the company.
3. Company size is measured using the natural logarithm of total assets.

Data types and sources

The data in this study uses secondary data, according to Sugiyono (2018) Secondary data is a data source that does not directly provide data to data collectors, for example through other people or through documents. In this study, the source of secondary data is from existing data or quoting from the financial statements of health sector manufacturing companies listed on the Indonesia Stock Exchange in 2018-2022. The data sources used in this study were obtained from the Indonesia Stock Exchange website, namely www.idx.co.id.

Data Collection Methods²

The data collection method in this study is to use the documentation method from the Indonesia Stock Exchange by analysing the Annual Reports and Financial Statements of companies listed on the Indonesia Stock Exchange for the period 2018-2022. The list of companies and Annual and Financial Reports listed on the IDX in 2018-2022 was obtained from the Indonesia Stock Exchange website, namely www.idx.co.id and then processed using the Statistical Package for the Social Sciences (SPSS) version 25 programme.

Sample Population, and Sampling Technique

The population in this study were all companies listed on the Indonesia Stock Exchange. The sampling technique uses purposive sampling, which is a sampling technique based on criteria or assessments that meet the requirements to be sampled. The following are the criteria used in the sample selection, namely:

- a. Health sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022.
- b. Manufacturing companies in the health sector that have not suffered losses during the period 2018-2022.
- c. Manufacturing companies in the health sector that have complete financial reports and have been published on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

Data Analysis Technique

The data analysis technique in this study used the SPSS statistical program version 25:

- a. Descriptive Statistics
This research data analysis technique in the form of descriptive statistics is carried out with the aim of knowing the mean, maximum, minimum and standard deviation values of the variables used in this study.
- b. Classical Assumption Test
The classical assumption test is used to determine whether the results of the simple linear regression analysis used can analyse classical assumption deviations which include normality, multicollinearity, heteroscedasticity and autocorrelation tests.
- c. Model feasibility test
This test is conducted to measure the suitability or suitability of the regression function in measuring an actual value statistically (Ghozali, 2018), this model feasibility test includes the Coefficient of Determination (R^2) and the F Statistical Test.
- d. Hypothesis Testing
 - a. Test t
The t statistical test is used to show how far the influence of independent variables individually in explaining the dependent variable. According to Ghozali (2018) The basic decision-making criteria for the t statistical test are as follows, if $\text{sig.}t > 0.05$ then H_0 is accepted and H_1 is rejected, while if $\text{sig.}t \leq 0.05$ then H_0 is rejected and H_1 is accepted.
 - b. Determining the Equation Model

The first research equation model to test the effect of tax incentives on *Tax Avoidance*.

$$GAAP = \alpha + \beta_1INS + \beta_2ROA + \beta_3DER + \beta_4SIZE + e$$

Description:

GAAP : *Tax Avoidance* Coefficient α :
 α : Constant

- $\beta_1, \beta_2, \beta_3, \beta_4$: Regression Coefficient
- INS : Tax Incentive Coefficient
- ROA : Profitability Coefficient
- DER : Leverage Coefficient
- SIZE : Coefficient of Company Size
- e : Error term (confounding variable)

The second research equation model to test the effect of tax incentives on *Tax Avoidance*.

$$CuETR = \alpha + \beta_1INS + \beta_2ROA + \beta_3DER + \beta_4SIZE + e$$

- Description:
- CETR : Coefficient of *Tax Avoidance*
 - α : Constant
 - $\beta_1, \beta_2, \beta_3, \beta_4$: Regression Coefficient
 - INS : Tax Incentive Coefficient
 - ROA : Profitability Coefficient
 - DER : Leverage Coefficient
 - SIZE : Coefficient of Company Size
 - e : Error term (confounding variable)

4. Results and Discussion

Characteristics of Research Objects

This study uses the object of Manufacturing companies listed on the 2018 - 2023. The sample selection criteria that have been previously determined, then obtained a sample of 65 companies can be seen in Table.1 below:

Table 1. Research Sample Criteria

Sample Criteria Sample Requirements	Total Company
1. Health Sector Manufacturing Companies listed on the IDX	30
2. Companies that suffer losses	(7)
3. Companies with incomplete financial statements	(10)
Total research sample	13
Total research data for 2018-2022	65

Source: Processed by the author (2022)

Data Description

Analysis of descriptive statistics, namely: N is the amount of data processed in this study consisting of, Tax Avoidance, Tax incentives, Control variables in this study are Return on Asset, Leverage, Firm Size.

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ETR	65	.20	.38	.2589	.04303
CETR	65	.02	.87	.3200	.18764

INST	65	0	1	.60	.494
ROA	65	.01	.24	.1065	.05356
DER	65	.05	1.32	.4709	.30229
SIZE	65	27.42	29.90	28.5455	.65763
Valid N (listwise)	65				

Source: IDX data for the period 2018-2022 reprocessed with SPSS

Table 1 shows the descriptive statistics of each research variable. The dependent variable Tax Avoidance (ETR) of this study is seen in the data in the table above, showing that of the 13 companies studied with data as many as 65 observations for the period 2018 - 2022, the average value is 0.2589, the smallest value is 0.20, the highest value is 0.38 and the standard deviation is 0.04303. While for Tax avoidance CETR, the average value is 0.2589, the highest value is 0.87 and the standard deviation is 0.18764, while for Tax avoidance GAAPETR the average value is 0.2589, the smallest value is 0.20, the highest value is 0.38 and the standard deviation is 0.4303, It can be seen from the data above that the high GAAPETR and CETR values indicate that the level of tax avoidance is decreasing, This means that the higher the ETR value, the less the company is avoiding, if many companies do not avoid, the tax incentives provided by the government have succeeded in suppressing the tax avoidance rate.

Data Analysis Research Model 1

a. Normality Test

The results of the normality test of research model 1 can be seen in table 2

Table 2. Research model 1 Normality Test After Winsorising

One-Sample Kolmogorov-Smirnov Test		Unstandardised Residual
N		65
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.03514841
Most Extreme Differences	Absolute	.097
	Positive	.097
	Negative	-.068
Test Statistic		.097
Asymp. Sig. (2-tailed)		.200 ^{c,d}
a. Test distribution is Normal. b. Calculated from data. c. Lilliefors Significance Correction.		

Source: IDX data for the period 2010-2014 reprocessed with SPSS

The Kolmogorov-Smirnov result is 0.097 and the Asymp. Sig (2-tailed) value of 0,200 The significance of 0.200 is greater than the specified significance level ($\alpha = 0.05$) so it is concluded that the residual data ($\alpha = 0.05$) so it can be concluded that the residual data is normally distributed. Normally distributed. From the tests carried out, the results of the normality test result above for all independent variables and dependent variables are normally distributed with asymp significance above 0.200 or around (20%). This shows that the data used for hypothesis testing is normal. Therefore, the model used fulfils the assumption of normality where the dependent variable (Tax Avoidance), the independent variable (Tax Incentives), as well as the control variables Return on Asset, leverage and Size can be concluded. Control variables Return on Asset, leverage and Size can be concluded that the data distribution of all research variables is normally distributed.

b. Multicollinearity Test

Table 3 shows that all Tolerance values are more than 0.1 and VIF values are smaller than 10. The results of testing the regression model show that there are no symptoms of multicollinearity in the regression model. This means that all independent variables and control variables are suitable for use as predictors.

Table 3 Research Model 1 Multicolonierity Test

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	INS	.955	1.047
	ROA	.935	1.069
	DER	.953	1.049
	SIZE	.937	1.067
a. Dependent Variable: ETR			

5. Conclusions and Suggestions

Summary

The analysis and discussion of this study draws the conclusion that tax incentives have a positive effect on tax avoidance using the GAAPETR measurement proxy but have no effect on the Current ETR proxy. This happens because it is suspected that tax incentives only affect the total tax burden but not current taxes. The smaller the effective tax rate value, the greater the tax avoidance. The tax avoidance variable measured by GAAPETR shows a negative and significant direction and Current ETR shows a negative and insignificant direction and has the opposite sign to the variable, meaning that the higher the level of tax avoidance, the lower the value of GAAP and Current ETR because it is opposite, the negative value indicates tax avoidance.

Advice

This study has several research limitations, among others: The object of research using manufacturing companies is only the health sector on the grounds that this company sector is not greatly affected by the Covid-19 situation so that researchers assume that providing tax incentives will reduce tax avoidance, it turns out that the results of the study have no effect, so the research results cannot be generalised to other types of businesses because they have different characteristics;

This study only uses one independent variable so it is suspected that there are other independent variables that may affect tax avoidance, for example accounting policies, or Deferred Tax Expense; and This study uses three control variables, namely return on assets, debt to equity ratio and company size (size) so it is suspected that there are other control variables that may affect tax avoidance, for example revenue growth. There are several suggestions that might be used as considerations to help future research, including:

- a. Future research is recommended to use samples other than manufacturing companies to see the effect of related variables in other industries on tax avoidance, as well as to analyse the effect of related variables on tax avoidance.
- b. Future research is recommended to use proxies other than effective tax rate and cash effective tax rate to see the effect of related variables on tax avoidance.

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