

Executive Character and Tax Avoidance With Moderated Covid-19 Pandemic

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ABSTRACT

This study seeks to prove the influence of Executive Character on Tax Avoidance moderating with the effect of the COVID-19 pandemic. The population in this study is a Manufacturing Company on the Indonesia Stock Exchange from 2017 – 2022. The method used is the Moderating Regression Analysis with a total of 355 observations. This study shows that Executive Character has positive effects on Tax Avoidance, but the COVID-19 pandemic did not moderate the influence of Executive Character and Tax Avoidance. This study considers of COVID-19 pandemic as a factor that moderates the influence of Executive Character and Tax Avoidance

Keywords: Executive Character, COVID-19 Pandemic, Agency Theory, ROA, DER, ROE

INTRODUCTION

Tax avoidance is a legal strategy that can be implemented because it does not violate applicable tax regulations. This is done by looking for loopholes in tax regulations as long as they do not violate them. Tax avoidance is a legal reduction effort that is carried out by optimally utilizing the provisions in the field of taxation such as exceptions and deductions that are permitted or taking advantage of things that have not been regulated and weaknesses that exist in the applicable tax regulations, whereas Tax evasion is a tax deduction carried out by violating tax regulations, such as providing false data or hiding data (Suandy, 2008).

The COVID-19 pandemic is a global economic challenge with the whole world facing a decline in economic growth. In accordance with (Badan Pusat Statistik, 2022) data, Gross Domestic Product Growth in 2017 was 5.07, in 2018 it was 5.17, in 2019 it was 5.02, in 2020 it was -2.07, in 2021 it was 3.7 and in 2022 was 5.31. The COVID-19 pandemic that occurred in 2020 caused Indonesia's GDP to fall by -2.07, so this had an impact on company growth. The crisis caused by the pandemic has resulted in significant pressure on companies so that agents (management) will make decisions to obtain positive cash flow through tax avoidance. Therefore, this research uses the moderating effect variable of COVID-19 between Executive Character on Tax Avoidance.

Based on agency theory, (Jensen & Meckling, 1976) a company has two parties who have different interests, namely the principal or shareholder is the party who invests in the company's capital, while the agent or manager is the party who manages the company (Sudana, 2011). When companies face high uncertainty, managers have the flexibility to develop different business survival strategies (Huang et al., 2017). Tax avoidance is a strategy that is often carried out because this practice has an influence on internal sources of funds, namely cash flow, and is profitable for shareholders (Edwards et al., 2016). Executives are agents tasked with making company decisions, so tax avoidance policies are closely related to the character of company executives.

Company leaders are responsible for making decisions and facing risks. Executive character tendencies have an impact on the rise and fall of company risk. (Damayanti and Susanto, 2015) Executive characters are divided into two, namely *risk taker* and *risk-averse*. A *risk-taker* is a leader who dares to take risks, while a *risk-averse* is a leader who does not dare to take risks. The

more the executive is a *risk taker*, the higher the level of tax avoidance carried out by the company Budiman et al. (2012). The size of the company's risk indicates the tendency of the executive's character. A large level of risk indicates that company leaders are more risk takers who dare to take risks.

LITERATURE REVIEW

Dependent Variable

Tax Avoidance

This research measures tax avoidance using ETR because it can reflect the company's income tax burden in the current year. (Hanlon and Heitzman, 2010) The ETR formula is as follows:

$$ETR = \frac{\text{Tax Expense}}{\text{Pretax Income}}$$

Independent Variable

Executive Character (EC)

To find out the character of an executive, use a formula for the company's corporate risk. (Coles et al., 2004) states that company risk is a reflection of the policies taken by company leaders so that it can provide an indication of the character of a risk taker or risk averse. Corporate risk is the volatility of the company's earnings, which is measured using standard deviation. To measure company risk, it is calculated through the standard deviation of EBITDA (Earnings before Interest, Tax, Depreciation, and Amortization) divided by the company's total assets. (Paligorova, 2010) The formula for the Executive Character variable is as follows:

$$EC = \sqrt{\frac{\sum_{t=1}^T \left(E - \frac{1}{T} \sum_{t=1}^T E \right)^2}{(T - 1)}}$$

Information:

$$E = \frac{EBITDA}{TOTAL ASSET}$$

T = Total Sample

Moderating Variable

COVID-19

The Moderation Variable uses the period when the COVID-19 pandemic occurred. For 2017-2019 the dummy variable is 0, while for 2020-2022 the dummy variable is 1.

Control Variable

Return on Assets

ROA shows the company's ability to use all its assets to generate profits after tax. ROA can be calculated by the formula:

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Asset}}$$

Return on Equity

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. ROE can be calculated by the formula:

$$ROE = \frac{\text{Net Income After Tax}}{\text{Total Equity}}$$

Debt to Equity Ratio

DER is calculated by dividing a company's total liabilities by its shareholder equity. DER can be calculated by the formula:

$$DER = \frac{\text{Total Liability}}{\text{Total Equity}}$$

Size

Firm size can be measured through total assets. Size can be calculated by the formula:

$$\text{Size} = \ln \text{Total Asset}$$

Executives with a risk-taker character are executives who are braver in making business decisions and usually have a strong drive toward higher income, position, prosperity, and authority (Saputra et al., 2015). The research of (Nugraha and Mulyani, 2019), (Khoirunnisa et al., 2016), (Aprilia et al., 2020), (Butje and Tjondro, 2014), (Swingly and Sukartha, 2015), (Sihaloho and Pratomo, 2015), and (Maharani and Suardana, 2014) said that the executive character has positive significance because the executive character with risk-taker has a higher on tax avoidance. This means that if executives become more risk takers, the greater the tax avoidance actions they will take.

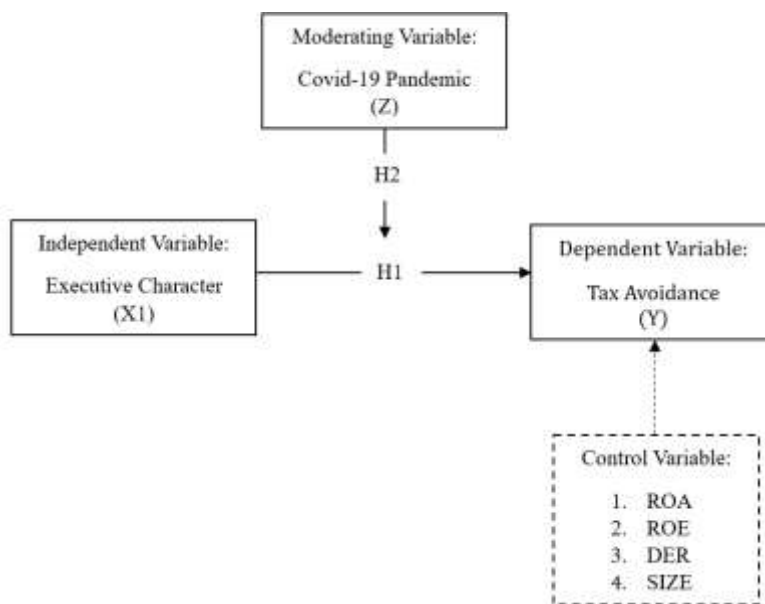
In contrast, the results of research conducted by (Prasatya et al., 2020) said that Executives with risk-averse characteristics are executives who do not like risk when choosing business decisions they will choose decisions that do not result in high risk. The higher the company's risk, will be the lower the tax avoidance. The research of (Rahmadhani and Tjaraka, 2022) said that executive character can moderate the negative significance of the influence of the role of the founder having a substantial share in the family firm heterogeneity on tax avoidance. The founder of a family firm will prevent actions that will threaten his socioemotional wealth, one of which is the practice of tax avoidance. With an executive character that tends to be risk-averse, the CEO will support the founder to maintain his socioemotional wealth because a CEO with a risk-averse executive character will avoid decisions with high risk. The research (Amalia, 2019) executive character has no significance on tax avoidance. This result is reinforced by the theory of stewardship, which considers the executive as a person who can be trusted to carry out the duties and responsibilities in accordance with the rules set by the government as well as in paying taxes. Therefore, from all the previous research, the first hypothesis in this study is formulated as follows.

H1: Executive Character Has Effects on Tax Avoidance

The COVID-19 pandemic is genuinely worldwide and has significantly lowered growth in every region, it presents more severe economic concerns. The pandemic puts pressure on businesses to adapt to institutional and operational changes in the market, necessitating the use of novel approaches that may differ from those that are generally preferred. We propose that businesses may use tax avoidance as one of their tactics, which mostly pertain to cash management and cost-effectiveness. The character of executives who are risk takers will take the risk of tax avoidance due to pressure from external factors, namely the COVID-19 pandemic. Moderating variable COVID-19 has never been used in research on the executive character effects on tax avoidance. This research model has never existed in previous research, in this article collected several previous studies that used COVID-19 as a moderating variable. The research of (Ariff et al., 2023) said that the COVID-19 pandemic strengthened the negative significance of financial distress and tax avoidance. COVID-19, which appeared without warning, gives fewer opportunities for financially distressed firms to pursue tax avoidance strategies. The research of (Richardson et al., 2015) Global Financial Crisis (GFC) which occurred in 2009 strengthened financial distress on tax aggressiveness. The Global Financial Crisis also included external factors. In contrast, the research of (Simanjuntak & Suranta, 2024) on COVID-19 did not moderate financial distress effects on tax avoidance. Therefore, the second hypothesis in this study is formulated as follows.

H2: The Covid-19 pandemic strengthens the influence of Executive Character on Tax Avoidance

Conceptual Framework



Source: Authors, 2023

METHODS

This research is quantitative research. The population in this research is all manufacturing companies listed on the Indonesia Stock Exchange in 2017-2022. The criteria for selecting the research population are :

1. Companies listed in the manufacturing sub-sector on the Indonesia Stock Exchange during the 2017-2022 period.
2. The company publishes complete annual financial reports for the period 31 December 2017 to 31 December 2022.
3. Manufacturing companies that do not experience losses during 2017-2022.

From the criteria above, the total sample of manufacturing companies used in this research was 355 companies. This research uses secondary data in the form of data related to financial reports for 2017-2022. The list of manufacturing companies listed on the Indonesia Stock Exchange (BEI), data from OSIRIS, and company financial reports were obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id).

The hypotheses testing are conducted using multiple linear regression and moderated regression analysis (MRA). First, a classical assumption test will be carried out to determine whether the data used meets the requirements of the regression model, consisting of a normality test, a multicollinearity test and a heteroscedasticity test. Next, the analysis is carried out by looking at the results of the significance values.

Multiple linear regression is used to determine the influence of executive character as an independent variable on tax avoidance as the dependent variable. Therefore, the first model (Model 1) is formulated as follows:

$$ETR = \alpha + \beta_1 EC + \beta_2 ROA + \beta_3 ROE + \beta_4 DER + \beta_5 SIZE + e \dots \dots \dots (1)$$

Moderated regression analysis is used to test to determine the influence of executive character on tax avoidance moderated by Covid-19 pandemic. Therefore, the second model (Model 2) is formulated as follows:

$$ETR = \alpha + \beta_1 EC + \beta_2 Covid19 + \beta_3 EC * Covid19 + \beta_4 ROA + \beta_5 ROE + \beta_6 DER + \beta_7 SIZE + e \dots \dots \dots (2)$$

Information:

- ETR : Tax Avoidance
- α : Constant
- $\beta_1 \dots \beta_7$: Regression Direction Coefficient
- EC : Executive Character
- Covid19 : COVID-19 pandemic
- EC * Covid19 : EC* COVID-19
- ROA : ROA
- ROE : ROE
- DER : DER
- SIZE : Size
- e : Error

RESULT

Description of Research Variables

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	355	0.171	0.390	0.250	0.045
EC	355	0.003	0.142	0.034	0.022
Covid19	355	0	1	0.510	0.501
ROA	355	0.00	36.360	7.242	5.712
ROE	355	0.001	0.527	0.120	0.077
DER	355	0.067	4,772	0.836	0.764
SIZE	355	18,888	26,747	22.140	1.667
Valid N (listwise)	355				

Source: The Results of SPSS Data Processing, 2023



Based on Table 1, the results show as follows:

1. The Dependent variable: Tax Avoidance/ETR has an average value is 0.250, a standard deviation is 0.045, a minimum value is 0.171 and a maximum value is 0.390.
2. The Independent variable: Executive Character/EC has an average value is 0.034, a standard deviation is 0.022, a minimum value is 0.003 and a maximum value is 0.142.
3. Moderating variable: COVID-19 has an average value of 0.510, a standard deviation is 0.501, a minimum value is 0 and a maximum value is 1.
4. Control variable: ROA has an average value is 7.242, a standard deviation is 5.712, a minimum value is 0.00, and a maximum value is 36.360.
5. Control variable: ROE has an average value is 0.120, a standard deviation of 0.077, a minimum value is 0.001, and a maximum value is 0.527.
6. Control variable: DER has an average value is 0.836, a standard deviation of 0.764, a minimum value is 0.067, and a maximum value is 4.772.
7. Control variable: SIZE has an average value of 22.140, a standard deviation of 1.667, a minimum value is 18.888 , and a maximum value is 26.747.

Classic assumption test

Normality Test

Table 2 Kolmogrov Smirnov Test Results

		Unstandardized Residuals
N		355
Normal Parameters ^{a, b}	Mean	Normal Parameters ^{a, b}
	Std. Deviation	1.15986841
Most Extreme Differences	Absolute	Most Extreme Differences
	Positive	0.030
	Negative	-0.029
Kolmogorov-Smirnov Z		1,320
Asymp. Sig. (2-tailed)		0.061

Source: The Results of SPSS Data Processing, 2023

The *Kolmogrov-Smirnov* value is 1.320 with a significance level of 0.061. This significance value is more than 0.05. This shows that the data is normally distributed.

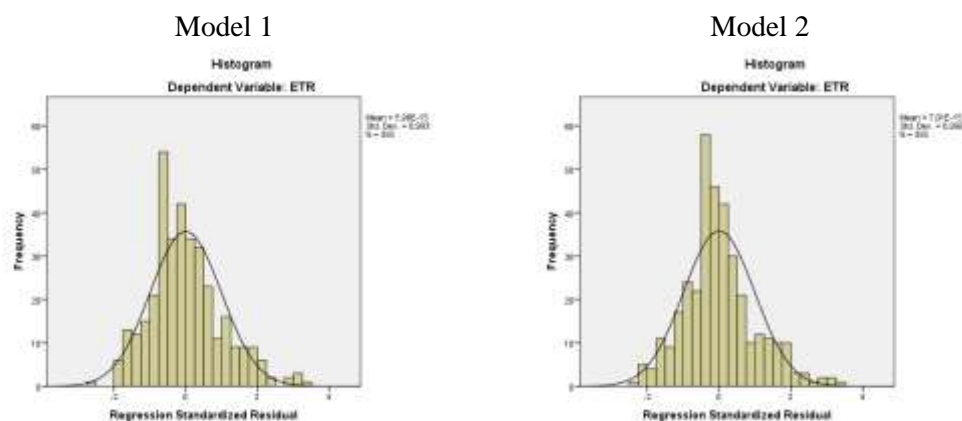


Figure 1. Histogram graph

Source: The Results of SPSS Data Processing, 2023

Based on Figure 1, the histogram graph of the data follows the direction of the histogram line, so the data is normally distributed.

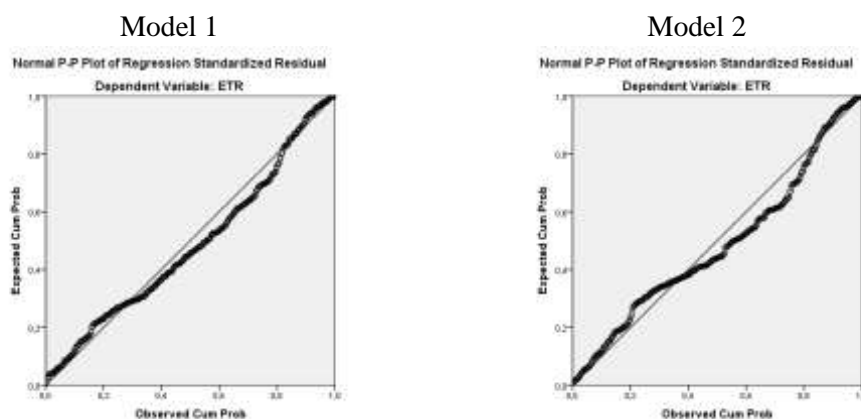


Figure 2. P-Plot graph

Source: The Results of SPSS Data Processing, 2023

Based on Figure 2 of the P-Plot graph, the points follow the diagonal line, so the data is normally distributed.

Multicollinearity Test Results

Table 3 Multicollinearity Test Results

Model	Model 1		Model 2		Information	
	Tolerance	VIF	Tolerance	VIF		
(Constant)						
1	EC	0.795	1,258	0.519	1,926	Multicollinearity Free
	ROA	0.284	3,521	0.278	3,599	Multicollinearity Free
	ROE	0.311	3,214	0.309	3,237	Multicollinearity Free
	DER	0.715	1,399	0.700	1,428	Multicollinearity Free
	SIZE	0.953	1,049	0.952	1,050	Multicollinearity Free
	Covid19				3,404	Multicollinearity Free
	EC*Covid19				4,327	Multicollinearity Free

Source: The Results of SPSS Data Processing, 2023

Based on the results of the multicollinearity test in Table 3, the independent variable Executive Character has a *Tolerance value* > 0.10 and *VIF* < 10 so it is free from multicollinearity.

Heteroscedasticity Test

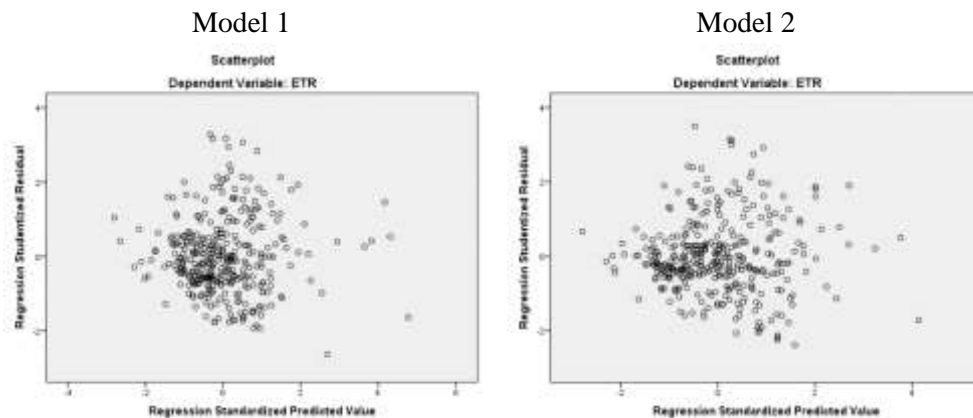


Figure 3. Heteroscedasticity test

Source: The Results of SPSS Data Processing, 2023

Based on Figure 3, the points do not form a typical pattern so this research is free from heteroscedasticity.

Coefficient of Determination Test

The results of the Coefficient of Determination Test (R²) can be shown in Table 4 as follows :

Table 4 Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.353 ^a	0.125	0.112	0.042916	1,742
2	0.414 ^b	0.171	0.155	0.041879	1,834

Source: The Results of SPSS Data Processing, 2023

Based on the results in Table 4, Model 1 obtained an Adjusted R Square value of 0.125 (12.5%) and Model 2 obtained an Adjusted R Square value of 0.171 (17.1%). This shows that the percentage influence of the Executive Character has an effect on Tax Avoidance (Model 1) is 12.5% and after COVID-19 moderation the effect (Model 2) is 17.1%.

Model Analysis and Significance Test

Table 5 Analysis Test Results

Variable	Model 1			Model 2			Conclusion
	B	t	Sig	B	t	Sig	
(constant)	0.248	7,934	0,000	0.254	8,284	0,000	
EC	0.256	2,274	0.024	0.289	2,125	0.034	H1 Accepted (+)
Covid19	-	-	-	-0.15	-0.1863	0.063	
EC*Covid19	-	-	-	-0.128	-0.638	0.524	H2 Rejected (-)
ROA	0.001	1,508	0.133	0.001	1,488	0.148	
ROE	-0.201	-3,827	0,000	-0.187	-3,624	0,000	
DER	0.019	5,458	0,000	0.017	4,969	0,000	
SIZE	0,000	-0.206	0.034	0,000	-0.105	0.916	

Source: The Results of SPSS Data Processing, 2023

DISCUSSION

1. The Influence of Executive Character on Tax Avoidance

The variable of Executive Character / EC has a regression coefficient of 0.256, meaning that there is a positive sign of a directly proportional relationship so that the Executive Character increases, the Tax Avoidance value will also increase. The t-test value for the KE variable is 2.274 with a significance level of 0.024, which is smaller than 0.05, so it can be concluded that Executive Character has a significant positive effect on Tax Avoidance. The greater the executive character value, which means risk taker, the higher the level of tax avoidance in order to get higher profits.

The results of this research are consistent with research conducted by (Nugraha and Mulyani, 2019)(Khoirunnisa et al., 2016), (Aprilia et al., 2020), (Butje and Tjondro, 2014), (Swingly and Sukartha, 2015), (Sihaloho and Pratomo, 2015), and (Maharani and Suardana, 2014) regarding the influence of risk on tax avoidance, meaning that the more an executive is a risk taker, the higher the level of tax avoidance, concluded that executive character has positive significant effect on tax avoidance, which means that executives who are risk takers prioritize high profits by minimizing the company's tax burden.

The results of this study are not in line with the research of (Prasatya et al., 2020), (Rahmadhani and Tjaraka, 2022) which stated that the executive character variable has a negative significance on tax avoidance, and (Amalia, 2019) the executive character variable has no significance on tax avoidance.

2. The Effect of the COVID-19 Pandemic Moderating Executive Character on Tax Avoidance

The variable EC*Covid19 has a regression coefficient of -0.128, meaning the negative sign is an inverse relationship. The t test value for the variable EC*Covid19 is -0.638 with a significance level of 0.524 which is greater than 0.05, so it can be concluded that the effect of the COVID-19 pandemic does not moderate Executive Character on Tax Avoidance. The results of this research show that the COVID-19 pandemic did not moderate the influence Executive Character on Tax Avoidance. The Covid-19 pandemic has had a major impact on all companies in the world. Therefore, all companies are affected, it does not affect the executive's character on tax avoidance.

The results of this research indicate that Executive Character has a positive effect on Tax Avoidance. The effect of COVID-19 does not moderate Executive Characteristics on Tax Avoidance. Suggestions for further research: 1. For further research, you can use internal variables and external variables that influence tax avoidance. 2. You can use samples of other industrial companies and different years. 3. Can use the other moderating variables so that they are able to moderate the independent variable with the dependent variable.

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