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Impact of Covid-19: Earnings Management and Corporate Income Tax Reduction in Indonesia

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Abstract

The Government of the Republic of Indonesia requires a large amount of funding for development, the policy of reducing corporate income tax rates is aimed at stimulating tax. This study was conducted on companies listed on Indonesia's Stock Exchange in 2019 and 2020 during the Covid-19 pandemic and the reduction in corporate income tax rates. From the population of 712 companies obtained a sample of 114 companies for two years. Data were analyzed using Kolmogorov Smirnov Test, Paired Samples T-Test and Independent Samples T-Test. Conclusions: 1) there were significant differences in earnings management before and after the decrease in corporate income tax rates for potential winner companies and potential loser companies. 2) There was no significant difference in discretionary accruals of potential winner companies and potential loser companies before the decrease in corporate income tax rates. 3) There was a significant difference in discretionary accruals of potential winner companies and potential loser companies after the decrease in corporate income tax rates.

Keywords: *Covid-19, Corporate Income, Tax Rates, Earnings Management, Accounting*

1. Introduction

The Government of the Republic of Indonesia is developing various aspects sustainably. Therefore, to support these activities, a large amount of funding is needed from tax. The government has made efforts to adjust tax policy by reducing corporate income tax rates. The current corporate income tax rate has a downward trend, it can be seen in Table 1 of Global corporate income tax rates from 2009 to 2019.

Table 1: Global Corporate Income Tax Rates 2009–2019.

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
World (%)	24,25	23,89	24,20	24,00	23,80	23,46	23,63	23,36	23,43	23,38	23,00
Europe (%)	23,37	23,05	22,96	22,86	23,17	22,88	22,63	22,45	21,82	21,86	21,77
OECD (%)	25,34	25,16	25,10	25,01	25,10	24,92	24,65	24,39	23,93	23,69	23,59
ASEAN (%)	26,28	25,61	25,44	23,78	23,10	22,80	22,65	22,55	22,35	22,35	22,35
Asia (%)	22,76	21,79	21,30	21,00	20,90	21,14	21,12	20,92	20,82	21,02	20,95
Africa (%)	29,03	29,05	29,73	29,66	29,21	28,95	28,53	28,37	28,85	28,95	28,20

Source: DDTC News, 20 March 2020.

In Indonesia, the change in the corporate income tax rate from the progressive to a single rate took effect in 2009 which was 28%, 25% from 2010 to 2019. The Covid-19 pandemic in 2020

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become momentum for changing the corporate income tax rate to take effect gradually starting from 2021, however, the rate turned out to be corporate income tax was accelerated in a year starting from 2020, 2021 namely 22% and 20% to 2022 and beyond. A public company whose shares are traded on Indonesia's Stock Exchange at least 40% and fulfil certain requirements with a lower rate of 3%.

Every change in the Tax Laws always intrigues a matter of thought for researchers who are interested in discussing which influences managers to carry out earnings management. Meanwhile, regulators are busy thinking about how the government should deal with this problem (Ketz, 1999). Research on tax topics during the Covid-19 pandemic was carried out by Syanti; Widyasari; Nataherwin (2020) the results of the decrease in tax rates and administrative sanctions have a significant effect on taxpayer compliance during the Covid-19 pandemic.

Previous research on the topic of reducing corporate income tax rates on earnings management was carried out by Guenther (1994) in the United States during the 1986 Tax Reform Act, Yamashita and Otogawa (2008) in Japan during the Tax Rate Reduction in Late 1990. The response of reducing income tax rate in Indonesia, companies carry out earnings management before and after to change tax rate, (Anik and M.Syafruddin, 2012); Dewi, Reka, and M.Gowon (2012); Harnovinsah (2014).

This research replicates and develops the previous research, the main difference is that this research was carried out during the Covid-19 pandemic in Indonesia on potential winner companies and potential loser companies. The objectives of the study were to determine: 1) The differences in earnings management before and after the reduction in corporate income tax rates; 2) The differences in earnings management of potential winner and potential loser companies prior to the reduction in corporate income tax rates; 3) The differences in earnings management of potential winner and potential loser companies after the decrease in corporate income tax rates.

2. Literature Review

This study uses the theory of the political cost hypothesis in positive accounting theory which was initiated by Watts and Zimmerman (1986). The political cost hypothesis states there is an agency relationship between the management who tends to pay taxes (political costs) to a minimum, while the government is expecting to obtain the optimal tax revenues. Accounting information is expected to minimize conflicts of interest between companies and interested parties, these interested parties as contracting parties (Watts and Zimmerman, 1990). Han and Wu's (1998) research supported the political cost hypothesis during the Gulf crisis, the petroleum refining industry lowers its profit to minimize government intervention which can reduce the industry earnings in enjoying profit due to rising oil prices.

Earning management is a deliberate action taken by the company management to intervene or influence financial statements by manipulating company financial data or information or choosing accounting methods that are acknowledged by generally accepted accounting principles. The opportunity for management to distort earnings arises because of an inherent weakness in accounting itself. The flexibility of calculating earning is caused by: 1) accounting methods provide management opportunities to record certain facts in different ways; 2) accounting methods provide management opportunities to be subjective in preparing estimates (Worthy, 1984).

Profit manipulation techniques may include: 1) taking advantage of opportunities to make accounting estimations; 2) accounting methods; and 3) shifting the period of expenses and income (Bruns and Merchant, 1990; Fischer and Rozenzweig, 1995). Speeding up or delaying promotional spending until the next accounting period, cooperating with vendors to speed up or delay delivery of products to customers, investment securities to manipulate earnings levels, timing the sale of unused fixed assets and so on (Bartov, 1993; Black, Sellers, et al. and Manly, 1998).

According to Wolk and Tearney (1997), researchers agree that it is difficult to detect whether profits are the result of earnings management or not. Some researchers look at earnings management from managers' operational activities, such as how managers shift inventory purchases in the coming year to be included in this year's purchases (Frankel and Trezevant, 1994). Edward (1997) also used delayed revenue recognition and accelerated expense recognition as proxies for earnings management.

Previous researchers have successfully proved that there are differences in earnings management through discretionary accruals before and after the reduction in corporate income tax rates as a response to the company (Marselina, 2015); Ratna, Eris, and Anwar (2016). In addition, there are differences in earnings management between companies that earn profits (earnings firms) and companies that lose (loss firms) in response to the policy of reducing corporate income tax rates. Research by Anik and M. Syafruddin (2012) stated, earnings companies perform earnings management after the tax rate decrease, while the company has experienced loss before the tax rate decreases. Based on the description above, the hypotheses of this research were:

H1 *There are differences in earnings management before and after the reduction in corporate income tax rates.*
H2 *There are differences in the earnings management of potential winner and potential loser companies before the decrease in corporate income tax rates.*
H3 *There are differences in the earnings management of potential winner and potential loser companies after the decrease in corporate income tax rates.*

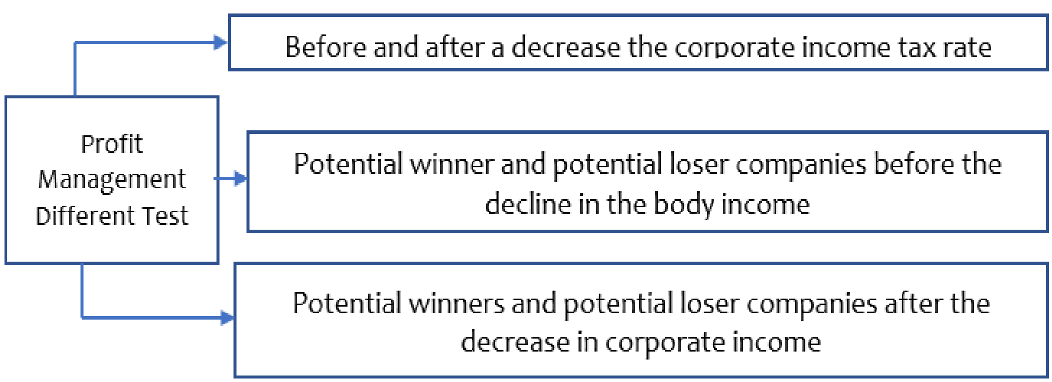

Figure 1 The frame of Mind Framework.
Source: Research Design.

3. Research Objects and Methodology

This study was conducted on companies listed on Indonesia's Stock Exchange in 2019 and 2020 with considerations before and after the reduction in corporate income tax rates during the Covid-19 pandemic. Non-probability sampling technique was the purposive sampling type. Sample selection criteria were used with the following requirements:

a. Potential winner companies are in the following sectors 1) healthcare, 2) drug retail & distributors, 3) telecommunication, 4) technology, 5) electronics retail.
b. Potential loser companies are in the following sectors 1) transportation, 2) transportation infrastructure, 3) automotive retail, 4) auto components, 5) tourism & recreation
c. The companies should include an adjustment to changes in corporate income tax rates in 2020.
d. The companies have completed data on financial statements for 2019 and 2020 and used rupiah as their currency.

Based on the sample selection criteria, a sample of 114 companies had been obtained for two years. Data collection techniques involved were documentation and literature study. Data analysis used verification statistical analysis in the following ways:

a. Normality test using Kolmogorov Smirnov Test
b. As the data was normally distributed, the hypothesis was tested using the Paired Samples T-Test differential test.
c. The test compares the mean of two independent sample groups using the Independent Samples T-Test differential test. For homogeneous variance:

$$t = \frac{\bar{x}_1 - \bar{x}_2}{s\sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}, \text{ and}$$

$$s^2 = \frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{n_1 + n_2 - 2}$$

For heterogeneous variance:

$$t' = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}}$$

The test used a significance level (α) of 5% or 0.05. The data was processed using SPSS (Statistical Product and Service Solution) 22.0 program.

4. Discussions

4..1 Differences in Earnings Management Before and After the Reduction in Corporate Income Tax Rates

Table 2: Data Normality Assumption Test Results.

Variable	Asymp.Sig	Conclusion
Post-DA	0,385	Normal
Post-DA	0,888	Normal

Source: Research Finding.

Table 3: Differences in Earnings Management Before and After the Reduction in Corporate Income Tax Rates-Paired Samples Statistics.

z	Mean	N	Std. Deviation
Pair 1 Pre-DA	-0,6211	57	0,49920
Pre-DA	-0,4133	57	0,38911

Source: Research Finding.

Table 4: Differences in Earnings Management Before and After the Reduction in Corporate Income Tax Rates of Potential Winner and Potential Loser Companies-Paired Samples T-Test.

Variable	ePaired Samples T-Test			df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error		
Pair 1 Pre-DA Post-DA	-0,20780	0,49573	0,06566	56	0,003

Source: Research Finding.

Table 5: Results of Hypothesis Testing Differences in Earnings Management before and after the Reduction in Corporate Income Tax Rates for Potential Winner and Potential Loser Companies.

	DA	Sig	α	Decision	Conclusion
Pre-testing	-0,6211	0,003	0,05	Ha accepted	Significant
Post-testing	-0,4133				

Source: Research Finding.

Based on the results of the different tests using paired samples t-test, the Sig. 0.003 < 0.05 (α) 95% confidence level accepted Ha and rejected Ho. It means that there were a significant difference in discretionary accruals before and after the decrease in the income tax rate of potential winner companies and potential loser companies. Potential winner and potential loser companies carried out earnings management by accruing expenses from 2020 to 2019 and shifting revenue from 2019 to 2020, as a result, 2019 earnings were lower than 2020. This was made possible as the 2019 corporate income tax rate was still at 25% or higher compared to 2020, which was 22% so 2019 tax obligations were more efficient. This agrees with (Bruns and Merchant, 1990; Fischer and Rozenzweig, 1995) in that the technique of engineering earnings by shifting the period of expenses and income.

The average value of discretionary accruals pre and post the decrease in corporate income tax rates was -0.6211 and -0.4133. The average value of discretionary accruals before the decrease in the corporate income tax rate was lower than the average value of discretionary accruals after the decrease in the corporate income tax rate. This finding that companies in 2019 prior to the decrease in the corporate income tax rate conducted higher earnings management than in 2020 after the decrease in the corporate income tax rate. This was done by the company because the tax rate in 2019 was still at 25%, and a rate reduction of 22% took effect in the 2020 and 2021 tax years. This finding was in accordance with Scott (2000) in that the motivation that drives the company's management to carry out earnings management is that the tax motivation decreases the tax obligations that must be paid by the company by lowering earnings.

4..2 Differences in Earnings Management of Potential Winning and Potential Loser Companies Prior to Lowering Corporate Income Tax Rates

Table 6: Differences in Earnings Management Before and After Decreasing Corporate Income Tax Rates-Paired Samples Statistics.

Variable	Mean	N	Std. Deviation
Pre-DA Winner	-0,6554	28	0,58948
Loser	-0,5880	29	0,40127

Source: Research Finding.

Table 7: Differences in Earnings Management of Potential Winner and Loser Companies Before Decreasing Corporate Income Tax Rates-Independent Samples Test.

<table>
<tr><th>Variable</th><th colspan="2">Levene's Test for Equality of Variances</th><th colspan="3">Std. Deviation</th></tr>
<tr><td></td><td>F</td><td>Sig.</td><td>t</td><td>Sig.(2-tailed)</td><td>Mean Difference</td></tr>
<tr><td>DA Pre-Equal variances assumed</td><td rowspan="2">0,823</td><td rowspan="2">0,368</td><td>-0,507</td><td>0,614</td><td>-0,06745</td></tr>
<tr><td>DA-Equal variances not assumed</td><td>-0,503</td><td>0,617</td><td>-0,06745</td></tr>
</table>

Source: Research Finding.

Table 8: Results of Hypothesis Testing Differences in Earnings Management of Potential Winner and Loser Companies Before Decreasing Corporate Income Tax Rates.

<table>
<tr><th></th><th>Pre-DA</th><th>Sig.</th><th>α</th><th>Decision</th><th>Conclusion</th></tr>
<tr><td>Potential Winner</td><td>-0,6554</td><td rowspan="2">0,614</td><td rowspan="2">0,05</td><td rowspan="2">Ha declined</td><td rowspan="2">Not Significant</td></tr>
<tr><td>Potential Loser</td><td>-0,5880</td></tr>
</table>

Source: Research Finding.

Based on the results of the different tests using independent samples t-test, the Sig. 0.614 > 0.05 (α) 95% confidence level declined Ha and accepted Ho. This means that there was no significant difference in discretionary accruals of the potential winner and potential loser companies before the decrease in corporate income tax rates. Because in 2019 before the reduction in corporate income tax rates, there was no Covid-19 pandemic in Indonesia. Potential winner and potential loser companies had not been affected by the Covid-19 pandemic. In 2019, potential winner and potential loser companies before the reduction in the corporate income tax rate conducted earnings management still using a 25% rate. Companies reduced earnings (income decreasing) before the enactment of the reduction in corporate income tax rates. This is in accordance with the opinion of Anik and M. Syafruddin (2012) that profiting companies carry out earnings management after the tax rate decrease, while the company loses before the tax rate decrease. Furthermore, Scott (2000) stated that the motivation that drives company management to conduct earnings management is tax motivation, which affects the tax obligations that must be paid by the company by lowering earnings.

In 2019, when the Covid-19 pandemic had not yet occurred and before the decrease in corporate income tax rates, potential winner companies with good financial performance (profiting) and poor financial performance (loss) are presented in Table 9. Meanwhile, potential loser companies with good financial performance (profiting) and those with poor financial performance (loss) are presented in Table 10.

Table 9: The Potential Winner Company's Financial Performance in 2019 Before the Covid-19 Pandemic and Before the Decrease in Corporate Income Tax Rates.

N0.	Sector	Profit		Loss	
		Unit	%	Unit	%
1	Healthcare	10	35	2	7
2	Drug Retail & Distributors	1	4	-	-
3	Telecommunication	5	18	5	18
4	Electronics Retail	1	4	-	-
5	Technology	2	7	2	7
	Total	19	68	9	32

Source: Research Finding.

Table 10: Potential Loser Company's Financial Performance in 2019 Before the Covid-19 Pandemic and the Decrease in Corporate Income Tax Rates.

N0	Sector	Profit		Loss	
		Unit	%	Unit	%
1	Transportation	3	10	3	10
2	Transportation Infrastructure	2	7	-	-
3	Automotive Retail	2	7	1	4
4	Auto Components	4	14	2	7
5	Tourism & Recreation	1	4	11	37
	Total	12	42	17	58

Source: Research Finding.

Potential winner companies in 2019 with good financial performance (profiting) consisted of 19 companies (68%) namely: 10 Healthcare, 1 Drug Retail & Distributors, 5 Telecommunication, 1 Electronics Retail, 2 Technology. Companies with poor financial performance (loss) consisted of 9 companies (32%) namely: 2 Healthcare, 5 Telecommunication, 2 Technology. Meanwhile, the potential loser companies in 2019 with good financial performance (Earnings) consisted of 12 companies (42%), namely: 3 Transportation, 2 Transportation Infrastructure, 2 Automotive Retail, 4 Auto Components 1 Tourism & Recreation. Potential loser companies in 2019 with poor financial performance (loss) consisted of 17 companies (58%) namely: 3 Transportation, 1 Automotive Retail, 2 Auto Components, 11 Tourism & Recreation. Based on the above results in Table 9 and Table 10 in 2019 before the Covid-19 outbreak and the decrease in corporate income tax rates, potential winner companies with good financial performance achieved 68% compared to 42% for the potential loss companies. Potential winner companies with poor financial performance are 32% compared to 58% potential loss companies. Therefore, potential winner companies were better and more stable in achieving their financial performance compared to potential loser companies before the Covid-19 pandemic and the reduction in corporate income tax rates. This is in line with Ari's opinion (2021) that the Covid-19 pandemic has had a positive impact on technology companies because of large-scale social restrictions (PSBB) require people to do more activities by utilizing technological sophistication.

In 2019 the companies conducted more extensive earnings management than in 2020 after the decreased in the corporate income tax rate. Earnings management of potential winner and potential loser companies by means of discretionary accruals that were income decreasing, namely accelerating expense recognition and delaying revenue recognition. This was reflected in the average value of discretionary accruals which was negative -0.6554 potential winner companies and -0.5880 potential loser companies before the decrease in corporate income tax rates. This suggested that the company's earnings management was still based on RI Law no. 36 of 2008 concerning the 25% rate of income tax, companies reduced income (income decreasing) before the enactment of the reduction in corporate income tax rates to save taxes. This is in accordance with Scott (2000) that the motivation that drives company management to conduct Earnings management is tax motivation, which affects the tax obligations that must be paid by the company by lowering earnings.

4..3 Differences in Earnings Management of Potential Winner and Potential Loser Companies After Lowering of Corporate Income Tax Rate

Table 11: Differences in Earnings Management of Winner and Potential Loser Companies After Reducing Corporate Income Tax Rates-Group Statistics.

Variable	Mean	N	Std. Deviation
Winner's Post-DA	-0,5616	28	0,37283
Loser	-0,2702	29	0,35436

Source: Research Finding.

Table 12: Differences in Earnings Management of Potential Winner and Potential Loser Companies Before Decreasing Corporate Income Tax Rates-Independent Samples Test.

Variable	Levene's Test for Equality of Variances		Std. Deviation		
	F	Sig.	t	Sig.(2-tailed)	Mean Difference
DA-Pre-Equal variances assumed	0,433	0,513	-3,026	0,004	-0,29144
DA-Equal variances not assumed			-3,023	0,004	-0,29144

Source: Research Finding.

Table 13: Results of Hypothesis Testing Differences in Earnings Management of Potential Winner and Potential Loser Companies After Decreasing Corporate Income Tax Rates.

	DA-Pre	Sig.	α	Decision	Conclusion
Potential Winner	-0,5616	0,004	0,05	Ha declined	Not Significant
Potential Loser	-0,2702				

Source: Research Finding.

Based on the results of the different tests using the independent samples t-test, the Sig. 0.004 < 0.05 (a) 95% confidence level accepts Ha and rejects Ho. This indicates that there was a significant difference in discretionary accruals of the potential winner and potential loser companies after the decrease in corporate income tax rates. Due to the COVID-19 pandemic which paralyzed the Indonesian economy in 2020, the government issued a policy of reducing corporate income tax rates. Due to the Covid-19 pandemic, potential winner companies had an impact on increasing financial performance (profiting). Meanwhile, potential loser companies of the Covid-19 pandemic have an impact on the reducing financial performance (losses). This proves that there are differences in earnings management for the potential winner (profiting) and potential loser companies (losses) during the Covid-19 pandemic and after the reduction in corporate income tax rates. The results of this study agree with Maxson and Dwi (2011); Anik and M.Syafruddin (2012) who prove that there is a significant difference in the Earnings management of companies that earn profit (profiting firms) with companies that lose (loss firms).

In 2020, when the Covid-19 pandemic and after the reduction in corporate income tax rates, financial performance increased (profit rose and profit fell) and decreased (losses went up and losses fell) potential winner companies are presented in Table 14. Meanwhile, financial performance increased (profit rose and profit increased) and decreased (loss went up and loss decreased) potential loser companies are presented in Table 15.

Table 14: The Potential Winner Company's Financial Performance in 2020.
During The Covid-19 Pandemic Period and After the Decreasing of Corporate Income Tax Rates

N0	Sector	Earnings		Amount		Loss		Amount	
		Increase	Decrease	Unit	%	Increase	Decrease	Unit	%
1	Healthcare	7	3	10	35	1	1	2	7
2	Drug Retail & Distributors	-	1	1	4	-	-	-	-
3	Telecommunication	4	1	5	18	2	3	5	18
4	Electronics Retail	1	-	1	4	-	-	-	-
5	Technology	-	2	2	7	-	2	2	7
	Total	12	7	19	68	3	6	9	32

Source: Research Finding.

Table 15: Potential Loser Company's Financial Performance in 2020.
During The Covid-19 Pandemic Period and After the Decreasing of Corporate Income Tax Rates

N0	Sector	Earnings		Amount		Loss		Amount	
		Increase	Decrease	Unit	%	Increase	Decrease	Unit	%
1	Transportation	1	2	3	10	3	-	3	10
2	Transportation Infrastructure	-	2	2	7	-	-	-	-
3	Tourism & Recreation	-	-	-	-	12	-	12	41
4	Automotive Retail	1	1	2	7	1	-	1	3
4	Auto Components	2	2	4	14	1	1	2	7
	Total	4	7	11	38	17	1	18	62

Source: Research Finding.

In 2020, when the Covid-19 pandemic occurred and after the decrease in the corporate income tax rates, financial performance increased by 19 potential winner companies (68%) compared to 11 potential loser companies (42%). Meanwhile, the financial performance decreased by 9 companies (32%) for the winning companies compared to 18 potential loss companies (62%). This indicates that the financial performance of potential winner companies was better and more stable than potential loser companies during the Covid-19 pandemic and after the decrease in corporate income tax rates. This is in line with Ni opinion (2020) that business activities which developed during the pandemic are telecommunications, online platform providers/vendors, pharmaceuticals, and health products through online-based business platform adjustments. The worsening performance of potential loser companies during the Covid-19 pandemic according to the results of Nafis' research (2020); Amelia (2021);

Syamsuddin (2021); Maria and Chritianty (2021) stated that the Covid-19 pandemic had a negative impact on the income of companies in the hotel, restaurant, and tourism sector in Indonesia.

Potential winner and potential loser companies performed earnings management after a decrease in corporate income tax rates, namely by discretionary accruals reducing income (income decreasing), accelerating expense recognition, and delaying revenue recognition. The potential winner company after the decrease in the corporate income tax rate made a higher income decrease than the potential loser companies. This was reflected in the average discretionary accrual value of potential winner companies after the decrease in the corporate income tax rate of -0.5616, which was lower than that of potential loser companies of -0.2702. This finding agrees with Anik and M. Syafruddin (2012); Sunita, Ni, Putu, Lucy (2020); Slamet and Retno (2021); Naima and Imen (2021); Haeyoung and Soo (2022) which prove that there is a significant difference in the earnings management of companies that earn earnings (profiting firms) and companies that lose (loss firms).

5. Conclusions and Recommendations

5.1 Conclusions

Based on the discussion, the conclusions are as follows:

1. There was a significant difference in discretionary accruals before and after the decrease in corporate income tax rates for potential winner and potential loser companies. Companies performed higher discretionary accruals before the decrease in the corporate income tax rate than after the decrease in the corporate income tax rate.
2. There was no significant difference in discretionary accruals of potential winner companies and potential loser companies before the decrease in corporate income tax rates. The financial performance of potential winner companies was better and more stable than potential loss companies during the Covid-19 pandemic and before the decrease in corporate income tax rates. The company performed earnings management before the decrease in the corporate income tax rate.
3. There was a significant difference in discretionary accruals of the potential winner and potential loser companies after the decrease in corporate income tax rates. The financial performance of potential winner companies was better and more stable than potential loss companies during the Covid-19 pandemic and after the decrease in corporate income tax rates.

5.2 Recommendations

Based on the conclusions of the study, the following suggestions are recommended:

1. Researchers, the observation period before and after the decrease in income tax rates should be longer, as well as the variation of the company sample that should be added.
2. The Government (Regulator) is expected to provide tax policies base on the economic conditions in Indonesia.
3. The Company Management (Corporate Taxpayers) is expected to make better tax planning according to tax regulations.
4. Stakeholders (Financial Report Users) should be more vigilant in making decisions based on financial statements.

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