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The Effect Of Labor Adjustment Costs And Company Sıze On Tax Avoıdance Wıth Inflatıon As A Moderatıon Varıable

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Abstract

This study aims to test and prove empirically the effect of labor adjustment costs and company size on tax avoidance moderated by inflation in labor-intensive sector companies listed on the Indonesia Stock Exchange during 2018-2022. The sample collection technique used purposive sampling and obtained a sample of 200 observations. The analysis technique for testing the hypothesis uses multiple linear regression analysis, while the inflation measurement method uses Moderated Regression Analysis (MRA). The results showed that inflation that occurs as an external factor of the company can be a motivation that strengthens the influence of company size in tax evasion. Another result, namely the cost of adjusting the workforce as a cost attached to the taxpayer, is not a factor that makes companies do tax evasion even though the increasing occurrence of inflation as an external factor of the company.

Keywords: Labor adjustment cost, tax avoidance, size, inflation.

1. INTRODUCTION

Tax evasion is an economic problem that taxpayers behave dishonestly by providing false information (Picur & Riahi-Belkaoui, 2006). The fact that no single tax system is perfect is a driving factor for the increasing practice of tax avoidance (Hutagaol & Tobing, 2007). This is because there is no mechanism to collect taxes and the people think that they do not owe anything to the government, because the government does nothing for them (Picur & Riahi-Belkaoui, 2006). The views of the public or the taxpayer make tax avoidance a legal action, legitimate, and does not cause feelings of guilt if one does it (Hutagaol & Tobing,

2007). Even though so far the government has tried to attack tax evasion with the aim of increasing state revenue (Alm et al., 2016).

Tax evasion is a crime if it is done intentionally for the purpose of violating or manipulating data (Hutagaol & Tobing, 2007). As in the case of the United States, which suffered a sizeable loss of up to 327 trillion due to tax avoidance practices by a large company from the United States, namely Google. Indonesia also suffers losses from the tax avoidance sector. PT. Bentoel Internasional Investama as one of the largest cigarette companies in Indonesia with a labor-intensive industrial sector in 2019 of US$ 14 million per year makes the country lose money by avoiding corporate taxes, with transfer pricing practices, (intra-company loans, and royalty payments to countries of origin) English). This is what makes the author interested in making labor-intensive sector companies as research objects.

Tax revenue in Indonesia based on the 2021 tax target has increased from 2020 of 89.43% to 103.99% (DGT, 2021). This increase is a successful achievement of the Directorate General of Taxes in its performance. However, if the percentage of total state revenue is taken into account, that tax revenue has decreased. The decrease in the percentage of tax revenue from total state revenue in 2019-2020 only reached 0.02%, while in 2020-2021 the tax sector revenue from total state revenue decreased to 3.34% (LKPP Audited 2021, 2022). Meanwhile, the tax compliance ratio in 2021 was recorded at 84%, but the government has always set a target of 100% SPT reporting compliance ratio. This shows that the targets that the government wants to achieve have not been met every year (DGT, 2021).

The inconsistency of increasing provincial, district or city MSE wages in 2023 is experiencing a phenomenon of indecision. This incident happened in 2013 as if the government was not wise and sided with workers more than employers. The attitude of the government is as if it is not pro-business, resulting in labor adjustment costs in the labor-intensive sector. This is because the capital investment sector compared to the labor-intensive sector absorbs labor with a ratio of 1:20. So this made the entrepreneurs represented by 9 other employers' associations (labor-intensive employers' associations) officially challenge the rule regarding the 2023 minimum wage to the Supreme Court. This regulation is Permenaker Number 18 of 2022 regarding the determination of the minimum wage for 2023. This demand was filed because it was considered to be in conflict with higher regulations which had been explained under Government Regulation Number 36 of 2021 concerning wages. Meanwhile, when real GDP decreases, the unemployment rate increases. This fact is not surprising: when companies produce goods and services in small quantities

(decreasing demand), companies tend to make labor adjustment costs, namely laying off some of their workers (Mankiw et al., 2014). During periods of inflation, not all prices and wages increase proportionately which causes inflation to affect the amount of income distribution (Blanchard & Johnson, 2013).

Companies that have larger margins and more competitive competition use strategies to adjust labor costs (Babecký et al., 2009). As is the case with the increase in the minimum wage in East Java Province, the percentage tends to decrease from 2017 to 2022. This is in contrast to total tax revenues which increase every year (Soekarwo, 2017); (Soekarwo, 2018); (Parawansa, 2021); (Parawansa, 2019); (Parawansa, 2020). Minimum wage policies can motivate companies to reduce corporate taxes or engage in tax evasion. This can increase the adjustment of labor costs and damage company profits and revenues, which in turn can reduce the sensitivity of the company's calculated earnings to reported profits (Xianga et al., 2023). Companies with conditions of financial difficulties and companies with small assets tend to avoid taxes, with risky practices more likely to be carried out by companies experiencing financial difficulties (Hendi & Cantona, 2022).

The Ukrainian-Russian war that started in February 2022 was the main factor in the world recession which disrupted global supply chains, causing crises especially in the food and energy sectors, which in turn accelerated the rate of inflation (Mahdiyan, 2022). Meanwhile, the global inflation rate is expected to decline from 8.8% in 2022 to 6.5% in 2023 and inflation is predicted to decrease to 4.1% in 2024 (Puspapertiwi, 2023). Another impact of the recession is the increased unemployment rate (Mahdiyan, 2022). The open unemployment rate (TPT) reached 5.86% as of August 2022, namely 8.42 million people (Puspapertiwi, 2023).

The calculation of determining the increase in the minimum wage is inseparable from influencing factors, namely the rate of increase in inflation and economic growth (Labor, 2022). The increase in the inflation rate should be proportional to the level of state tax revenues. This is because the higher the selling price of an item or production staple, the higher the Value Added Tax that the State should receive if there is a stable market demand (Mankiw et al., 2014).

This study uses agency conflict theory to explain further about tax avoidance that occurs in society (taxpayers) which stems from a conflict between the taxpayer and the tax authorities. According to his theory (Jansen and Mackeling) and Keynes' theory regarding agency conflict theory, it is stated that there is a difference in interests between management

(agent) and the principal can lead to a conflict of interest. Principals and agents both want big profits and avoid risks. Parties who have different interests and goals will complicate and hinder the company in achieving positive performance. This is a factor in the emergence of conflicts of interest which are commonly referred to as agency conflicts (agency theory) (Rahmawati, 2017). According to Keynes's theory that the stability of a country's economy is based on the level of policies carried out by the government (Blanchard & Johnson, 2013).

Based on the above, there are research objectives to be able to obtain empirical evidence as follows: 1. The effect of labor adjustment costs on tax evasion; 2. The effect of company size on tax avoidance; 3. Inflation strengthens the effect of labor adjustment costs on tax avoidance; and 4. Inflation strengthens the effect of company size on tax avoidance.

2. LITERATUR REVIEW

2.1 Agency Conflict Theory

The theory of agency conflict (agency theory) is a relationship between two parties, the first party is the owner (principal) and the second party is management (agent). Agency theory explains that if there is a separation between the owner as the principal and the manager as the agent who runs the company, it will eventually lead to agency problems. Because, each party always tries to maximize its utility function (Rahmawati, 2017).

The difference in interests between management (agent) and the principal can lead to a conflict of interest. Principals and agents both want big profits and avoid risks. Parties who have different interests and goals will complicate and hinder the company in achieving positive performance. This is a factor in the emergence of conflicts of interest which are commonly referred to as agency conflicts (agency theory) (Rahmawati, 2017).

This research is based on agency theory, such as research (Rahmadani et al., 2020). The agency problem in this study arises from differences in interests and goals between principals (taxpayers) and agents (tax authorities) in collecting and paying taxes. The government (fiskus) has a desire for high income from the results of tax collection, while company management wants big profits with low taxes paid. Differences of opinion and goals between the taxpayer and the tax authorities which resulted in the emergence of a conflict.

Based on the theory and conflict mentioned above, this research is based on the theory of agency conflict because of the relationship between the dependent research variable (tax avoidance) and the independent variable (labor adjustment costs and company size). The increase in labor costs (the increase in the minimum wage) resulted in a company

management in the labor-intensive sector deciding to make adjustments to labor costs as an important input element in production with the aim of maximizing profits. Research results (Xianga et al., 2023) when companies face rising labor costs, they can avoid taxes to offset these costs. These results focus on the importance of industry characteristics in understanding corporate tax avoidance behavior.

Firm size has a significant positive effect on tax avoidance. This variable is in line with the risk-shifting theory, companies with financial difficulties tend to practice risky tax avoidance to maintain their company's existence. Companies with a small number of assets are more likely to do tax evasion, because of the low cash circulation in the company which makes the company unable to pay the tax fees charged (Hendi & Cantona, 2022).

Cited (Xianga et al., 2023) The effect that tax savings refers to the fact that companies that engage in tax avoidance can increase their cash flow by reducing their tax payments. Abundant cash flow can reduce the demand for debt and increase the company's solvency, which in turn can reduce the company's debt financing costs. The fact is that financial constraints can distort company decisions, especially regarding their workforce.

2.2 General Theory

Keynesian theory, which was coined in 1936 by John Maynard Keynes with the publication of Theory of employment, Interest, and Money, General theory offers an interpretation of events, an intellectual framework, and clear arguments about government interference (Blanchard & Johnson, 2013).

The general theory emphasizes the effective demand referred to in today's terms, namely aggregate demand. In the short run, Keynes argued, effective demand determines output. Even if output eventually returns to its natural level, the process is then slow. One of Keynes' most famous quotes is “in the long run we die (Blanchard & Johnson, 2013).”

Based on the general theory above, this research is based on the relationship between the dependent research variable (tax avoidance) and the research variable (labor adjustment costs and inflation) which holds the view that a role is needed from the government to control fiscal policy (inflation) in the field of taxation and pressing government spending to be able to restore/increase the company's field after the recession.

2.3 Labor Adjustment Cost

To evaluate labor adjustment costs, following (Xianga et al., 2023) we conducted a labor adjustment cost test of firms' one-year wage expenditures. It is measured by the logarithmic value of the company's total wage expenses in one year.

2.4 Size

Company size is determined in terms of total assets, gross profit, tax costs, and others (Siburian & Siagian, 2021). The size of the company can be calculated using the formula for the logarithmic value of total assets for one year.

2.5 Inflation

Inflation is a gradual rise in the general price level. Macroeconomists generally consider two measures of the price level to be able to measure the inflation rate, namely the GDP deflator and the Consumer Price Index (Blanchard & Johnson, 2013). This study retrieves inflation rate data via email www.bps.go.id for the 2018-2022 period. The data taken is in the form of inflation from the core component for the January-December period each year.

2.6 Tax Avoidance

This study follows (Chena et al., 2022) tax avoidance can be calculated by a cash effective tax rate proxy that compares consolidated tax burden with consolidated pre-tax income.

3. RESEARCH METHODS

This research is a type of descriptive quantitative research. Descriptive research is a research method that studies problems in society and the procedures that apply in society and certain situations, including relationships, activities, attitudes, views, and ongoing processes and influences. -the influence of a phenomenon (Nazir, 2014).

Data sourced from secondary data. Secondary data sources are data sources that do not directly provide data to data collectors (Sugiyono, 2018). The data collection technique in this study is to use database retrieval techniques. Research using this data collection method was carried out to obtain secondary archival data (Hartono, 2021).

Table 1. Sample Selection Procedure

Sample Selection Procedure	Amount
Companies Listed on IDX 2018-2022	869
Category companies outside the LQ100	769
LQ100 company	100
Not included in the category of labor-intensive rank 3	36
The company suffered a loss	12
Data (report) is incomplete	12
Number of samples (Company-Year)	**40**

This study uses a population of all labor-intensive companies listed on the Indonesia Stock Exchange (IDX) that consistently issue financial reports in the 2018-2022 period. Data was taken via email www.idx.co.id or if data was not found, researchers retrieved data via email from the company that was the object of research. This study used a purposive sampling method with sample criteria, namely labor-intensive companies that have large assets included in the LQ100, never experienced a loss during the observation period, and the labor-intensive sector ranked 3rd highest (agriculture sector, trade sector, and industrial sector). Then obtained 40 sample companies for 5 years, so the number of samples used in this study was 200 samples. This research is located in Malang, East Java. This research was carried out in the period from 29 March 2023 to 30 May 2023.

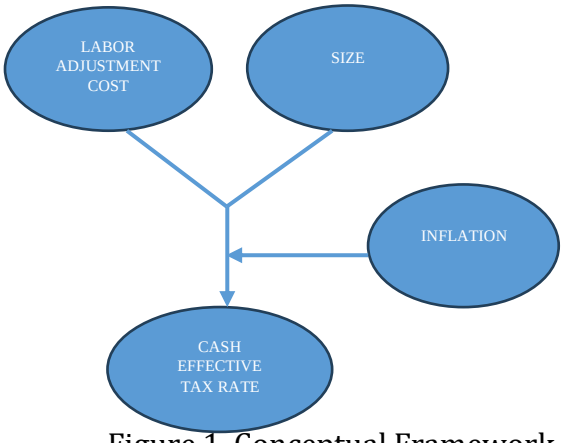

Figure 1. Conceptual Framework

The analytical method used is the method of multiple regression analysis and moderated regression analysis (MRA) using SPSS. Multiple regression analysis is used by researchers for two reasons. First, multiple regression analysis can be used to investigate the relationship between several variables. Second, the independent variable and the dependent variable are the observed variables. While the procedure for testing the hypothesis using the t test (t-test). The t test is used to determine the effect of the independent variables on the dependent variable. The following is the model equation that will be searched for and tested for its coefficients as follows:

$ETR = \alpha + \beta1(LAC) + \beta2(SIZE) + e$……..equation 1

$ETR = \alpha + \beta1(LAC) + \beta2(SIZE) + \beta3(LAC).(INF) + \beta4(SIZE).(INF) + e$…….equation 2

Based on the description above, the temporary research hypothesis can be described as follows: Labor adjustment costs (LAC) have a significant impact on corporate tax avoidance and thus have major policy implications (Nguyen, 2022). Given that skilled labor dependence is a rather permanent problem and is largely determined by the nature of production and operations of firms, tax authorities (e.g. internal revenue, servicing or IRS) should allocate more resources to high-skilled industries in their enforcement processes (Nguyen , 2022). The results of the study found that the use of strategies to adjust labor costs depended on the characteristics of firms and labor market institutions (Babecký et al., 2009). minimum wage increases significantly reduce the sensitivity of firms' calculated earnings to reported earnings, indicating that firms increase their tax avoidance activities (Xianga et al., 2023). Based on the results of previous studies, the research hypothesis is obtained as follows.

H1 : Labor adjustment costs have a significant positive effect on tax avoidance.

Size has a significant positive effect on the Cash Effective Tax Rate (Ramarusad et al., 2021). Company size has an effect on tax avoidance (Edeline & Sandra, 2018). The results of testing the hypothesis prove that firm size, profitability, leverage, and earnings management simultaneously affect tax avoidance. However, partially company size has no significant positive effect on tax evasion (Rahmadani et al., 2020). Based on the results of previous studies, the research hypothesis is obtained as follows.

H2 : Firm size has a significant positive effect on tax avoidance.

The inflation rate has no significant effect on VAT receipts (Utari, 2008). Inflation has no significant effect on income tax revenue (Pratama et al., 2016). Inflation has no effect on VAT receipts at KPP Pratama Surabaya Karangpilang (Marlyanti & Sawitri, 2020). This means that an increase in inflation can result in a decrease in tax revenue (Utari, 2008). Inflation and production cost growth variables jointly or simultaneously affect the dependent variable, namely the profit margin significantly for food and beverage companies (Abdullah & Nurkholifah, 2010). Based on the results of previous studies, the research hypothesis is obtained as follows.

H3 : Inflation strengthens the effect of labor adjustment costs on tax avoidance.

Inflation strengthens the effect of costs. The rate of inflation has no significant effect on VAT receipts (Utari, 2008). Inflation has no significant effect on income tax revenue (Pratama et al., 2016). Inflation has no effect on VAT receipts at KPP Pratama Surabaya Karangpilang (Marlyanti & Sawitri, 2020). This means that an increase in inflation can result in a decrease in tax revenue (Utari, 2008). Inflation and company size have a significant effect on company profitability (Zuchrinata & Yunita, 2019). This means that an increase in the inflation rate and the larger the company will result in higher company profitability or affect the company's tax burden that should be paid. Adjustment of the workforce against tax avoidance.

H4 : Inflation strengthens the effect of firm size on tax avoidance.

4. RESEARCH RESULTS

Table 2. Descriptive Statistics Test

Variabel	Minimum	Maksimum	Mean	Deviasi Standar
ETR	0	2	0,260	0,156
LAC	9	18	14,080	1,752
SIZE	13	22	17,190	1,658
INF	0	0	0,030	0,008

The results of the descriptive analysis above inform that each research variable has a standard deviation value that is smaller than the average value so that it gives an indication that the distribution of data for each research variable tends to be normally distributed.

Table 3. Normality Test Results

Regression Equation	Kolmogrov-Smirnov Z	Asymp. Sig.
ETR = α + β1(LAC) + β2(SIZE) + e	1,132	0,154
ETR = α + β1(LAC) + β2(SIZE) + β3(LAC).(INF) + β4(SIZE).(INF) + e	0,63	0,823

The results of the normality test for all regression equations in this study in the table show that all regression equations are free from normality problems, because the asymptotic significance value for all regression equations is greater than 0.05.

Table 4. Heteroscedasticity Test Results

Model 1	Sig.
LAC	0,857
SIZE	0,852
Model 2	
LAC	0,543
SIZE	0,156
INF	0,476

A regression equation is said to be free of heteroscedasticity problems if it meets the testing criteria for a significance value > 0.05, then there are no symptoms of heteroscedasticity in the regression model.

Table 5. Multicollinearity Test Results

Model 1	**Tolerance**	**VIF**
LAC	0,378	2,647
SIZE	0,378	2,647
Model 2		
LAC	0,378	2,647
SIZE	0,378	2,647
INF	1	1

These results show that all independent variables have a VIF value of less than 10, so it can be concluded that there is no multicollinearity between the independent variables in the regression model used in this study.

Table 6. Hypothesis Test Results

Variable	Koefisien	Value t	Probability Value	VIF	Tolerance
Model 1 : ETR = α + β1(LAC) + β2(SIZE) + e					
Constant	0,051	0,448			
LAC	-0,024	-2,372	0,019	2,647	0,378
SIZE	0,032	2,985	0,003	2,647	0,378
F Value	4,456				
Adjusted R2 Value	0,043				
Model 2 : ETR = α + β1(LAC) + β2(SIZE) + β3(LAC).(INF) + β4(SIZE).(INF) + e					
Constant	0,229	2,191			
LAC	-0,003	-0,378	0,706	2,647	0,378
SIZE	0,003	0,314	0,754	2,647	0,378
INF	-7,31	-1,835	0,068	1	1
LAC*INF	-0,839	-2,532	0,012		
SIZE*INF	1,179	3,36	0,001		
F Value	26,679				
Adjusted R2 Vaue	0,407				

The results of testing hypothesis 1, which is significant negative, indicates that hypothesis 1 is rejected. It was concluded that labor adjustment costs (LAC) have a negative effect on tax evasion.

Hypothesis 2 states that firm size has a significant positive effect on tax avoidance. The results of testing hypothesis 2, which is significant positive, indicates that hypothesis 2 is accepted.

Hypothesis 3 has a negative regression coefficient significance value which indicates that the third hypothesis is rejected. which states that the inflation rate weakens the relationship between labor adjustment costs (LAC) and tax evasion.

The results of testing Hypothesis 4 in table 6 show that the results of the analysis show that inflation can strengthen the effect of firm size on tax evasion. The test results show a significant positive with a better value than hypothesis 2 which indicates that the fourth hypothesis is accepted.

5. DISCUSSION

The results of hypothesis 1 of this study reject the hypothesis that labor adjustment costs have no effect on tax evasion. This research is not in accordance with previous research, namely research (Nguyen, 2022) which concluded that labor adjustment costs (LAC) have a significant impact on corporate tax avoidance and thus have broad implications for policies to be made. This study also rejects research from (Babecký et al., 2009) and (Xianga et al., 2023). The results of the study found that the use of strategies to adjust labor costs depended on the characteristics of firms and labor market institutions (Babecký et al., 2009). minimum wage increases significantly reduce the sensitivity of firms' calculated earnings to reported earnings, indicating that firms increase their tax avoidance activities (Xianga et al., 2023). This result rejects the general theory that there is no need for the role of the government to control the cost of adjusting the workforce for a company in the field of taxation to increase state revenue from the tax sector. This study in hypothesis 1 also rejects the conflict theory that an increase in labor costs (increase in the Minimum Wage) does not have an impact on a company's management in the labor-intensive sector deciding to make adjustments to labor costs as an important input element in production with the aim of maximizing profits. So that the increase in the UMK has no effect on tax evasion by labor-intensive companies with LQ100 issuers.

The results of hypothesis 2 of this study accept the hypothesis that firm size has an effect on tax evasion. Firm size has an influence on tax avoidance. The results of this study are consistent with previous research, namely research (Ramarusad et al., 2021) and (Edeline & Sandra, 2018) Size has a significant positive effect on tax evasion, while this study rejects research conducted (Rahmadani et al., 2020) which shows that the larger the size of a company, the greater the possibility of tax evasion. These results indicate that information about firm size has value relevance. This study supports the general theory and conflict

theory that the role of the government is needed to control and observe more seriously large companies, especially in the field of taxation, to increase state revenue from the tax sector. This research on hypothesis 2 also supports the conflict theory that the larger a labor-intensive sector company that lists LQ100 issuers, the greater the chance of tax evasion being carried out.

Hypothesis 3 has a negative regression coefficient significance value which indicates that the third hypothesis is rejected. The results of this study are inconsistent with previous research, namely research (Utari, 2008); (Pratama et al., 2016); (Marlyanti & Sawitri, 2020) which states that the inflation rate weakens the relationship between labor adjustment costs (LAC) and tax evasion. Shows that the more inflation occurs, the less it influences (weakens) the labor adjustment costs on tax avoidance. The significant negative effect of LAC on ETR with INF as a moderating variable indicates that this study rejects the general theory that there is no need for the role of the government to control labor adjustment costs for a company in the field of taxation when inflation occurs to increase state revenue from the tax sector. This study in hypothesis 1 also rejects the conflict theory that an increase in labor costs (increase in the Minimum Wage) does not have an impact on a company's management in the labor-intensive sector deciding to make adjustments to labor costs as an important input element in production with the aim of maximizing profits. So that an increase in the inflation rate has no effect on tax evasion by labor-intensive companies with LQ100 issuers.

The results of testing Hypothesis 4 in table 6 show that the results of the analysis show that inflation can strengthen the effect of firm size on tax evasion. The results of this study are consistent with previous research, namely research (Utari, 2008); (Pratama et al., 2016); (Marlyanti & Sawitri, 2020) which states that the inflation rate can strengthen the relationship between company size and tax evasion. The higher the inflation rate, the stronger the company with a large size is to avoid taxes. This study supports the general theory and conflict theory that there is a need for the role of the government to control and observe more seriously large companies, especially when inflation is getting more serious in the field of taxation. The higher the inflation rate, the stronger the relationship between company size and tax avoidance, especially in labor-intensive sector companies that are listed as LQ100 issuers.

6. CONCLUSION

This study aims to examine the determinants of tax evasion in 40 companies listed on the LQ-100 index on the IDX for the period 2018-2022. The results of this study indicate that the cost factor of labor adjustment is not a determining factor for tax evasion, although this is moderated by external factors, namely inflation. While the factor of company size is a determining factor for tax evasion, even though it is moderated by inflation the results further strengthen the existence of corporate taxpayer tax evasion.

The results of the first study indicate that the cost of labor adjustment partially has a significant negative effect on tax evasion. This finding shows that companies do not make adjustments to labor costs to avoid corporate taxes, so that an increase in the minimum wage in a region does not make a reason for a company to adjust labor costs to avoid taxes that must be paid. Efficient companies are better able to minimize expenses that cause inefficiency and maximize output, so that labor adjustments are not the main factor that can be streamlined in maximizing profits, this proves that labor adjustment costs have no effect on tax evasion.

The result of the second study is that company size has a positive and significant effect on tax evasion. This finding indicates that firm size is proportional to the level of tax avoidance committed by the firm. The bigger the company, the greater the risk of tax evasion by a company. This is because companies with relatively large total assets tend to be more capable and more stable in generating profits (Ramarusad et al., 2021). Based on these results, taxpayers are expected to be more aware of their obligations in paying taxes in proportion to the profits generated. This proves that company size has an effect on tax avoidance.

The results of the third study indicate that the inclusion of the inflation variable as a moderating variable cannot strengthen the effect of labor adjustment costs on tax evasion. The use of strategies to adjust labor adjustment costs depends on the characteristics of firms and labor market institutions (Babecký et al., 2009). During periods of inflation, not all prices and wages increase proportionately which causes inflation to affect the amount of income distribution (Blanchard & Johnson, 2013). So the results of rejecting this research are based on the fact that not all companies carry out labor adjustment costs when inflation occurs and the existence of good labor market institutional policies means that companies do not need to carry out labor adjustment costs to avoid corporate tax. This indicates that the existence of inflation does not strengthen the effect of labor adjustment costs on tax avoidance.

The fourth result of the study is that the inflation variable as a moderating variable can strengthen the effect of firm size on tax evasion. Higher state revenues can be due to the inflation factor which causes the price of goods/commodities to increase thereby increasing the Value Added Tax which causes the income from the Value Added Tax to increase. The higher the selling price of an item or production staple, the higher the selling price of an item, resulting in an increase in Value Added Tax/state revenue if there is stable demand (Mankiw et al., 2014). However, the inflation variable simultaneously affects the receipt of a company's profit margin (Abdullah & Nurkholifah, 2010). Thus, companies with large sizes tend to do tax avoidance to avoid higher taxes. This indicates that the existence of inflation can strengthen the effect of firm size on tax avoidance.

Theoretical implications in the research conducted show that the size of a company with a high inflation rate has an impact on the level of tax evasion. The level of tax avoidance can be reduced through the existence of more stringent government policies for companies with large asset sizes. According to the agency conflict theory, there is a conflict between the different objectives of the taxpayer and the tax authorities. Taxpayers calculate taxes based on profit by increasing deductible expenses by carrying out tax avoidance so that taxes paid as much as possible can be more efficient. However, the objective is different from that of the tax authorities, who have the task of collecting state revenue from the tax sector as much as possible.

The results of this study provide empirical evidence that the role of the company's internal parties and the role of the tax authorities have an impact on reducing the level of tax evasion. The reduction in the level of tax evasion can be overcome by evaluating and tightening companies that are classified as having a company size with a large number of assets. The factor of the inflation rate must also be of particular concern to the government, especially companies that are classified as having large amounts of assets.

This research is able to provide an overview for stakeholders in this case the Directorate General of Taxes and the Ministry of Manpower in formulating and implementing policies and standardization regarding taxation and determining Regency/Municipal UMK in the future, so that it will have an impact on increasing compliance with tax submission accompanied by an increase in state revenue from tax sector.

This study has several limitations in determining the selection of population data that requires consideration because the scope of the companies selected as the sample is only the

3 largest sectors of companies that absorb a high workforce, while the labor-intensive sector companies have a wide coverage. There are some incomplete data from the LQ100 population, thereby reducing the sample size. The analysis of this research is limited to empirical evidence regarding the labor adjustment cost variable, due to the fact that there is still little research discussing the effect of labor adjustment costs on tax evasion.

As for suggestions for further research for non-compliant companies, it is hoped that they can increase tax compliance and avoid tax evasion, in order to increase state revenues and increase the trust of other taxpayers. Subsequent tests are expected to expand the population and research sample by using a different sampling method, namely using probability sampling outside the LQ100 population, so that the research results are expected to be more representative.

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