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COVID-19 and Business & Tax Research

What we have learned from prior research and where we go from there

Yulianti Abbas, Ph.D.
Graduate Program in Accounting
Faculty of Economics and Business
Universitas Indonesia

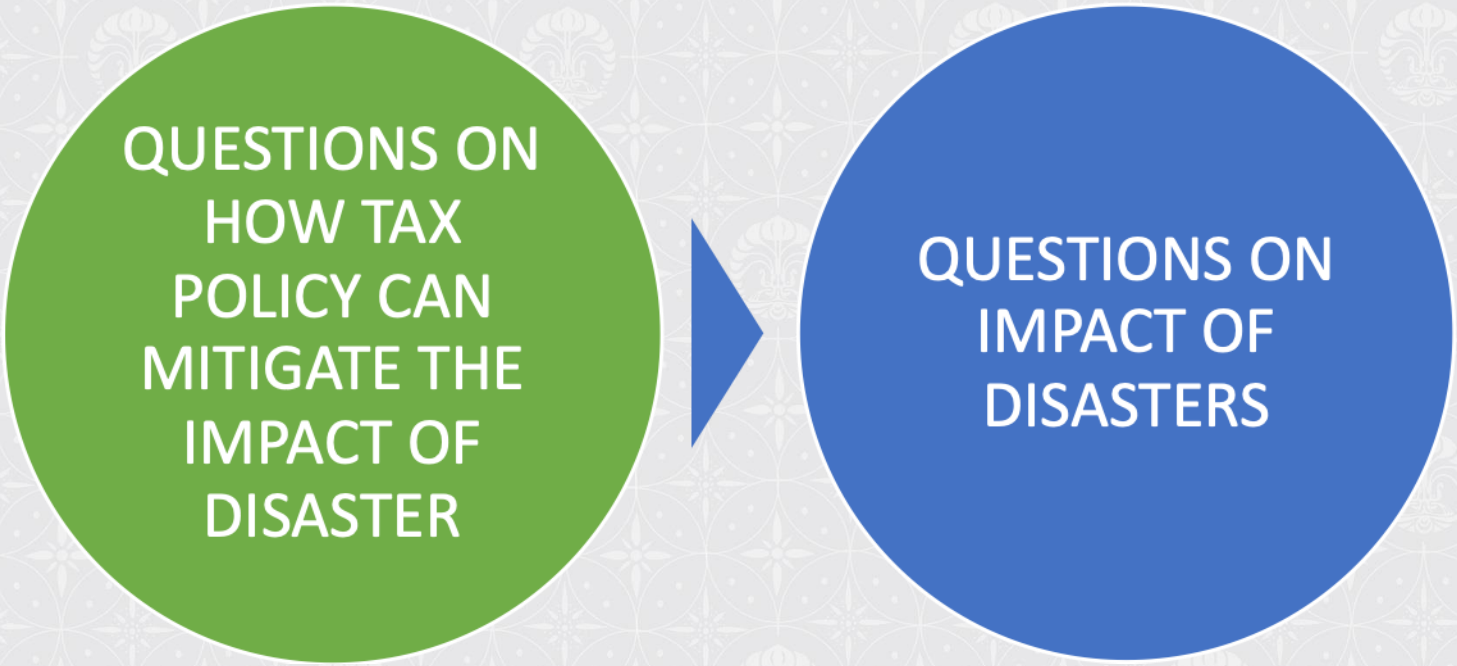
Agenda

What do we learn from past research?

Agenda for COVID-related Research in Business and Tax

Resources: Tax policy discussion in COVID era

Research Questions



Impact of Disasters on Public Organization

How public organization reacts to extreme events depends on Risk perception → the perceived probability of being exposed to negative impacts and the appraisal of how harmful those impacts would be on the organization (Zhang, Welch, Miao, 2018)

Natural disasters lead to significant increases in budget deficits, and this effect is larger in lower-middle- income countries (Melecky and Raddatz, 2011)

Impact of Disasters on Financial Market

Macroeconomic announcements affect the financial volatility

There was a 200-basis point increase in the country risk premium for China and Hong Kong following SARS (Lee and McKibbin, 2004)

The "spillover effects" of terrorist attacks suggesting a broad-based or "systematic" contribution of potential terrorism to overall risk in asset-pricing models (Karolyi, 2006)

Impact on Corporate Behavior

Managerial style: a linear relation between a chief executive officer's (CEOs) past experiences and firm risk → CEOs' exposure to fatal disasters is associated with corporate risk-taking (Bernile et al, 2017)

Elnahas, Kim, and Kim (2018) find that firms located in more disaster-prone areas adapt to be less levered.

The macro-level financial crisis does significantly reduce the persistence of debt policy, while micro-level environmental uncertainty has no effect on the debt policy persistence (Huang, 2018)

Impact on Corporate Performance

Banking Industry

Bongini, et al, (2019)

- Banks that experienced "profitability shock" during crises were those with a strong risk appetite that is not counterbalanced by adequate loan loss provisions and capitalization.
- Banks with greater "profitability recovery" were those with conservative lending policy, more stable and sounder banking systems → institutional context matters.

Patti (2017)

- Banks with consistently lower default rates on loans in the post-shock period performs better → better risk management.

Impact on Corporate Tax Avoidance

During the global financial crisis, for firms that are under financial distress, the benefits of tax avoidance outweigh the costs, increasing the incentive to avoid tax (Richardson, 2015)

The greater the damage caused by natural disaster, the lower the level of tax avoidance of local companies, and this relationship is more significant in state-owned companies, political affiliates, and local leading companies → expectation of government aid (Siyi, 2017)

Tax Policy in the Time of Disaster

Tax policy plays an important role in the immediate response of governments to support individuals and businesses, lessen the impact of disaster.

Tax policy in the time of disaster

- Chernick and Haugwout (2006) after 9/11
  - The importance of Federal assistance to encourage the rapid restoration of vital services, prevent sharp tax increases, and providing a credible signal for reinvestment in the city.
  - Tax expenditures should not be overly limited, both in the time and geography dimensions.

Tax policy in the time of disaster (2)

- Tax Policy in the Great Recession needs to take into consideration the financial institutions of corporation, whose behavior is affected by the tax, accounting, and regulatory rules they face, rules that are inter-related but not coordinated.
- *Public finance economists need to better integrate the economic analysis of taxation with the concerns and expertise of macroeconomists, finance economists, and accountants (Slemrod, 2009)*

In the time of COVID-19, questions remain...

- Are we actually learning anything from prior events?
  - How similar prior events with the COVID-19? Epidemic vs Pandemic
  - How much we can extrapolate the results of prior research to the current COVID-19 event?

A few current studies..

- Fiscal Policy during a Pandemic (Castro, 2020)
  - Macroeconomic Simulation of the effects of a pandemic and different types of fiscal policy instruments.
- Estimating the COVID-19 cash crunch: Global evidence and policy (De Vito and Gomez, 2020)
  - Stress-test three liquidity ratios under two simulated distress scenarios of drops in sales of 50% and 75%
  - about 1/10th of all sample firms would become illiquid within six months and the average firm with partial operating flexibility would exhaust its cash holdings in about two years.
- When Japanese Stock Market Meets COVID-19 (Takahashi and Yamada, 2020)
  - How the stock returns affected by the COVID-19 is influenced by ownership, China and US Exposure, ESG, and Liquidity Channels

Business and Tax Research – A Few Things to Think About

- Who will be more impacted by the Pandemic?
    - Companies/industries/local governments might be affected differently
- Will there be a change in behavior?
    - Which behavior
    - How long will it last?
- Will government policy (particularly tax policy) intervene?
    - Who will benefit more from the policy?
    - How?
    - To what extent?

Tax Policy Resources Related to Covid-19

- OECD’s resources:
  - Tax Administration Responses to COVID-19
  - Tax and Fiscal Policy in Response to the Coronavirus Crisis
  - Tax Treaties and the Impact of the COVID-19 Crisis
- Tax Policy Center

https://www.taxpolicycenter.org/feature/tax-policy-covid-19-economy

- Tax Foundation

https://taxfoundation.org/tag/covid-19-coronavirus/

- Tax Notes

https://www.taxnotes.com/coronavirus-tax-coverage

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