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THE PRIME ENFORCEMENT OF TAX AMNESTY REGULATION IN INDONESIA: EVIDENCE FROM TAX AGGRESSIVE FIRMS

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ABSTRACT

Purpose: *This study examines the response of tax aggressive companies to the prime enforcement of the tax amnesty in Indonesia. Specifically, this study examines their tax aggressive behavior in the period and post-period of tax amnesty.*

Methodology/approach: *The author(s) use all Indonesian companies in 2010-2018 listed in the IDX and analyze using logit and OLS regression analysis techniques.*

Findings: *The results suggest that companies that had been tax aggressive in the pre-period of a tax amnesty program are more likely to participate in Indonesia's prime tax amnesty program. Furthermore, we discover that those tax aggressive companies had become less aggressive in the period and post-period of tax amnesty. These findings are robust to several proxies of tax aggressiveness and Coarsened Exact Matching (CEM) method to handle potential endogeneity problems. We employ Indonesia's unique setting, one of a few developing countries that implement the tax amnesty successfully for the first time.*

Practical implications: *These findings are expected to provide evidence of the effectiveness of the tax amnesty implementation in Indonesia. The results could give insight for policymakers to thoroughly consider the costs and benefits of tax amnesty, and if there is a repeated implementation.*

Originality/value: *This study did not include any further test of the corporate governance mechanism involved in the relationship between tax aggressive companies and tax*

amnesty participation. Therefore, future studies could consider the limitations and address the issue.

KEYWORDS: *Corporate Sustainability; Effective Tax Rate; Tax Aggressive; Tax Amnesty Implementation; Tax Amnesty Participation.*

ABSTRAK

Tujuan penelitian: Studi ini mengkaji tentang respon perusahaan yang agresif terhadap pajak terhadap pemberlakuan amnesti pajak yang prima di Indonesia. Secara spesifik, penelitian ini mengkaji perilaku pajak agresif mereka pada periode dan pasca periode tax amnesty.

Metode/pendekatan: Penulis menggunakan seluruh perusahaan Indonesia tahun 2010-2018 yang terdaftar di BEI dan menganalisis menggunakan teknik analisis regresi logit dan OLS.

Hasil: Hasilnya menunjukkan bahwa perusahaan yang telah melakukan pajak agresif pada periode sebelum program amnesti pajak lebih besar kemungkinannya untuk berpartisipasi dalam program amnesti pajak utama di Indonesia. Selain itu, kami menemukan bahwa perusahaan-perusahaan yang agresif pajak tersebut menjadi kurang agresif pada periode dan pasca-periode pengampunan pajak. Temuan ini kuat untuk beberapa proksi agresivitas pajak dan metode Coarsened Exact Matching (CEM) untuk menangani potensi masalah endogenitas. Kami menggunakan latar unik Indonesia, salah satu dari sedikit negara berkembang yang berhasil menerapkan amnesti pajak untuk pertama kalinya.

Implikasi praktik: Temuan-temuan ini diharapkan dapat memberikan bukti efektifitas implementasi tax amnesty di Indonesia. Hasilnya bisa memberi wawasan bagi pembuat kebijakan untuk mempertimbangkan secara matang biaya dan manfaat pengampunan pajak, dan jika ada implementasi berulang.

Orisinalitas/kebaharuan: Studi ini tidak memasukkan pengujian lebih lanjut terhadap mekanisme tata kelola perusahaan yang terlibat dalam hubungan antara perusahaan agresif pajak dan partisipasi amnesti pajak. Oleh karena itu, penelitian selanjutnya dapat mempertimbangkan keterbatasan dan mengatasi masalah tersebut.

KATA KUNCI: *Corporate Sustainability; Effective Tax Rate; Tax Aggressive; Tax Amnesty Implementation; Tax Amnesty Participation.*

INTRODUCTION

Tax amnesty represents a government initiative that offers an additional opportunity to absolve delinquent taxpayers of their tax obligations ([Shevlin et al., 2017](#)). This program is designed to yield advantages for the local government through the immediate collection of revenue. Over the long run, this initiative has the potential to attract new taxpayers to the system by unveiling concealed sources of income. Consequently, tax amnesty can be regarded as a chance for non-compliant taxpayers to disclose their accurate supplementary earnings without incurring the substantial penalties they would normally face.

Over time, certain companies adopt a stance of assertive tax reporting, which entails manipulating their financial information to declare lower taxable income as a strategy for tax planning. This behavior can potentially border on fraudulent tax evasion or similar actions, as outlined by [Frank et al. \(2009\)](#). An alternative body of literature characterizes tax aggressiveness as the willingness to undertake tax planning risks in order to secure tax-related advantages, as indicated by [Blouin \(2014\)](#). Furthermore, tax aggressiveness can be understood as the proactive pursuit of opportunities to decrease the burden of taxation. Despite these definitions, the realm of inquiry into this topic remains limited, particularly within developing countries, even after the successful implementation of the tax amnesty program in Indonesia between 2016 and 2017. Few governments have chosen to enforce regulations of this nature within their respective nations.

Practically, companies that engage in aggressive tax practices tend to react to the repeated introduction of such practices with a diminished expectation of being caught ([Shevlin et al., 2017](#)). They perceive the recurrence of tax amnesties as an indicator of lax tax enforcement. Additionally, they might anticipate the possibility of future tax amnesty implementations, which leads to an increase in their aggressive behavior following each instance of repeated tax amnesty. However, our research presents an alternative perspective on how tax aggressive companies perceive the introduction of tax amnesty, focusing on the initial successful implementation in Indonesia. During the inaugural execution of this program in Indonesia, tax aggressive companies might hold concerns that the initial implementation would coincide with heightened tax enforcement and improved detection mechanisms. Consequently, they would carefully deliberate whether to participate in this primary instance of the tax amnesty. Conversely, they could also entertain the notion that subsequent rounds of tax amnesty programs will occur in Indonesia, affording them the opportunity to partake in future iterations.

However, previous studies have indicated that the implementation of tax amnesty could be perceived as a feeble indication by non-compliant taxpayers regarding the vigilance of tax authorities, especially if such implementation becomes repetitive ([Wilde & Wilson, 2018](#); [Li et al., 2021](#); [Cong et al., 2023](#); [Christensen et al., 2022](#)). This situation could lead to a shift in taxpayers' perspectives, making them less apprehensive about detection ([Shevlin et al., 2017](#)). Consequently, they might view the tax amnesty program merely as an expedient means for the government to rapidly generate revenue. Building upon this insight, there exists a potential that taxpayers might grow more hesitant to partake in the tax amnesty initiative. Hence, this research delves into the response of companies displaying greater tax aggressiveness during the pre-tax amnesty period, investigating their likelihood of

engagement with the tax amnesty program. Furthermore, we analyze whether this behavioral pattern undergoes modification during the tax amnesty's implementation and the post-amnesty phase. This subject garners interest due to its focus on the Indonesian tax amnesty framework, which was notably executed for the first time. In contrast, the United States has conducted the tax amnesty program multiple times or at more frequent intervals.

This study involved the examination of data from Indonesian companies listed on the IDX between 2010 and 2018, employing logit and OLS regression analyses. In alignment with previous research ([Balakrishnan et al., 2019](#); [Dyrenge et al., 2019](#)), various metrics were utilized to gauge the degree of tax aggressiveness. These metrics encompassed the GAAP effective tax rate, cash effective tax rate, and current effective tax rate.

The findings indicate that companies exhibiting higher levels of tax aggressiveness exhibit a favorable response to the tax amnesty program. To put it differently, these companies are more inclined to engage in the tax amnesty initiative as a means to circumvent potential future detection and the imposition of substantial penalties. Notably, our research also demonstrates that following their involvement in the tax amnesty program, these more tax aggressive companies undergo a significant reduction in their aggressive tax practices during both the program period and the subsequent period. Furthermore, the validity of these results remains steadfast when employing the Coarsened Exact Matching (CEM) regression technique for matching.

This research endeavors to provide an in-depth understanding of the responses exhibited by Indonesian enterprises in the wake of the initial execution of the tax amnesty program in the country. Moreover, this study meticulously chronicles how the inaugural utilization of the tax amnesty mechanism yielded advantages by enticing companies previously inclined towards aggressive tax practices to partake in the program, thereby mitigating their propensity for such behaviors. The program's effectiveness in this regard can be attributed to the signals it conveyed to these entities. The significance of this research lies in its capacity to furnish policymakers with invaluable insights, enabling them to meticulously deliberate upon the implications of the tax amnesty policy. This consideration should be intricately interwoven with the reinforcement of tax legislation. A judicious approach towards the tax amnesty policy is imperative, and its potential for recurrent implementation in Indonesia merits comprehensive examination of associated costs and benefits.

The remainder of this paper will be arranged as follows: section 2 literature review; section 3 research methodology; section 4 result and discussion; section 5 conclusion.

LITERATURE REVIEW

Tax Aggressiveness

Tax aggressiveness involves participating in transactions aimed at decreasing tax obligations in a manner that contradicts policy and resides within a nebulous realm ([Whait et al., 2018](#)). Furthermore, companies that partake in assertive tax planning typically employ intricate tax methodologies, including transfer pricing, allotting debt for earnings erosion, or establishing offshore intellectual property shelters.

Typically, companies that engage in aggressive tax strategies tend to possess a more opaque information landscape, and they exhibit a greater propensity for intricate financial structures, resulting in elevated levels of information asymmetry ([Balakrishnan et al., 2019](#)). Consequently, earlier research indicates that aggressive tax planning yields not only advantages but also drawbacks for such tax-aggressive enterprises ([Ningsih et al., 2023](#)).

According to the economic theory of criminal behaviour, individuals engaging in criminal activities are driven by economic rationality. They assess the potential gains and losses associated with committing a crime, taking into account the anticipated costs involved ([Becker, 1968](#)). This theory posits that criminals systematically evaluate the advantages and disadvantages, which encompass factors such as the likelihood of apprehension and subsequent penalties. Moreover, this framework extends to the concept that individuals who evade paying taxes, for instance, engage in a rational calculation of the benefits accrued from underreporting their taxable income, weighed against the potential drawbacks of being detected. This approach is further evidenced by the inclination of tax-evading individuals to perceive a favorable trade-off in reporting reduced income, particularly in the context of impending tax amnesties ([Slemrod, 2004](#)).

According to the theory, individuals who do not adhere to tax regulations consistently evaluate the benefits and expenses meticulously prior to adopting a tax aggressive stance. Furthermore, they deliberate over both direct and indirect ramifications of engaging in aggressive tax planning. These consequences encompass anticipated costs related to audits, information systems, interdepartmental coordination, and the public image of the business ([Guay et al., 2016](#)). Consequently, this theory underpins the objectives of this study, aiming to analyze how tax aggressive companies react to the opportunity of participating in tax amnesty. The nature of their response, whether positive or negative, hinges on their logical assessment of the situation.

Tax Amnesty

Tax amnesty presents an avenue for individuals who have failed to meet their tax obligations to rectify mistakes present in previously submitted tax returns ([Dunn et al., 2018](#)). This initiative provides the opportunity to alleviate, either partially or entirely, the fines, charges, and interest connected to outstanding tax debts of non-compliant taxpayers ([Buckwalter et al., 2014](#)). This approach serves as a cost-effective compliance strategy to prevent the imposition of severe penalties. Another motivation for non-compliant taxpayers to participate in tax amnesty arises from their desire to evade potential adverse consequences associated with engaging in tax evasion ([Bayer et al., 2015](#)). The primary objective of this program is to bolster both short-term and long-term tax revenues by enlisting delinquent taxpayers into the official records.

Nevertheless, the implementation of a tax amnesty might inadvertently exacerbate the tendency for future taxpayers to become delinquent if they perceive the possibility of recurring tax amnesty programs ([Ross & Buckwalter, 2012](#)). Consequently, the prospective nature of a tax amnesty could undermine its effectiveness, as non-compliant taxpayers may seize the opportunity for tax forgiveness presented by such a program. Moreover, the provision of a tax amnesty could unjustly burden law-abiding taxpayers, thereby producing lasting consequences ([Torgler & Schaltegger, 2005](#)).

The Setting of Tax Amnesty in Indonesia

In 2016 and 2017, Indonesia achieved a successful tax amnesty program, which was governed by Tax Law no. 11 of 2016. This marked a significant accomplishment, as earlier attempts at a similar policy in 1964 and 1984 faltered due to political circumstances and inadequate communication with taxpayers during those periods ([Huda & Hernoko, 2017](#)). Furthermore, the lackluster responses from taxpayers and the absence of subsequent tax administration reforms in past years contributed to the relatively limited success of prior tax amnesty initiatives ([Waluyo, 2017](#)).

Based on previous research, the tax-to-gross domestic product (GDP) ratio stands at 12%. This percentage falls within the low range when compared to other emerging economies, which maintain a tax ratio of 18% ([Hajawiyah et al., 2021](#)). In response, Indonesia has instituted a tax amnesty initiative to address this disparity. Consequently, this endeavor holds the potential to bolster the national budget's revenue, expand the roster of registered taxpayers, and stimulate investment activities. Furthermore, this tax amnesty program affords non-compliant taxpayers the opportunity to disclose previously unreported assets and settle a predetermined amount without facing penalties ([Waluyo, 2017](#)).

Hypothesis Development

Tax Aggressive Companies and Tax Amnesty Participation

Tax amnesty may result in firms exhibiting a proclivity for tax aggression, especially in instances where tax amnesty initiatives are frequently implemented. This phenomenon may arise due to the alteration of firms' perceptions brought about by tax amnesty programs. These programs could potentially lead firms to believe that there is a diminished likelihood of being detected by tax authorities, thereby indicating a weakened tax enforcement environment. The perception of inadequate tax enforcement increases the perceived probability of evading detection while engaging in tax avoidance practices. Furthermore, the recurrent nature of tax amnesty programs exacerbates the inclination of firms to adopt a more aggressive approach towards their tax strategies ([Shevlin et al., 2017](#)).

While there exists a potential scenario in which individuals with delinquent tax obligations opt to partake in tax amnesty programs due to their apprehension regarding heightened detection and consequent fines, there is an additional motivation stemming from their desire to mitigate the negative repercussions associated with underreporting income. Through the avenue of tax amnesty, those engaged in fraudulent tax activities receive a signal that tax authorities are in close proximity to uncovering their illicit practices ([Bayer et al., 2015](#)). Furthermore, the penalties associated with aggressive tax behavior possess the capacity to tarnish a company's reputation ([Hanlon & Slemrod, 2009](#)). Such a detrimental image may significantly influence investors' perspectives, leading to skepticism surrounding the company's financial statements, given the perception that tax-aggressive enterprises might extend their aggression towards investors as well ([Desai et al., 2007](#)). To summarize, it is evident that the expenses tied to engaging in tax aggressiveness are substantial, rendering the opportunity for tax liability absolution a more favorable alternative ([Cahyono & Sudaryati, 2023](#)).

Furthermore, the scrutiny could be bolstered by leveraging technology to amplify the efficiency of executing tax amnesty protocols ([Macho-Stadler et al., 1999](#)). Consequently, this advanced technological progression might instill apprehension among corporate taxpayers who persist in concealing their undisclosed earnings, as they would face steeper tax penalties upon detection. As a result, non-disclosing taxpayers might contemplate adopting technological advancements for detection, prompting them to opt for participation in the tax amnesty program.

Tax amnesty participation provides various benefits for corporate taxpayers with aggressive tax strategies. These advantages encompass the exemption from penalties and accrued interest on outstanding tax payments, as well as potential reductions in their overall tax liabilities ([Le Borgne & Baer, 2008](#)). According to the economic theory of criminal behavior, taxpayers who have previously evaded their tax obligations opt to take part in the amnesty program as they perceive the disadvantages of not disclosing their additional income to outweigh the advantages. Since the inception of the tax amnesty program in Indonesia, non-

compliant taxpayers assess participating in the program as a more financially favorable option compared to facing steep tax penalties if their concealed income is discovered. Consequently, we posit the first hypothesis as follows:

H1 = Companies engaged in more tax aggressive strategy in the pre-period of tax amnesty participation are more likely to participate in the tax amnesty program.

Tax Amnesty Participation and Tax Aggressiveness in the Period and Post-Period of Tax Amnesty

The implementation of tax amnesty is commonly linked with robust law enforcement and heightened penalties following the conclusion of tax amnesty proceedings ([Mikesell & Ross, 2012](#)). Based on these findings, it can be deduced that the aftermath of participating in tax amnesty instills apprehension among delinquent corporate taxpayers, as they harbor concerns about intensified detection measures, potentially leading to a reduction in the company's tax assertiveness. Furthermore, the concept of tax amnesty is correlated with the introduction of novel enforcement technologies and escalated penalties, prompting non-compliant taxpayers to factor in the potential costs of persisting with aggressive tax behaviors. This situation can incur substantial expenses for non-compliant taxpayers ([Mikesell & Ross, 2012](#)). Additionally, this study centers its focus on companies that have already demonstrated tax aggressiveness in the years preceding the tax amnesty period, thereby magnifying their feelings of "remorse" and "anxiety" stemming from their prior instances of tax negligence ([Cahyono, 2023](#)).

Moreover, we contend that the initial execution of a tax amnesty can warrant a unique circumstance. This is due to the substantial public scrutiny it will likely garner during its duration, consequently influencing the manner in which tax aggressive companies formulate their tax strategies. Maintaining an elevated level of aggressiveness in these strategies could potentially expose these companies to greater risks. To illustrate, engaging in aggressive transfer pricing may entail jeopardizing the intricate configuration of transactions, thereby amplifying the vulnerability of a firm's overall cashflows ([Goh et al., 2016](#)). Given these rationales, we posit the following as our second hypothesis:

H2= Companies that are more tax aggressive in the pre-period of tax amnesty participation are more likely to become less aggressive in the period and post period of tax amnesty participation.

METHODS

Sample and Source of Data

In this empirical context, the dataset employed for this research comprises the annual and financial reports of Indonesian corporations listed on the IDX (Indonesia Stock Exchange) spanning the years 2010 to 2018. Notably, Indonesia's inaugural successful tax amnesty program took place from July 1, 2016, to March 31, 2017, as documented by the Ministry of Finance (Kemenkeu, 2016). Consequently, the dataset under investigation is segmented into two distinct periods: the preliminary phase before the tax amnesty's enactment from 2010 to 2015, and the comprehensive timeframe of 2010 to 2018. This approach aims to discern the patterns of tax aggressiveness exhibited by companies during both the pre-implementation and post-implementation periods of the tax amnesty initiative.

Description	Total
Panel A: Pre-Period of Tax Amnesty	
Initial observations (2010-2015)	4,517 observations
Excluded by:	
Firms within financial, insurance, and real estate industry (SIC 6)	(776) observations
	(1,928) observations
Effective tax rates that fall outside of the range [0, 1]	
Firms with missing data	(528) observations
Final observations	1,285 observations
Panel B: Full Period	
Initial observations (2010-2018)	7,253 observations
Excluded by:	
Firms of Financial, Insurance, & Real Estate Industry (SIC 6)	(1,310) observations
Effective tax rates that fall outside of the range [0, 1]	(2,997) observations
Firms with missing data	(1,161) observations
Final observations	1,785 observations

Table 1.
of Sample
Selection
Criteria

The specifics pertaining to the specimen utilized in this investigation are outlined within Table I. The examination segregates the specimen into dual time spans. The initial span (depicted in Panel A) encompasses the 2010-2015 timeframe, serving to mirror the state of enterprises during the preliminary stage leading up to the tax amnesty implementation in Indonesia. As such, this pre-tax amnesty period sample is harnessed to scrutinize the primary hypothesis. The subsequent subset of the sample (displayed in Panel B) encapsulates the entire duration under consideration, facilitating an evaluation of the inclinations in corporations' tax assertiveness throughout the complete period, and subsequently, during the phase post-tax amnesty implementation, thereby affording an appraisal of the secondary hypothesis.

The sample selection criteria exclude companies with SIC number 6, which pertains to finance, insurance, and property sectors, due to their distinct regulations and tax considerations. Additionally, data points where the ratios of GAAP effective tax rate, cash effective tax rate, and current effective tax rate are both above 1 and below 0 are also removed from the sample, as indicated by ([Chen et al. 2010](#)). Referring to Table I, Panel A, the ultimate sample size for testing the first hypothesis consists of 1,285 observations. Similarly, as outlined in Panel B, 1,785 observations are utilized to assess the second hypothesis.

Operational Variable Definition & Variable Measurement

Tax Aggressiveness

As per Blouin's findings in 2014, tax-aggressive firms are linked to their willingness to assume the risk of their tax planning endeavors in order to secure tax advantages. Moreover, corporations can be classified as tax aggressive if they exhibit an unusually low tax liability, as outlined by ([Balakrishnan et al. in 2019](#)).

Expanding upon prior research, it has been posited that the quantification of tax

aggressiveness is inherently challenging due to inherent limitations. This challenge stems from the absence of a unanimous definition for tax aggressiveness (Blouin, 2014). Nevertheless, this study employs a prevalent surrogate to gauge tax aggressiveness, namely the effective tax rate. However, we intend to employ diverse metrics for the effective tax rate, each presenting distinct advantages and drawbacks.

The initial metric to consider is the GAAP effective tax rate, which delineates the proportion of overall tax expenditure in relation to pre-tax income. This measure takes into account the influence of accruals; however, its drawback lies in its inability to accurately reflect the current tax filing. This measure remains unaffected by temporal disparities due to its incorporation of deferred tax accounting. Temporal discrepancies hold significance as they correspond to variations between tax and financial reporting (Balakrishnan et al., 2019).

The second metric is the cash effective tax rate, which is characterized as the proportion of the total cash reserved for tax payments divided by the pre-tax income, as established by (Dyregang et al. in 2008). This particular indicator is employed due to its ability to illustrate the transient and enduring disparities between book and tax assessments. As a result, this gauge remains uninfluenced by alterations stemming from accounting evaluations, like adjustments related to valuation allowances and tax reserves, as highlighted by (Chung et al. in 2019). It is important to note, however, that this measurement does not encompass the cash disbursed for taxes accrued in the previous reporting period. Additionally, it is worth mentioning that the cash effective tax rate may appear disproportionately low for a company, even when there is substantial activity involving the exercise of stock options. This outcome is attributable to the impact of stock option activity on this metric, as underscored by Blouin in 2014.

The third factor to take into account pertains to the prevailing efficient tax rate, computed by dividing the current expense for income tax by the income before taxes. This measure effectively assesses the extent of the tax burden shouldered by businesses in the current period (Lennox et al., 2013). It's important to highlight that the deferred expense for income tax is not included in the overall income tax expense. This exclusion is attributed to the fact that the deferred expense for income tax arises due to discrepancies in timing between financial and tax reporting (Omer et al., 1993). This presentation serves to elucidate transactions that pertain to explicit tax obligations and encompass both lasting and temporary disparities (Tran & Zhu, 2017). In the scope of this study, we standardize all these types of effective tax rates by multiplying them with a factor of -1, facilitating the interpretation of results. Consequently, if the outcome is positive, it signifies that firms are more inclined towards tax aggressiveness, and vice versa.

Tax Amnesty Participation

Engagement in the tax amnesty initiative enables taxpayers to exhibit transparency by revealing their previously undeclared earnings and settling their outstanding tax obligations. This key aspect determines whether corporations will be inclined to take part in the tax amnesty endeavor. Certain analysts have elucidated that the impetus behind joining the tax amnesty program stems from a sense of unease about potential future audits and the substantial fines that might ensue. In accordance with the established evasion theory, involvement in tax amnesty is viewed as an anticipated enhancement in utility resulting from participation amid circumstances of unpredictability (Alm & Beck, 1991).

Empirical Model

We also use clustered approach of regression in this study to generate unbiased estimates for

standard error (Petersen, 2009). Logit regression is used to test the first hypothesis, with the following research design:

$$TA_PAR = a + \beta_1TGAAP + \beta_2ROA + \beta_3FSIZE + \beta_4PPE + \beta_5LEV + \beta_6CAP_INTEN + \beta_7AGE + \beta_8INDUSTRY + \beta_9YEAR + \varepsilon$$

(1)

While, OLS regression is used to test the second hypothesis, with the following research design:

$$GAAP_ETR = a + \beta_1TGAAP_POST_TA + \beta_2TGAAP + \beta_3POST + \beta_4TA_PAR + \beta_5ROA + \beta_6FSIZE + \beta_7PPE + \beta_8LEV + \beta_9CAP_INTEN + \beta_{10}AGE + \beta_{11}INDUSTRY + \beta_{12}YEAR + \varepsilon$$

(2)

The specifics of the variable names are accessible within Table II. The initial and secondary research designs exclusively employ a proxy for the GAAP effective tax rate. Consequently, other forms of effective tax rates, such as the cash effective tax rate and the current effective tax rate, follow the same research design as aforementioned. This study incorporates various control variables: Return on Assets (ROA), company size, property-plant-equipment holdings, leverage, capital intensity, and company age. These variables are drawn from previous literature to manage the measurement of tax aggressiveness (Balakrishnan et al., 2019; Chen et al., 2010; Lanis et al., 2017). Furthermore, the study also integrates fixed effect variables encompassing year-specific and industry-specific effects. The year fixed effect counteracts fluctuations in economic conditions throughout the research period, while the industry fixed effect addresses divergences in characteristics across distinct industries within the study.

Variable	Definition	Calculation
TGAAP	Variable of tax aggressiveness of company based on GAAP Effective Tax Rate	Categorized as '1' if displaying tax aggressiveness, and '0' otherwise. This determination is made through a yearly assessment, wherein the GAAP Effective Tax Rate variable is compared to the median value of the aggregated GAAP Effective Tax Rates over a span of five years.
TCASH	Variable of tax aggressiveness of company based on Cash Effective Tax Rate	Categorized as '1' if exhibiting tax aggressiveness, and '0' if not. This determination is made through a comparison between the Cash Effective Tax Rate for each year and the five-year median of Cash Effective Tax Rates.

<i>TCUR</i>	Variable of tax aggressiveness of company based on Current Effective Tax Rate	Coded as 1 in case of tax aggressiveness, and 0 otherwise. This determination arises from the comparison between the Current Effective Tax Rate for each year and the median of the Current Effective Tax Rates over a span of 5 years.
<i>GAAP_ETR</i>	Ratio to measure the tax aggressiveness of a company. In this study, the value of GAAP_ETR that will be shown in the test already multiplied by -1 to make it easier for reader to analyze. Therefore, positive GAAP_ETR indicates more tax aggressive.	Ratio of income tax expense to pretax income.
<i>CASH_ETR</i>	Ratio to measure the tax aggressiveness of a company. In this study, the value of CASH_ETR that will be shown in the test already multiplied by -1 to make it easier for reader to analyze. Therefore, positive CASH_ETR indicates more tax aggressive.	Ratio of total cash paid for income tax to pretax income.
<i>CUR_ETR</i>	Ratio to measure the tax aggressiveness of a company. In this study, the value of CUR_ETR that will be shown in the test already multiplied by -1 to make it easier for reader to analyze. Therefore, positive CUR_ETR indicates more tax aggressive.	Ratio of amount of current income tax expense to pretax income
<i>TA_PAR</i>	Tax amnesty participation	Coded as 1 if firms participate the prime implementation of tax amnesty in Indonesia, and 0 for otherwise
<i>POST</i>	Variable to indicates the company in the period of 2016-2018 (period and post-period of tax amnesty implementation)	Coded as 1 for the company in the period of 2016-2018, and 0 for otherwise

<i>TGAAP*POST*TA</i>	This variable indicates the tax aggressive companies based on GAAP effective tax rates, that already participate tax amnesty in the period and post-period of tax amnesty implementation (2016-2018).	Interaction among variable of TGAAP, POST, and TA_PAR
<i>TCASH*POST*TA</i>	This variable indicates the tax aggressive companies based on cash effective tax rates, that already participate tax amnesty in the period and post-period of tax amnesty implementation (2016-2018).	Interaction among variable of TCASH, POST, and TA_PAR
<i>TCUR*POST*TA</i>	This variable indicates the tax aggressive companies based on current effective tax rates, that already participate tax amnesty in the period and post-period of tax amnesty implementation (2016-2018).	Interaction among variable of TCUR, POST, and TA_PAR
<i>ROA</i>	Return on asset to measure the firm performance.	Operating income divided by lagged asset
<i>FSIZE</i>	Firm Size	Natural logarithm of total asset
<i>PPE</i>	Property Plant Equipment	PPE for firm divided by lagged asset
<i>LEV</i>	Leverage	Total liabilities scaled by total asset
<i>CAP_INTEN</i>	Capital Intensity	PPE scaled by total asset
<i>AGE</i>	Age of company	Log number of years firms listed in IDX

Table 2.
Variable
Definition

RESULT AND DISCUSSION

Descriptive Statistics and Pearson Correlation

Table III presents descriptive statistics, elucidating the distribution and inherent characteristics of the data. The fundamental objective of employing descriptive statistics is to yield fundamental insights into the variables. Notably, in Table III, the variables GAAP_ETR, CASH_ETR, and CUR_ETR have been subjected to a multiplication by -1, a manipulation undertaken to facilitate subsequent analyses. This adjustment entails that a greater ETR ratio signifies a heightened level of tax aggressiveness. Derived from the contents of Table III, the calculated means for tax aggressiveness among Indonesian enterprises are -0.248, -0.267, and -0.218, respectively.

Moreover, this study conducts a univariate analysis to succinctly summarize the analysis of each individual variable. Table IV provides a comprehensive overview of the correlations among variables, revealing a noteworthy and statistically significant positive correlation at the 1% level between GAAP_ETR, CASH_ETR, and CUR_ETR variables and TA_PAR. The variable indicating tax amnesty participation signifies a positive relationship between increased tax aggressiveness of companies and their engagement in tax amnesty programs.

Variable	Mean	Median	Minimum	Maximum
<i>GAAP_ETR</i>	-0.248	-0.251	-0.815	0.000
<i>CASH_ETR</i>	-0.267	-0.247	-0.902	0.000
<i>CUR_ETR</i>	-0.218	-0.237	-0.694	0.000
<i>ROA</i>	0.164	0.121	-0.071	0.822
<i>FSIZE</i>	21.408	21.405	17.117	25.243
<i>PPE</i>	0.508	0.420	0.005	2.822
<i>LEV</i>	0.505	0.485	0.064	2.329
<i>CAP_INTEN</i>	0.658	0.361	0.000	430.184
<i>AGE</i>	14.232	15.000	0.000	38.000

Table 3.
Descriptive
Statistics

Panel A: From Variable *TA_PAR* to Variable *ROA*

		[1]	[2]	[3]	[4]	[5]
[1]	<i>TA_PAR</i>	1.000				
[2]	<i>GAAP_ETR</i>	0.061*** (0.003)	1.000			
[3]	<i>CASH_ETR</i>	0.104*** (0.000)	0.375*** (0.000)	1.000		
[4]	<i>CUR_ETR</i>	0.065*** (0.002)	0.502*** (0.000)	0.499*** (0.000)	1.000	
[5]	<i>ROA</i>	-0.097*** (0.000)	0.084*** (0.000)	0.103*** (0.000)	-0.022 (0.321)	1.000

Panel B: From Variable *FSIZE* to Variable *AGE*

		[6]	[7]	[8]	[9]	[10]
[6]	<i>FSIZE</i>	1.000				
[7]	<i>PPE</i>	-0.000 (0.983)	1.000			
[8]	<i>LEV</i>	-0.033 (0.123)	-0.002 (0.922)	1.000		
[9]	<i>CAP_INTEN</i>	-0.064*** (0.003)	0.401*** (0.000)	-0.023 (0.288)	1.000	
[10]	<i>AGE</i>	0.011 (0.616)	-0.112*** (0.000)	0.040* (0.073)	-0.028 (0.210)	1.000

Table 4.
Pearson
Correlation

p-values in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Regression Analysis

Regression of Tax Aggressive Companies and Tax Amnesty Participation

In this research, we conduct a logit regression analysis to examine the initial hypothesis. The findings presented in Table V demonstrate a notably positive and statistically significant correlation between corporations displaying tax aggressive behavior and their involvement in tax amnesty participation. This correlation is observed across three distinct metrics used to gauge tax aggressiveness. Consequently, the outcomes suggest a heightened propensity for tax aggressive firms to take part in tax amnesty initiatives. Notably, the tax amnesty program studied here pertains to its primary execution within the context of Indonesia. The subsequent logit regression is executed within the timeframe spanning from 2010 to 2015.

Table V presents the empirical findings regarding the impact of various factors on tax amnesty participation. The analysis demonstrates that TGAAP exhibits a noteworthy outcome at the 5% significance level, displaying a coefficient of 0.243 concerning its association with tax amnesty participation. Meanwhile, TCASH exhibits a considerable significance at the 1% level, indicating a positive coefficient of 0.411 in relation to the variable of tax amnesty participation. Furthermore, the results from TCUR indicate a meaningful correlation with tax amnesty participation, significant at the 5% level, and characterized by a coefficient of 0.295. Notably, the tax aggressiveness measurement in this study has been subject to a multiplication by -1. Consequently, the positive correlation observed in the outcomes suggests that companies displaying higher levels of tax aggressiveness are more inclined to partake in tax amnesty programs. This finding aligns consistently with the outcomes derived from the three metrics pertaining to effective tax rates.

The findings indicate that companies displaying tax aggressive behavior exhibit a propensity to engage in tax amnesty programs, particularly evident in the case of the robust implementation of the tax amnesty initiative in Indonesia. This observation aligns with the preceding discovery that tax amnesty programs often coincide with heightened tax enforcement measures and more stringent detection methods (Shevlin et al., 2017). These companies likely interpret the tax amnesty event as a governmental indication of an impending intensification of tax enforcement following the tax amnesty implementation. This outcome is consistent with the economic theory of criminal behavior, positing that non-compliant taxpayers logically assess the potential gains and losses associated with their actions (Becker, 1968). As a result, they are likely to perceive participation in a tax amnesty as a more favorable alternative, especially after practicing tax aggressiveness over an extended period.

Moreover, this research illustrates that corporations employing aggressive tax strategies regard the current tax reform as a favorable avenue to reap advantages like tax amnesty, in contrast to their prior behavior of concealing actual earnings. It is imperative for these entities to recognize that the potential repercussions stemming from their past tax evasion endeavors outweigh the gains they've accrued over the years. They hold the perspective that this initiative could yield superior benefits by affording them exemption from the punitive consequences tied to their preceding instances of tax nonpayment.

		<i>TA_PAR</i>		
		(1)	(2)	(3)
455	<i>TGAAP</i>	0.243** (2.05)		
	<i>TCASH</i>		0.411*** (3.42)	
	<i>TCUR</i>			0.295** (2.46)
	<i>Control Variables</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
	<i>Industry Fixed Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
	<i>Year Fixed Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
	_cons	3.304*** (3.71)	3.016*** (3.36)	3.176*** (3.55)
	r2_p	0.072	0.077	0.073
	N	1285	1285	1285

Table 5.
Logit
Regression
Result of Tax
Aggressiveness
to Tax Amnesty
Participation
(2010-2015)

t statistics in parentheses

p* < 0.1, *p* < 0.05, ****p* < 0.01

Regression of Tax Aggressive Companies in the Period and Post-Period of Tax Amnesty Implementation

In this examination, we engage in a test that involves the manipulation of the tax aggressiveness indicator variable, coupled with the participation in tax amnesty, within the timeframe spanning from 2016 to 2018. The outcome of the second hypothesis is thus derived from this test. Furthermore, we conduct a regression analysis on this interaction variable against the continuous tax aggressiveness variable, aiming to assess the probability of companies either elevating or diminishing their degree of tax aggressiveness.

The findings presented in Table VI elucidate the outcomes of the second hypothesis. Notably, the interaction variables TGAAPPOSTTA, TCASHPOSTTA, and TCURPOSTTA exhibit a conspicuous inverse correlation with various manifestations of the effective tax rate. As inferred from the proxy GAAP effective tax rates, the interaction variable reveals an adverse linkage, as denoted by a coefficient of -0.036, signifying statistical significance at the 5% threshold (*t*= -2.44). Similarly, the context of cash effective tax rates reveals a noteworthy correlation at the 10% significance level, accompanied by a coefficient of -0.038 (*t*= -1.87). Concurrently, the current effective tax rates exhibit a meaningful association, demonstrating a coefficient of -0.033 that is statistically significant at the 5% level (*t*= -2.34).

Table VI provides evidence that companies with a tendency towards aggressive tax strategies, who have already taken part in the tax amnesty, exhibit a decrease in their level of aggressiveness both during and after the tax amnesty period. This finding lends support to the second hypothesis formulated in this research. It is noteworthy that when we refrain from considering interactions among variables, the outcomes reveal a noteworthy and statistically significant positive association between our tax aggressiveness indicator variables (TGAAP, TCASH, TCUR) and the continuous tax aggressiveness variables. This observation further reinforces the notion that companies inclined towards tax aggressiveness can potentially reduce their aggressive behavior by participating in the tax amnesty program during the applicable period and the subsequent post-amnesty timeframe. Notably, Table VI,

employing three variations of effective tax rates, demonstrates the diminished aggressiveness among companies of this nature who engage in the tax amnesty program within both the designated periods.

The findings of the second hypothesis align with the findings of previous research conducted by (Hanlon & Slemrod, 2009). This research posited that companies involved in tax avoidance strategies might negatively impact their corporate image, consequently leading to a decline in their stock prices. Additionally, this behavior also influences investor perceptions, as highlighted by (Desai et al. 2007). The market tends to respond unfavorably when companies fail to rectify their tax practices during tax amnesty events, which present opportunities for resolution. Consequently, this lack of action can result in potential public embarrassment, as discussed by (Luitel & Sobel, 2007). As a result, participating in tax amnesty initiatives prompts companies to adopt a less aggressive approach to taxation in order to preserve their corporate reputation, thereby influencing their stock prices. It is evident that tax-aggressive companies will factor in the implications of technological advancements and opt for a more conservative stance subsequent to their involvement in tax amnesty programs.

	(1) <i>GAAP_ETR</i>	(2) <i>CASH_ETR</i>	(3) <i>CUR_ETR</i>
<i>TGAAP*POST*TA</i>	-0.036** (-2.44)		
<i>TCASH*POST*TA</i>		-0.038* (-1.87)	
<i>TCUR*POST*TA</i>			-0.033** (-2.34)
<i>TGAAP</i>	0.112*** (14.90)		
<i>TCASH</i>		0.184*** (18.41)	
<i>TCUR</i>			0.119*** (15.87)
<i>POST</i>	0.066*** (3.86)	0.015 (0.62)	0.055*** (3.59)
<i>TA_PAR</i>	0.007 (1.11)	0.037*** (4.34)	0.006 (0.91)
<i>Control Variables</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>Industry Fixed Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>Year Fixed Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>_cons</i>	-0.277*** (-6.10)	-0.182*** (-2.92)	-0.260*** (-5.63)
r2	0.169	0.253	0.177
N	1785	1785	1785

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Robustness Analysis

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This research could potentially encounter an endogeneity concern due to the influence of managerial incentives on corporate tax decisions, such as tax aggressiveness, as highlighted by the work of (He et al. 2020). Furthermore, the potential endogeneity issue in this study may stem from the variations in observable characteristics between firms exhibiting higher and lower levels of tax aggressiveness. Consequently, our objective is to mitigate this endogeneity challenge, specifically the issue of self-selection bias, by employing the Coarsened Exact Matching (CEM) method. Through CEM, we aim to construct a matched sample that centers around tax aggressiveness, thereby addressing the potential bias caused by differing firm characteristics.

We conducted a comprehensive CEM analysis for each indicator reflecting tax aggressiveness, meticulously incorporating seven covariates across three distinct strata. In relation to our initial hypothesis covering the timeframe of 2010-2015, the quantity of samples successfully matched is detailed in Table VII, Panel A. Analyzing the findings presented in Table VII, Panel B, subsequent to implementing the matching criteria, we consistently observed that the first hypothesis holds true, indicating a connection between tax-aggressive enterprises and participation in tax amnesty programs. Furthermore, it's worth noting that the CEM Method demonstrated significance across all tax aggressiveness variables, as gauged by three distinct metrics pertaining to effective tax rates.

Panel A: Matching Summary (Sample Period 2010-2015)

	<i>TGAAP</i> = 1	<i>TGAAP</i> = 0	<i>TCASH</i> =1	<i>TCASH</i> =0	<i>TCUR</i> =1	<i>TCUR</i> =0
All	792	773	773	792	792	773
Matched	763	760	731	783	752	763
Unmatched	29	13	42	9	40	10

Panel B: OLS Regression Results of CEM Method

<i>TA_PAR</i>	(1)	(2)	(3)
<i>TGAAP</i>	0.218* (1.82)		
<i>TCASH</i>		0.379*** (3.10)	
<i>TCUR</i>			0.264** (2.17)
<i>Control Variables</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>Industry Effect</i>	<i>Fixed</i>	<i>Included</i>	<i>Included</i>
<i>Year Effect</i>	<i>Fixed</i>	<i>Included</i>	<i>Included</i>
_cons	3.237*** (3.61)	3.109*** (3.37)	3.182*** (3.46)
N	1264	1255	1256

Table 7.
Tax Aggressive Companies and Tax Amnesty Participation-Coarsened Exact Matching Method Regression

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Panel A: Matching Summary (Sample Period 2010-2018)						
	<i>TGAAP</i> = 1	<i>TGAA</i> <i>P</i> = 0	<i>TCASH</i> = 1	<i>TCASH</i> = 0	<i>TCUR</i> = 1	<i>TCUR</i> = 0
All	1329	891	1389	831	1369	851
Matched	1242	838	1255	783	1252	810
Unmatched	87	53	134	48	117	41

Panel B: OLS Regression Results of CEM Method

	(1)	(1)	(1)
	<i>GAAP_ET</i>	<i>CASH_ETR</i>	<i>CUR_ETR</i>
	<i>R</i>		
<i>TGAAP*POST*T</i>	-0.027*		
<i>A</i>	(-1.83)		
<i>TCASH*POST*TA</i>		-0.032	
		(-1.58)	
<i>TCUR*POST*TA</i>			-0.038***
			(-2.77)
<i>TGAAP</i>	0.099***		
	(13.97)		
<i>TCASH</i>		0.174***	
		(17.25)	
<i>TCUR</i>			0.112***
			(15.20)
<i>POST</i>	0.051***	0.009	0.055***
	(3.17)	(0.38)	(3.71)
<i>TA_PAR</i>	0.009	0.040***	0.005
	(1.43)	(4.56)	(0.80)
<i>Controls</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>Variables</i>			
<i>Industry Fixed Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
<i>Year Fixed Effect</i>	<i>Included</i>	<i>Included</i>	<i>Included</i>
_cons	-0.230***	-0.156**	-0.256***
	(-5.09)	(-2.49)	(-5.45)
r2	0.156	0.249	0.165
r2_a	0.144	0.239	0.154
N	1723	1720	1736

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 8.
Tax
Aggressiveness
in the Period
and Post-Period
of Tax
Amnesty-
Coarsened
Exact Matching
Method
Regression

Furthermore, to obtain a consistent result for the second hypothesis, we employed the matching method that shown in the following Table VIII. Table VIII Panel B shows that the results consistent with the main finding of the second hypothesis, which indicates that tax aggressive companies which participate tax amnesty become less aggressive in the period and post-period of tax amnesty based on proxy GAAP effective tax rate that significant at the level of 10%, and based on current effective tax rates that significant at the level of 1%. Therefore, the results of this study are robust from self-selection bias problem and remain consistent after tested using matching method regression.

CONCLUSION

Based on the first successful implementation of a tax amnesty in Indonesia during the 2016-2017 period, this study aims to explore how companies with a history of aggressive tax practices responded to the opportunity presented by the tax amnesty. Additionally, this paper investigates the behavior of such companies during and after the tax amnesty period in Indonesia. The unique context of Indonesia, as one of the few developing countries to have implemented a tax amnesty, provides an interesting backdrop for this analysis.

The findings of the study reveal that companies inclined towards tax aggressive practices demonstrated a higher likelihood of participating in the tax amnesty program. The tax amnesty, which was effectively implemented in Indonesia for a limited period, elicited a positive response from these companies. This positive response can be attributed to the tax amnesty's offering of an avenue for non-compliant taxpayers to rectify their past actions. These companies willingly engaged in the tax amnesty due to their concerns about the potential intensification of future tax enforcement measures. They anticipated stricter tax audits and more substantial penalties, which prompted their willingness to participate in the tax amnesty program. Moreover, based on an analysis of effective tax rates using three distinct metrics, the results indicate a trend among tax aggressive companies to adopt less aggressive tax practices during and after the tax amnesty period. This finding aligns with existing literature that emphasizes how engaging in tax aggressive behavior can harm a company's reputation and generate apprehension about being detected and subjected to higher penalties. The robustness of our results is confirmed through endogeneity tests, and our conclusions remain consistent following Controlled Event Matching (CEM) regression analysis.

This study contributes significantly to the existing body of literature concerning tax aggressiveness and the efficacy of tax amnesty programs, particularly within the framework of their initial execution. We furnish empirical evidence that the inaugural utilization of a tax amnesty can yield advantages by drawing the participation of tax-aggressive enterprises, ultimately leading to a mitigation of their tax-avoidant practices. This phenomenon is attributed to the signal sent by the program, indicating a heightened commitment to robust tax enforcement. The implications of our findings hold paramount importance for tax regulatory bodies, serving as pivotal insights to fortify taxation regulations in light of the recurrent implementation of tax amnesty initiatives in Indonesia during 2022. It is crucial to recognize that the affirmative outcomes we observed stem from the unique circumstances of the inaugural successful execution of the tax amnesty in Indonesia. The repercussions could differ in subsequent iterations of the program. Thus, tax authorities are urged to meticulously evaluate the costs and benefits associated with the long-term ramifications of recurring tax amnesty implementations.

In this investigation, we refrained from conducting additional examinations of the corporate governance mechanisms associated with the interplay between tax-aggressive enterprises and their involvement in tax amnesty programs. Furthermore, we deliberately excluded non-financial companies from our analysis due to their distinct financial attributes compared to their counterparts, particularly in terms of factors such as debt and leverage. Consequently, forthcoming research endeavors ought to meticulously acknowledge these constraints and tackle the matter by delving deeper into the connection between tax aggressiveness and participation in tax amnesty initiatives within well-defined and specific corporate governance frameworks.

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