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Analysis of Tax Avoidance in Mediation of The Effect of Tax Amnesty on The Value of Manufacturing Companies in The Indonesia Stock Exchange

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ABSTRACT

This study aims to examine the effect of tax amnesty on firm value with tax avoidance as a mediating variable in the financial statements of manufacturing companies listed on the Stock Exchange which disclose PSAK 70. Tax amnesty is proxied by a dummy variable, firm value is proxied by the ratio Q, and tax avoidance is proxied by cash effectiveness. tax ratios. This type of research is quantitative with a population of 173 companies. Determination of the sample using the purposive sampling method with the criteria of being listed on the IDX during the 2017-2021 period, obtaining tax underpayment status during the 2017-2021 period, and participating in the tax amnesty program. Research using the WarpPLS 7.0 tool, the results obtained that tax avoidance cannot be a mediating variable for the effect of tax amnesty on firm value.

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1. Introduction

This research was made in response to the *Tax amnesty program* in 2019 and 2020 as well as the news regarding the request of Commission IX members of the DPR from the PDIP faction Maruarar Sirait to the Minister of Finance Sri Mulyani to hold Tax Amnesty II. Quoted from CNN Indonesia, Maruarar Sirait directly asked Sri Mulyani to hold Tax Amnesty again because according to him there are still many taxpayers who have not had time to take part in the Tax Amnesty which was carried out from July 2019 to March 2020 (CNN Indonesia, 2020). This request was submitted during the discussion of the 2020 State Revenue and Expenditure Budget Draft (RAPBN). Maruarar explained that the Tax Amnesty program is effective in strengthening the participation of taxpayers in carrying out their obligations.

Tax amnesty itself becomes a tool to generate revenue for the state in a more efficient way, namely through the provision of forgiveness to taxpayers, but on the other hand collects short-term receipts from tax payments (Stella, 1991; Pratama, 2019). Thus, after the *tax amnesty program*, the level of tax revenue will increase. This increase is reasonable for the impact of its implementation.

The largest contributor to Indonesian taxation is the manufacturing sector, which is IDR 363.60 trillion or 30 percent of the total tax revenue in 2021 (Tempo, 2022). In line with this, manufacturing also contributed to the largest investment in four years (2017-2021), namely 41.8 percent of the total investment realization. Quoted from Tempo, according to the Minister of Manufacture, Airlangga Hartarto, Indonesia's manufacturing sector is ranked fifth among the G20 countries in terms of its contribution to economic growth of 20 percent. Indonesia is behind China (29.3%), South Korea (27.6%), Japan (21%), and Germany (20.6%). So it can be concluded that the manufacturing sector has the biggest impact on the Indonesian economy, taxation, and investment.

PSAK 70 which aims to make management "comfortable" in taking adjustments to accounting policies has its own impact on investors. PSAK 70 can hide information about corporate tax management, so that it will reduce the positive perception of investors (Natania & Davianti, 2021). Meanwhile, in a tax perspective, tax disclosure is used to evaluate corporate tax compliance (Towery, 2015). Both studies indicate that the *Tax amnesty program* is not accompanied by standard accounting policies that accommodate transparency to users of financial statements. Even though the *Tax amnesty program* is a means of assessing tax avoidance company. Then, it should be the company that is indicated to be tax evasion need to disclose more accurate information in financial statements (Langenmayr, 2015).

Tax disclosure by companies can be seen from two basic theories of disclosure, namely political cost theory and signal theory. Political cost theory reveals that companies try to avoid negative publicity that will incur costs to restore reputation (Rose, 1985; Sobel, 1998; Martin et al., 2021). Meanwhile, signal theory here that focuses on tax non-compliance will imply tax audits or even government investigations (Mgammal et al., 2018). Thus, the *tax amnesty program* can be interpreted as very "political" because it does not accommodate a decrease in the level of tax avoidance (Nar, 2018) and create momentum to minimize sanctions for past tax violations (Graetz, 1993; Shevlin et al., 2020).

The problem will focus on the value of the company. The value of the company shows the turbulence of the stock market in a country. Companies that enter the stock market have a major contribution to the economy and taxation of the country. *Tax amnesty requires* companies to disclose previously unreported assets and liabilities. From this management transparency can be assessed and the tax authorities assess companies that do tax evasion. Companies with too large a disclosure will create a gap between pre and post *tax amnesty*.

Research conducted by Pratama (2019) shows that the *tax amnesty* has a significant positive effect on tax avoidance. Company motivation in tax avoidance is to increase profits desired by shareholders and implementation by management (Desai & Dharmapala, 2017). This is in line with the phenomenon that occurred during the *tax amnesty period*.

2. Study Literature

Tax evasion

Traditionally, tax evasion is an act of transferring wealth from the state to shareholders (Kim et al., 2015). Hanlon and Heitzman broadly define tax avoidance as a reduction in the explicit tax burden (2015). Hanlon and Heitzman see that tax evasion measures are very broad, starting from the simplest actions in the form of issuing debt securities that have interest to aggressive actions such as not complying with tax regulations (2016). Hanlon and Heitzman's approach, although in line with the approach taken by Dyreng et al. (2017), but wider because Dyreng et al see that tax evasion covers areas that are still gray to areas that are illegal acts.

The value of the company

Firm value is the price a party is willing to pay if the company is sold. One way to measure firm value is to use the Tobin's Q ratio. The use of this ratio has been a valuation measure since it was used by Demsetz and Lane in 1997 (Desai and Dharmapala, 2016). This ratio shows the current market estimate of the rate of return of each investment unit. where a value of more than one indicates that the return on investment is greater than the value of the investment, whereas if it is below one, the value of the company is low because the rate of return is lower than the cost.

Tax evasion

Tax avoidance is an effort to reduce the tax burden, this can be done by tax planning, tax evasion and tax avoidance. Krayan' and Swanson' (2018) in Sari et al.,(2016)' state that "effective tax rates (ETR) that are well managed by companies are seen by comparing the real taxes paid with profit before taxes.

Hypothesis

H₁: Tax amnesty has a positive effect on tax avoidance

In the research of Nugroho and Agustia (2020) tax avoidance has a significant positive effect on firm value. The study considers the motivation of shareholders in reaping the maximum profit in order to get bigger dividends. So tax avoidance increase the value of the company.

H₂: Tax avoidance positive effect on firm value

In the thesis conducted by Parluhutan (2021) it was found that the *tax amnesty* had a negative effect on firm value. This study considers the agency costs and political costs that arise. Agency costs arise due to the unequal perception and goals between management and shareholders. Management follows the *tax amnesty* to avoid administrative sanctions in the future. However, this proves that management does not implement tax transparency to shareholders. Political costs arise because of a decrease in customer confidence. Customers tend to distrust non-transparent management.

H₃: Tax amnesty has a negative effect on firm value

Research by Fadhila and Handayani (2019) shows tax avoidance as a mediating variable on the effect of *tax amnesty* on firm value. So companies that participate in the *Tax amnesty program* will reduce the value of the company regardless of the company's management by calculating management's doing and not doing tax evasion.

H₄: Tax amnesty has a negative effect on firm value with tax avoidance as a mediating variable

The study uses *tax amnesty* as an independent variable, firm value as the dependent variable, and tax avoidance as a mediating variable. The study used partial regression analysis (*Partial Least Squar*).

3. Research Methods

This research uses quantitative methods with secondary research. The object of research is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during

the 2017-2021 period. This research uses the independent variable *tax amnesty* (X), the dependent variable is firm value (Y), and the mediation variable is tax avoidance. (i).

The data collection technique uses a documentary study, namely downloading financial reports from the official website of the Indonesia Stock Exchange. The sample technique is *non - probability sampling* with *purposive sampling method*. The population of this study is a manufacturing company listed on the Indonesia Stock Exchange for the period 2017-2021. The following is a sample calculation along with the criteria used in conducting *sampling*:

Table1. Sample Calculation

No.	Criteria	Amount
1.	Companies listed on the IDX for the period 2017-2021	173
2.	Companies that are not listed in a row on the IDX for the period 2017-2021	(54)
3.	Companies that get tax overpayment status during the 2017-2021 period	(9)
4.	Companies that do not participate in the <i>tax amnesty</i> program	(78)
	Sample	32

Source: maintained by the author, 2022.

Based on table 1, it is known that the population of manufacturing companies in the 2017-2021 period is 173. Then based on data collection according to predetermined criteria, a sample of 32 companies was obtained, so that in five years of research, 160 observational data were obtained which were used as samples in the study.

The independent variable in this study is the *tax amnesty*. *Tax amnesty* is the abolition of taxes that should be owed, not subject to tax criminal sanctions, by disclosing assets and paying ransom as stipulated in the legislation. *Tax amnesty* is proxied through the disclosure of PSAK 70. *Tax amnesty* is measured by a dummy variable for companies that do not disclose PSAK 70 using the number 0 and number 1 for those that disclose PSAK 70 (Pratama, 2019).

The dependent variable used in this research is firm value. Company value is the selling value of a company as an entity that runs a business and operates. The measurement of firm value uses the Tobin Q Ratio (Fadhila & Handayani, 2019). The following is the formula for the Tobin Q Ratio according to James Tobin in Nicholas Kaldor (1966).

$$\text{Tobin's Ratio Q} = \frac{(P)(N) + (D)}{BVA}$$

P = stock market price (*closing price*)

N = Number of shares outstanding

D = Book value of total liabilities

BVA = Total book value of assets

The mediating variable in this study is tax avoidance . Tax evasion is the company's efforts to reduce the tax payable that must be paid by taking advantage of the weaknesses of the existing tax regulations legally and safely. Measurement of tax avoidance using Cash ETR. Cash ETR was chosen because it considers the effect of discretionary accruals. The following is the calculation of Cash ETR according to Chen (2010).

$$\text{Cash ETR} = \frac{\text{cash for taxes}}{\text{Earnings before tax}}$$

4. Result and Discussion

The study was analyzed using WarpPLS 7.0 software, which produced the following descriptive statistics:

Table 2. Descriptive Statistics of Tax amnesty

	Period	Amount	Percentage
1	2019	23	71.875%
2	2020	9	28.125%
	Amount	32	100%

Source: Processed data, 2022

Based on table 2, it is known that 71.875% of the total sample companies participated in the *tax amnesty program* from the 2019 period. This means that the majority have participated in the *Tax amnesty program* since the beginning of the regulation being inaugurated. Meanwhile, 28.125% chose to join the *tax amnesty program* for one period after the regulation was enacted. This means that there are preparations of more than 9 companies so that the possibility of tax evasion be higher.

Table 3. Descriptive Statistics of Firm Value and Tax Avoidance

	N	mean	Std. Deviation	Minimum	Maximum
The value of the company	160	1.134	0.768	0.288	4.94
Tax evasion	160	0.210	0.377	-2.257	0.967

Source: Processed data, 2022

Based on table 3, it can be seen that the value of the company ranges from 0.288-4.94 with a data of 160. While the standard deviation is 0.768 with a mean (average) of 1.134. The mean value is above 1, so it can be interpreted that the average manufacturing company on the IDX that discloses PSAK 70 is quite good or overvalued. This means that, on average, IDX-listed manufacturing companies that disclose PSAK 70 have successful asset management and show that they are able to create market confidence in the company.

The Q ratio with a mean of 1.134 means that the market value of manufacturing companies listed on the IDX that disclose PSAK 70 has an average market value of 1.134 times greater than its book value. In addition, a value above 1 also indicates that the average company has the potential to generate a higher rate of return than the cost of the assets incurred. So, the average value of the company exceeds its book value.

The company that has the lowest company value is Intanwijaya Internasional Tbk with a ratio of 0.288 which means that the company value is not good enough or undervalued. The ratio of 0.288 means that Intanwijaya Internasional Tbk has a company value that does not exceed its book value. As for the highest, Grand Kartech Tbk with a ratio of 4.94, which means the company has a market value of 4.94 times greater than its book value.

Table 3 also shows that tax evasion ranged between -2.257-0.976 with data of 160. Meanwhile, the standard deviation of 0.360 with a mean (average) of 0.204. The mean value is below 25%, i.e. 21%, indicating that the average IDX-listed manufacturing company discloses PSAK 70 still not paying taxes in accordance with the tax provisions optimally.

CETR shows that on average they still have not paid their tax obligations in accordance with applicable regulations. This indicates that on average, IDX-listed manufacturing companies that disclose PSAK 70 have not paid tax in the year at the minimum value of the applicable tax rate. So, on average, companies still make decisions to reduce taxes that must be paid for the current year.

The minimum value of -2.257 is Grand Kartech Tbk. This shows that there are companies that suffer losses, but still have to pay tax obligations. Because, the company received an underpaid tax assessment letter (SKPKB) and the results of the trial on the rejected appeal from the results of the tax

audit. This company is defined as not making a decision to suppress taxes that must be paid for the current year due to losses, but fulfilling obligations from tax administrative sanctions and tax criminal penalties.

While the maximum value is 0.976, namely Voksel Electric Tbk, which means the company pays tax obligations for the current year 97.6% of profit before tax. A value that is more than 30% indicates that there are tax payments other than taxes that must be paid for the current year. The company has a tax bill for the previous year or sanctions and fines that must be paid for the current year period.

Table 4. Results of the Coefficient of Determination

	<i>R-Squared</i> Value (R^2)
Tax evasion	0.048
The value of the company	0.154

Source: Processed data, 2022

Based on table 4 both tax avoidance and the value of the company is < 0.25 or far from 1. Then the *tax amnesty variable* on tax avoidance and firm value has very weak predictive power. This means that with the *R-Squared value* of tax avoidance of 0.048. Then as much as 4.8% tax avoidance influenced by the *tax amnesty*, while 95.2% was influenced by variables outside the study. Furthermore, the *R-Squared* value of the company is 0.154. So as much as 15.4% of the value of the company is influenced by the *tax amnesty*, while 85.6% is influenced by variables outside the study.

From the output of the WarpPLS 7.0 software, it can be briefly seen in the results of the research hypothesis test in the following table:

Table 5. Hypothesis Test Results

Information	Coefficient	P-Values	Ideal	Results
H1 <i>Tax amnesty</i> (X) has a positive effect on tax avoidance (i)	0.218	<0.001	<0.05	Significant
H2 Tax evasion (i) positive effect on firm value (Y)	-0.384	<0.001	<0.05	Significant
H3 <i>Tax amnesty</i> (X) has a negative effect on firm value (Y)	0.109	0.044	<0.05	Significant
H4 <i>Tax amnesty</i> (X) has a negative effect on firm value (Y) with tax avoidance (i) as a mediating variable	-0.084	0.032	<0.05	Significant

Source: Processed data, 2022

Based on table 5, the results of testing the first hypothesis show that the influence between variables has *p-values* <0.05 so that *tax amnesty* has a significant effect on tax avoidance. Furthermore, for the *path coefficient* of 0.128, which means that if the value of the *tax amnesty* changes by one unit and the other variables are constant, then the mediation variable for tax avoidance is will change by 0.128. A positive sign on the *path coefficient* means that when the company participates in the *tax amnesty* in that period, tax avoidance increase. So, the first hypothesis is accepted or proven true.

Based on table 5, the results of testing the second hypothesis show that the influence between variables has *p-values* <0.05 so tax avoidance significant effect on firm value. Furthermore, for the *path coefficient* of -0.384 which means if the value of tax avoidance changes by one unit and other variables constant value, then the dependent variable company value will change by 0.384. A negative sign on the *path coefficient* means the higher the level of tax avoidance the lower the firm value of a company. So, the second hypothesis is not accepted and is not proven true.

Based on table 5, the results of testing the third hypothesis show that the influence between variables has *p-values* <0.05 so that the *tax amnesty* has a significant effect on firm value. Furthermore,

for the *path coefficient* of 0.109, which means that if the value of the *tax amnesty* changes by one unit and the other variables are constant, then the dependent variable of firm value will change by 0.109. The positive sign on the *path coefficient* means that when the company participates in the *tax amnesty* in that period, the company's value will increase. So, the third hypothesis is not accepted or not proven true.

Based on table 5, the results of testing the fourth hypothesis show that the indirect effect between variables has *p-values* of 0.032. The *p-values* <0.05, meaning that the *tax amnesty* has an effect on the value of the company with tax avoidance as a mediating variable. Furthermore, the *path coefficient* of the indirect effect through the mediating variable is -0.084 or smaller than the direct effect. This means that the actual influence is direct influence. So, the fourth hypothesis is not accepted or not proven true.

Tax amnesty can increase the value of the company, but can not increase the tax ratio of significantly. The *tax amnesty program* is a momentum for companies to increase the value of the company without worrying about the decline in the company's image in terms of taxation. Because seen from the results of existing research that tax avoidance no is not a true influence with a negative value. So, investors do not see the company's tax compliance and can have a negative impact on the tax environment in the capital market.

An unfavorable tax environment will have a bad impact on investors. With the sluggish level of taxation income from the capital market, the government will find it difficult to allocate funds. This difficulty will reduce the enthusiasm of the capital market and reduce its economic activity.

5. Conclusion

Based on the results of the analysis and discussion that have been formulated and tested from manufacturing companies listed on the IDX for the 2019-2021 period, only the first hypothesis is accepted. The second hypothesis can be concluded that the results are not accepted. Because the results of the study state that tax avoidance increase, while the value of the company decreases. This shows that the stock market environment in Indonesia has taken into account the tax compliance of an IDX-listed manufacturing company in investing. So when tax evasion increases, the value of the company will decrease due to reduced investor interest in investing in the company. The third hypothesis can be concluded that the results are not accepted. Because the results of the study state that IDX-listed manufacturing companies that participate in the *tax amnesty program* will increase. This shows that the *tax amnesty* can increase investor interest due to increased assets or liabilities. The fourth hypothesis can be concluded that the results are not accepted. Because the results of the study state that tax avoidance can not effectively increase the effect of *tax amnesty* with firm value.

Based on the results of the research and the conclusions that have been presented, suggestions can be given to the government to review if it will hold *Tax Amnesty II*, because the *tax amnesty* can indeed increase the value of the company's company, but it is not good for the good of the tax environment in the Indonesian capital market. This means that the *tax amnesty program* is a momentum for the company to increase the value of the company and without worrying about the decline in the company's image in terms of taxation. Then suggestions to investors are expected to take into account the taxation of companies that will be invested in. Because investors are sensitive to taxation, it will increase the tax ratio on the IDX. It is good that the higher state income from taxation, the allocation to that sector will also increase. That way the company's operations increase, then profits increase, then return as dividends to bigger investors.

This research still has limitations that must be considered by further researchers, namely the limitations of previous research with the theme of tax incentives such as *tax amnesty* which pays attention to the market environment and the Indonesian tax environment.

The implications of the results of this study include two things, namely theoretical implications and practical implications. Theoretical implications prove agency theory, signal theory, and political cost theory. Agency theory is clearly still relevant to be used in this study. Because it is seen how the friction of goals between stakeholders will affect the course of an entity. Signal theory looks relevant, but not great. Because it is seen that with the presence or absence of tax avoidance investors will still invest by calculating the *tax amnesty participation*. Political cost theory is still relevant to this research.

This is because management chooses to spend money when participating in the *tax amnesty* to improve the company's image in the eyes of investors.

While the practical implications here are seen by the three rejected hypotheses resulting in the need for more research on tax intensives in Indonesia. The CETR indicator apparently cannot fulfill a deeper calculation, so further research is needed to examine tax avoidance in the Indonesian tax environment. In addition, the Q ratio is proven to reveal things other than investor interest in researching firm value. With the Q ratio, it is possible to see the value of the company becoming wider, namely from the management of company assets as well. This study also shows that *Tax Amnesty II* cannot be the only proxy for the government in increasing the tax ratio. Because *Tax Amnesty I* shows that the level of tax avoidance companies still cannot be suppressed efficiently.

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