"The Effect of Indonesia Tax Amnesty 2016 law Validation towards Indonesia Stock Exchange (Event Study on Companies Classified in LQ45 Index)"

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This research is an event study which aimed at finding out empirical evidence related to whether or not the Tax Amnesty 2016 Law Validation affects Indonesia's capital market. The population in this research was 45 listed companies in Indonesia Stock Exchange's stocks classified in LQ45 index. This research used secondary data which were daily stock price, daily trading volume, and the composite index on five days before, one day at the event date, and five days after the event date. Statistical test in this research used one-tailed t-test and paired t-test. There is significant positive abnormal return around the event date which means that the market responds towards the event. There is no significant difference in abnormal return on the pre-event to event date, event date to post-event, and pre-event to post-event period. There is significant difference on the pre-event to event date and event date to post-event period, but not significant on the pre-event to post-event period.

Keywords:Event Study, Capital Market, Abnormal Return, Trading Volume Activity

INTRODUCTION

The outbreak of Panama Papers in early April 2016 has made governments across the world are giving more concern about the money hidden in tax heaven countries by those evading tax in their home country including Indonesian government. According to Azhar, et al., (Reuters, 2016) around $200 billion (IDR 2,630 Trillion) of Indonesian money that may not have been declared to the tax authorities in Jakarta has been squirreled away in Singapore. A vast amount of money managed by and for the prosperity of another country. It is time now to bring those money home for the sake of national development.

Tax amnesty is considered as the right way to bring those money back to Indonesia. Since the objective of those who save their money abroad is avoiding high tax and increasing the accumulation of their wealth from the very beginning, it is difficult to persuade them to bring their money back to Indonesia and make them pay for the tax including all its fine during the duration of their avoidance. To make the application of tax amnesty law to be effective, those people can bring home their money with much lower ransom rate. This money later will be used to drive the economic wheel of Indonesia, fund infrastructures building, and increase prosperity of the nation.

Tax amnesty is not just about the national earnings, but its potential to spin the economic wheel. In the current weak global situation, every additional earnings is an important economic driver resource which was awaited. In the long period of time, the expansion of taxpayer database can support the realization of sustainable posture of APBN (Indonesia Income and Expenditure Budget). In the end, higher tax income can increase the government purchase capability, it is not only for building infrastructure, but also to perform another programs to increase the prosperity in the country (Anonymous, 2016).

Tax amnesty is expected to affect several sectors in Indonesia especially the capital market. According to the tax amnesty law, the redemption rate for declaring assets repatriated for investment is set at 2 percent of their net

asset value. Meanwhile, declared asset that are repatriated but are not for investment purposes will be subjected to a 4 percent penalty. Bank Indonesia deputy governor Perry Warjiyo said "bonds, stocks, and corporate bonds were financial instruments that could absorb the repatriated funds" (Ivany, 2016).

Align with above statement, Tax Amnesty is expecting to bring positive impact towards Indonesia Stock Exchange. The repatriate money use for investment shall increase the number of shares traded during particular day in this case during the event period. Investors shall giving more favor in Indonesia investment climate, bringing more money for companies to expand their business, bring profit for those who sold their stock in higher price, or simply making abnormal return when the stock return during the trading day beyond the market return which is very attractive for short-term investors, or those who are ready to sell their stock and realized their profit.

Based on above argument. The tax amnesty is considered to bring reactions from investors in the stock market. The effect can be changed in trading volume, price, or rate of return of the stock especially for those which has high liquidity and market capitalizations. The importance of analyzing the effect caused by the tax amnesty is to give investors additional information about how such an event affect the market, thus give them important information in developing a better investment or trading plan for similar events taken place in the future or even the way they speculate the stock price based on its historic data. This research can also provide essential information for investors attempt to produce short-term income by understanding the stock price movement during the pre-event date, event date, and post-event date then use it as parameters to decide the perfect time to enter the market and when to exit, thus decreasing the investors' risk and increasing the probability of gaining profit.

Indonesia Stock Exchange (IDX) LQ45 index is a collection of 45 stocks selected through several selection criteria. In addition to the assessment of liquidity, the selection of these shares considers market capitalization which aimed to complement the Indonesia Stock Exchange and in particular to provide an objective and reliable means for financial analysis, investment managers, investors and other capital market observers in monitoring the movement of prices from actively traded stocks.

IDX LQ45 is chosen because these companies are the best in their sector, have high company value, liquidity, market capitalization, fundamental performance, and trading pattern. According to Anonymous (2017:1) These companies cover at least 70% of the stock market capitalization which almost immediately reflect their sector index as their price moving. As the best 45 companies in Indonesia, the stocks of LQ45 index proved to be more attractive for investors for its high liquidity, lower investment risk, and long-term opportunity. This kind of company offers sustainable growth and profit making in long-term, good corporate governance, high transparency, and continuously paying dividend for its shareholders. In the other hand, LQ45 index is considered as efficient market as the index is subject to the information spread in the public, which can be originated from the company itself inform of company transparency, rumor, or even government regulation that can immediately affect the stock price. An efficient market is defined as one in which the prices of all securities quickly and fully reflect all available relevant information (Jones, 2010: 300).

The reaction of capital market towards information produced by an event can be learned using *event study* (Jogiyanto, 2003:410). The test of the information is designed to oversee the reaction of an announcement. Regarding the announcement carrying an information, the market is expected to

response at the day the information is received by the market. The market reaction can be measured by using *return* as the value of price changes or using *abnormal return* which is the difference between *actual return* and *expected return* of the investor (Laksmi, 2013:6).

The reaction of capital market towards information spread can also be seen from *trading volume activity* parameter. Trading volume activity can be used by investor to see which stock is being actively traded in the market (Neni and Mahendra, 2004:93). Change in daily trading volume of a stock in the stock floor indicates that there are specific response of the investors which reflects their decision making towards the stocks.

Previous research by Treisye (2002) related to the reaction of capital market towards political event of *Pergantian Presiden Republik Indonesia* (the substitution of Indoesian president) on 23 July 2001 shown that within three days of trading, there is positive and significant *abnormal return* during the event period. Similar research was also conducted by Neni and Mahendra (2004) about the effect of political event of Pemilu Legislatif (legislative Election) 2004 towards trading volume and return of LQ-45 stocks, and Havid (2008) about the reaction of capital market towards political event of the result announcement of Pilkada DKI (DKI Regional Leader Election) Jakarta on 16 August, 2007, showing that there was significant differences between the average trading volume activity in the pre-event and post-event period of the event.

Another event study research was conducted by C. Wahyu (2007) who investigated about the reaction of capital market towards Indonesi bersatu cabinet reshuffle in 2005 showing that at the time, the market reaction was positive, shown by the appearance of positive and significant *average abnormal return* around the event date.

Moreover, Melitina and Rianny (2010) in their research about the reaction of Indonesia capital market towards Kuningan bombing in 2009 explained that the bombing event could not produce abnormal return for the investor in Indonesia Stock Exchange, and it was also found that there was no difference on the abnormal return after the bombings event with the abnormal return before the bombing event.

Laksmi (2013) also conducted a research on the reaction of Indonesia capital market towards the political event of second round election of DKI Jakarta Governor 2012 on the Kompas 100 index showing that there was positive and significant abnormal return during the period of the event date, which means that the market was responding the event as a good news.

Pratama, et al., (2015) in his research about the reaction of Indonesia capital market towards political event of the inauguration of Joko Widodo as the 7th President of Republic Indonesia using the event study method showed that there was abnormal return detected during the pre-event, event date, and post-even period but statistically it was not significant.

Based on the background which is already explained before, the problems of the research are as follows:

1. Is there any significant positive abnormal return around the event date period of the tax amnesty 2016 law validation?
2. Is there any significant differences in the average abnormal return on the pre-event date to event date period of the tax amnesty 2016 law validation?
3. Is there any significant differences in the average abnormal return on the event date to post-event date period of the tax amnesty 2016 law validation?
4. Is there any significant differences in the average abnormal return on the pre-event date to post-event date period of the tax amnesty 2016 law validation?
5. Is there any significant differences in the average trading volume

activity of stocks in the pre-event date to event date period of the tax amnesty 2016 law validation?

6. Is there any significant differences in the average trading volume activity of stocks in the event date to post-event date period of the tax amnesty 2016 law validation?
7. Is there any significant differences in the average trading volume activity of stocks in the pre-event date to post-event date period of the tax amnesty 2016 law validation?

LITERATURE REVIEW

Tax Amnesty

Tax amnesty is government regulation in taxing sector by removing the tax which should be paid by paying compensation in particular amount which aims to give additional tax receipt and opportunity for tax evaders to become honest taxpayer so the regulation is expected to drive up people to become obedient tax payers so they can voluntarily pay tax in the future (Hutagol in Tio, 2016:18).

Capital Market

The capital market is a market that enables suppliers and demanders of long-term funds to make transactions. It includes securities issues of business and government. The backbone of the capital market is formed by the broker and dealer markets that provide a forum for bond and stock transaction (Gitzman & Zutter, 2010: 35).

According to Jones (2010: 300) an efficient market (EM) is defined as one in which the prices of all securities quickly and fully reflect all available relevant information. In efficient market, the current market price of a security incorporates all relevant information and securities prices reflect available information to offer an expected return consistent with level of risk. This concept postulates that investors will assimilate all relevant information into process in making their buying and selling decision.

Event Study

The event study methodology is designed to investigate the effect of an event on a specific dependent variable. A commonly used dependent variable in event studies is the stock price of the company. The key assumption of the event study methodology is that the market must be efficient. Given an efficient market, the effects of the event will be reflected immediately in the stock prices of the company. This will allow the researcher to observe the economic effect of the event over a relative short period (Woon, 2010:2).

Stock

According to Jones (2010:38) equity securities (stock) represent an ownership interest in a corporation. These securities provide a residual claim-after payment of all obligations to fixed-income claims on the income and assets of a corporation. Kapoor, *et al*., (2007:250) described that common stock is a unit of ownership of a company, and it entitles the owner, or stockholders, to vote privileges.

Return

Jones (2010:128) stated that return is the motivating force in the investment process. It is the reward for undertaking the investment. Return consists of two types, which are realized return and expected return. Realized return is an actual return or return that has occurred and the result has been obtained by the investors for the investment they have done. Realized return is important because it can be used as a measurement of companies' performance and as a basis to determine expected return and risk in the future. Expected return is rate of return which investors' expected in the future. Difference to realized return, expected return has not yet happened (Jogiyanto, 2003:109).

Hypothesis

Based on the fundamental theory and previous research review, the hypotheses of the research are:

Hypothesis I

H1: There is a positive significant abnormal return around the date when tax amnesty 2016 law validation event occurs.

Hypothesis II

H2: There is difference in stock average abnormal return during the pre-event date to event date period of tax amnesty 2016 law validation.

Hypothesis III

H3: There is difference in stock average abnormal return during the event date to post-even date period of tax amnesty 2016 law validation.

Hypothesis IV

H4: There is difference in stock average abnormal return during the pre-event date to post-event date period of tax amnesty 2016 law validation.

Hypothesis V

H5: There is difference in stock average trading volume activity during the pre-event date to event date period of tax amnesty 2016 law validation.

Hypothesis VI

H6: There is difference in stock average trading volume activity during the event date to post-event date period of tax amnesty 2016 law validation.

Hypothesis VII

H7: There is difference in stock average trading volume activity during the pre-event date to post-event date period of tax amnesty 2016 law validation.

RESEARCH METHODOLOGY

1.1 Research Types

This research is an event study, which is a study that learns market reaction towards an event which the information is publicly shared as an announcement. An event study can be used to test information content from an announcement and to test the market efficiency in semitrong form (Jogiyanto, 2003:410).

Research Population

The population of the research is stocks which are classified as LQ45 members in Indonesia Stock Exchange for February-July 2016 trading period, which is 45 stocks in total. Index LQ45 was chosen by considering the status of the index as the reflection of Indonesia best companies. LQ-45 index is considered to have high company value, liquidity, market capitalization, fundamental performance, and trading pattern.

Research Period

In event study research, the period is called with event period or event window which is time period used by the researcher to measure and observe market reaction towards an announcement or event. The duration of event window depends on the event type. If the event can be measured by its economic value and can easily be determine by investors, then the window can be as short as investors considered to react quickly by the event (Jogiyanto, 2003:436).

The event period in this research is 11 days of exchange divided into 5 days of pre-event date, 1 day of event date, and 5 days of post-event date. In line with above statement, the event windows period of 11 trading days is chosen by considering the confounding effect that can occurs during longer period since July is a crucial time for investors because it's the month for the second quarter financial report release for company that listed in Indonesia Stock Exchange, not to mention another information transparency release and corporate action taken or will be taken by the company that could affect the stock's price producing confounding effect for the research in its progress. Tax amnesty 2016 is announced on Friday, July 1st, 2016. Accordance to that the research period is from June 24th, 2016 to July 15th, 2016. (Noted that according to IDX exchange calendar during the 4th – 8th of July the Exchange is closed due to Idul Fitri Holiday Sequence).

Type and Source of Research Data

Type of data used in this research is quantitative data. The researcher typically selects the quantitative approach to respond to research

questions requiring numerical data (Williams, 2007).

Source of data for the research is secondary data, which means that the information was gathered by someone other than the researcher conducting the current study. Secondary data in this research were obtained from obtain official Indonesia Stock Exchange (IDX) website which is www.idx.co.id, Enterprise Solutions Market Information Automation & Realtime Trading from BNI Securities, and Home Online Trading System from Mirae Asset Securities during the research period.

Operational Definition of Variables

Operational definition explains about particular way used by the researcher in operating construct (variable), so that it becomes possible for other researcher to replicate the measurement with the same method or to develop better measurement method (Nur and Bambang, 1999:69).

Abnormal Return

Jones (2010:308) stated that abnormal return is return on a security beyond the basis of its risk.

Abnormal return Formula:

$$\text{Abnormal Return} = AR_{it} = R_{it} - E(R_{it})$$

Where: AR_{it} = the abnormal rate of return for security i during period t. R_{it} = the actual rate of return on security i during period t. $E(R_{it})$ = the expected rate of return for security i during period t.

Trading Volume Activity

Foster in Sri et al. (2009:799) stated that stock trading volume can be seen using the *trading volume activity* (TVA) indicator. TVA measurement can be done by comparing the numbers of company shares traded with the total number of shares outstanding at the same time.

$$TVA = \frac{numbers\ of\ shares\ of\ company - i\ traded\ at\ day - t}{number\ of\ company - i\ outstanding\ shares\ at\ day - t}$$

Data Analysis Method

The analysis phases in this research can be outlined as follow:

Abnormal Return Analysis

a. Calculating daily actual return during the research period can be formulated as follows (Jogiyanto, 2003:434):

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

Where: $R_{i,t}$ = return of stock i during period t. $P_{i,t}$ = close price of security i during period t. $P_{i,t-1}$ = close price of security i during period t-1.

b. Calculating daily stock expected return during the research period, with the use of market-adjusted model where security return estimated with the same return of market index at that time. The calculation is as follows:

$$E(R_{Mt}) = \frac{Index\ LQ45_t - Index\ LQ45_{t-1}}{Index\ LQ45_{t-1}}$$

Where: $E(R_{mt})$ = market return security i during time t. $Index\ LQ45_t$ = stock price of Index LQ45 during time t. $Index\ LQ45_{t-1}$ = stock price of Index LQ45 during time t-1.

c. Calculating abnormal return of each stock which is the differences between actual return with expected return is formulated as follows (Jones 2010:308):

$$\text{Abnormal Return} = AR_{it} = R_{it} - E(R_{it})$$

Where: AR_{it} = the abnormal rate of return for security i during period t. R_{it} = the actual rate of return on security i during period t. $E(R_{it})$ = the expected rate of return for security i during period t.

d. Calculating average abnormal return for each stock during the pre-event date, event date, and post-event date, is formulated as follows (Marwan in Yohana, 2010:51):

$$AAR_i pre-event = \frac{\sum_{j=t-5}^{t-1} AR_{i,j\ pre-event}}{T}$$

$$AAR_i event\ date = \frac{\sum_{j=t0}^{t0} AR_{i,j\ event\ date}}{T}$$

$$AAR_i post-event = \frac{\sum_{j=t+1}^{t+5} AR_{i,j\ post-event}}{T}$$

Where: $AE_{i,j}$ = abnormal return security i during period j. T = duration of the period.

e. Calculating average abnormal return for entire stock per day during event period, formulated as follows (Jogiyanto, 2003:447):

$$AAR_t = \frac{\sum_{i=1}^{n} AR_{i,t}}{n}$$

Where: $AR_{i,t}$ = abnormal return security i during day t. n = number of securities.

Trading Volume Activity Analysis

a. Calculating trading volume activity for each stock during the research period, uses the formula as follows (Foster in Sri *et.al*, 2009:799):

$$TVA = \frac{numbers\ of\ shares\ of\ company - i\ traded\ at\ day - t}{number\ of\ company - i\ outstanding\ shares\ at\ day - t}$$

b. Calculating average trading volume activity per stock during period of pre-event date, event date, and post-event date using the following formula (Marwan in Yohana, 2010:52):

$$ATVA_i\ pre-event = \frac{\sum_{j=t-5}^{t-1} TVA_{i,j\ pre-event}}{T}$$

$$ATVA_i\ event\ date = \frac{\sum_{j=t0}^{t0} TVA_{i,j\ event\ date}}{T}$$

$$ATVA_i\ post-event = \frac{\sum_{j=t+1}^{t+5} TVA_{i,j\ post-event}}{T}$$

Where: $TVA_{i,j}$ = trading volume activity security i during period j. T = duration of the period.

c. Calculating average trading volume activity of entire stock per day during the event period, is formulated as follows (Jogiyanto, 2003:447):

$$ATVA_t = \frac{\sum_{i=1}^{n} TVA_{i,t}}{n}$$

Where: $ATVA_t$ = trading volume activity security i during day t. n = number of securities.

Hypothesis Test

A hypothesis can be defined as a tentative, yet testable, statement, which predicts what you expect to find in your empirical data. Hypothesis is derived from the theory on which your conceptual model is based and are often relational in nature. Along these lines, hypothesis can be defined as logically conjectured relationship between two or more variables expressed in the form of testable statements. By testing the hypothesis and confirming the conjectured relationship, it is expected that solutions can be found to correct the problem encountered (Sekaran and Bougie, 2013:83). This research uses several hypothesis test to conclude the research as mentined bellow:

1. Conducting normality test of average abnormal return of stock during pre-event date, event date, and post-event date using *Kolmogorov-Smirnov test* under the condition of α = 5% (0.05). The basic of conclusion taking is, if the *asymptotic significance* value > 0.05 it means that the data is normally distributed.
2. From normality test, then hypothesis test technique that can be used is as follow: (a) If the data is normally distributed, *t-test will be used for H1* and *paired-sample t-test* will be used for H2, H3, H4, H5,H6 and H7 at significance level of (α) = 5% (0.05). The basic of conclusion taking is, if the *p-value* of statistical *t-test* < 0.05, then the hypothesis is accepted. (b) If the data is not normally distributed, nonparametric statistical test using *Wilcoxon Signed Rank Test* will be used at significance level of (α) = 5% (0.05). The basic of conclusion taking is, if the *p-value* of statistical

Wilcoxon test < 0.05, then the hypothesis is accepted.

Test of Abnormal Return Significance

Test of abnormal return significance is conducted to test hypothesis I, which to find out if there is any positive and significant abnormal return around the event date of tax amnesty 2016 announcement. The hypothesis is statistically formulated as:

H1 : AAR>0.

Hypothesis I test is conducted by using t-test which calculates the abnormal return standardization with following formula (Jogiyanto, 2003:454):

$$ARS_{i,t} = \frac{AR_{i,t}}{KSE_i}$$

Where: $ARS_{i,t}$ = abnormal return standardization of security i on day t during event period. $AR_{i,t}$ = abnormal return security i on day t during event period. KSE_i = standard estimation error for security i.

Because expected return is estimated using market-adjusted model, then standard estimation error calculation is done using the following formula (Jogiyanto, 2003:469):

$$KSE_t = \sqrt{\frac{\sum_{i=1}^{k}(AR_{ij} - A\bar{R}_t)^2}{k-1}} x \frac{1}{\sqrt{k}}$$

Where: KSE_t = standard estimation error day t during event period. AR_{ij} = abnormal return security i for day j during event period. $A\bar{R}_t$ = average abnormal return k-security for day t during event period. k = number of securities.

Hypothesis I test criterion H1 is accepted if $t_{calculation} \geq t_{table}$.

Test of Average Abnormal Return Difference

Test of average abnormal return difference is conducted to test hypothesis II, hypothesis III, and hypothesis IV are formulated as follows:

a. H2: $AAR_{pre\text{-}event} \neq AAR_{event\ date}$
b. H3: $AAR_{event\ date} \neq AAR_{post\text{-}event\ date}$
c. H4: $AAR_{pre\text{-}event\ date} \neq AAR_{post\text{-}event\ date}$

Where:

$AAR_{pre\text{-}event}$ = average abnormal return during the pre-event period of tax amnesty 2016 validation.

$AAR_{event\ date}$ = average abnormal return during the event date of tax amnesty 2016 validation.

$AAR_{post\text{-}event\ date}$ = average abnormal return during the post-event period of tax amnesty 2016 validation.

Test of Average Trading Volume Activity Difference

Test of average trading volume activity difference was conducted to test hypothesis V, hypothesis VI, and hypothesis VII are formulated as follows:

a. H5: $ATVA_{pre\text{-}event} \neq ATVA_{event\ date}$
b. H6: $ATVA_{event\ date} \neq ATVA_{post\text{-}event\ date}$
c. H7: $ATVA_{pre\text{-}event\ date} \neq ATVA_{post\text{-}event\ date}$

Where:

$ATVA_{pre\text{-}event}$ = average trading volume activity during the pre-event period of tax amnesty 2016 validation.

$ATVA_{event\ date}$ = average trading volume activity during the event date of tax amnesty 2016 validation.

$ATVA_{post\text{-}event\ date}$ = average trading volume activity during the post-event period of tax amnesty 2016 validation.

RESULT AND DISCUSSION

General Description of Sample

The object in this research are stocks listed as LQ45 member in Indonesian Stock Exchange. According to Anonymous (2017:1) Index LQ45 only consists of 45 stocks chosen through particular selection process. The index consists of stocks with high liquidity and market capitalization level. Stocks in LQ45 has to fulfil several criterion and pass through the primary selection section as mention below:

1. Being among the top 60 companies with the highest market capitalization over the past 12 months.

2. Being among the top 60 companies with the highest transaction value over the past 12 months.
3. Having been listed on the Indonesia Stock Exchange for at least three months.
4. Having good financial conditions, future prospects and corporate management.

In addition to the assessment of liquidity, the selection of these shares considers market capitalization which aims at complementing the Indonesian Stock Exchange and in particular to provide an objective and reliable means for financial analysts, investment managers, investors and other capital market observers in monitoring the movement of prices from actively traded stocks. The composition of the LQ45 index is adjusted twice per year (in February and August).

Descriptive Statistic of Variable
Abnormal Return

Abnormal return or excess return is excess from realized return towards normal return. Therefore, abnormal return is the differences between realized return and expected return which is the market return. The result of descriptive statistic of research variable are shown by mean and standard deviation for average abnormal return data of the sample during the research period is described as follows:

Table 1. Descriptive Statistic for Average Abnormal Return of Stocks during the Event Period

Period	Mean	Standard Deviation
Pre-event	-0,00180	0,005782
Event	0,00311	0,014645
Post-event	0,00164	0,011074

According to Table 1, negative average abnormal return occurs during the pre-event period showing that investor return for the period is below the market return. Positive return occurs during the event and post-event period means that investor return is higher than the market return. Abnormal return is shown by the table confirming that the abnormal return is increasing from pre-event to the event period then decreasing on the post event but still contains positive value as well as the standard deviation. The calculation result for the daily average abnormal return of stocks during the research period is as follows:

Table 2 Calculation Result for Daily Average Abnormal Return of Stocks during the Research Period

Period	Stocks Daily Average Abnormal Return
t-5	-0,001665
t-4	0,005325
t-3	-0,007571
t-2	-0,005128
t-1	-0,000284
t0	0,003117
t+1	-0,001425
t+2	0,006508
t+3	0,002882
t+4	0,004331
t+5	-0,003636

Calculation result for the daily average abnormal return during the research period shows that most of it are negative. Positive abnormal return only occurs five times on t-4, t0, t+2, t+3, t+4. Highest abnormal return occurs on t+2 by 0,006508, while lowest abnormal return occurs on t-3 by -0, 007571. The abnormal return movement is in consolidation phase where in t-5 to t-4 the abnormal return is increasing, then it falls in t-3. Furthermore, the abnormal return starts to rebound itself, increase for 3 days from t-2 to t0 until it falls on t+1before reaching its peak on t+2. Moreover, after the abnormal return it falls again in t+3 then slightly increases on t+4 before it falls again on t+5.

Trading Volume Activity

Trading volume activity is the number of shares which is traded in particular time. The bigger the trading volume of a stock, the more active the stock traded in the market. Trading volume indicates the liquidity of the

stock, the bigger the trading volume, the more liquid the stock is. Table 3 shows the descriptive statistic calculation of mean and standard deviation for average trading volume activity during the research period.

Table 3 Descriptive Statistic for Average Trading Volume Activity of Stocks during the Event Period

Period	Mean	Standard Deviation
Pre-event	0,00224	0,001909
Event	0,00147	0,001408
Post-event	0,00240	0,001935

The calculation result shows that during the pre-event period the trading volume is higher than the event period, which means there is a high gap during this period. But the trading volume activity is raising high during the event to post-event period. Meanwhile, the daily average trading volume activity during the research period can be seen below:

Table 4 Calculation Result for Daily Average Trading Volume Activity of Stocks during the Research Period

Period	Stocks Daily Average Trading Volume Activity
t-5	0,002513
t-4	0,001637
t-3	0,002452
t-2	0,002247
t-1	0,002263
t0	0,001467
t+1	0,002461
t+2	0,002578
t+3	0,002566
t+4	0,002209
t+5	0,001988

Above table shows that the pre-event average trading volume shows consolidation pattern which the average volume continuously forms a same pattern, increasing on t-5,t-3,t-1 and decreasing on t-4, t-2, before the number it falls in t0 of the event. Then the trading volume is increasing for two days, reaching its peak on t+2 by 0,002578 before it steadily decreases on t+3, t+4 and t+5.

Normality Test Result

Normality test is done to determine whether the data is distributed normally or not. The data which being tested are the abnormal return and average trading volume activity of stocks on the pre-event, event, and post-event period. The normality test is conducted using *Kolmogorov-Smirnov test* on 5% (0.05) significance level which is illustrated in the table below:

Table 5 Result of Normality Test for Average Abnormal Return and Average Trading Volume Activity of Stocks

Variable	Period	Asymptotic Sig.	Explanation
Abnormal Return	Pre-event	0,988	Normal
	Event	0,576	Normal
	Post-event	0,371	Normal
Trading Volume Activity	Pre-event	0,576	Normal
	Event	0,955	Normal
	Post-event	0,994	Normal

According to the information illustrated in Table 5, it can be concluded that all the data is normally distributed with asymptotic significance value above the 5% of significance level. Therefore, the test for hypothesis II, III, IV, V, VI, and VII should use parametric test which is *Paired-sample t-test.*

Hypothesis Test

Hypothesis test result in this research are explained as follows:

Hypothesis I

Test for hypothesis I is conducted in order to find if there is any significant abnormal return around the event date. On the other hand, the test is conducted to find the market response towards the event.

Table 6 Calculation Result for Hypothesis I

Event Period	Average Abnormal Return	t-calculation	Explanation

t-5	-0,001665	-0,796	Not Significant
t-4	0,005325	2,100	Significant
t-3	-0,007571	-2,176	Not Significant
t-2	-0,005128	-1,820	Not Significant
t-1	0,000284	-0,161	Not Significant
t0	0,003117	-0,776	Not Significant
t+1	-0,001425	-0,421	Not Significant
t+2	0,006508	1,490	Not Significant
t+3	0,002882	0,721	Not Significant
t+4	0,004331	1,736	Not Significant
t+5	-0,003636	-1,226	Not Significant

One-tailed t-test of the average abnormal return during the 11 days period illustrated that there is only one positive significant average abnormal return on the t-4 period valued of 2,100, bigger than the t-table value which is 2,0154 . Then, hypothesis H1 is accepted. Thus, the event of Tax Amnesty 2016 Law Validation is responded positively by the market.

Hypothesis II

Table 7 illustrates the result of the average abnormal return difference test of the stocks using parametric statistical tools of *Paired-sample t-test* on 5% significance level.

Table 7 Calculation Result for Hypothesis II

Hypothesis	Variable	*Sig. (2-tailed)*	Explanation
H2	AAR pre-event - event	0,061	Not Significant

Paired-sample t-test for the pre-event to event period, *Sig. (2-tailed)* shows the value of 0,061, or higher than the 5% significance level. Therefore, the hypothesis H2 is rejected and it can be concluded that there is no significant difference between the average abnormal return of stocks on the pre-event and event period of the Tax Amnesty 2016 Law Validation.

Hypothesis III

Table 8 illustrates the result of the average abnormal return difference test of the stocks using parametric statistical tools of *Paired-sample t-test* on 5% significance level.

Table 4.8 Calculation Result for Hypothesis III

Hypothesis	Variable	*Sig. (2-tailed)*	Explanation
H3	AAR event – post-event	0,108	Not Significant

Paired-sample t-test for the event to post-event period, *Sig. (2-tailed)* shows the value of 0,108 which is higher than the 5% significance level. Therefore, hypothesis H3 is rejected and it can be concluded that there is no significant difference between the average abnormal return of stocks on the event period and post-event period of the Tax Amnesty 2016 Law Validation.

Hypothesis IV

Table 9 illustrates the result of the average abnormal return difference test of the stocks using parametric statistical tools of *Paired-sample t-test* on 5% significance level.

Table 9 Calculation Result for Hypothesis IV

Hypothesis	Variable	*Sig. (2-tailed)*	Explanation
H4	AAR pre-event – post-event	0,515	Not Significant

Paired-sample t-test for the pre-event to post-event period, *Sig. (2-tailed)* shows the value of 0,515 which is higher than the 5% significance level. Therefore, hypothesis H4 is rejected and it can be concluded that there is no significant difference between the average abnormal return of stocks on the pre-event and post-event period of the Tax Amnesty 2016 Law Validation.

Hypothesis V

Table 10 illustrated the result for average trading volume activity

difference test using parametric statistical tools of *Paired-sample t-test* with 5% significant level as follows:

Table 10 Calculation Result for Hypothesis V

Hypothesis	Variable	*Sig. (2-tailed)*	Explanation
H5	ATVA pre-event - event	0,000	Significant

Paired-sample t-test for the pre-event to event period, *Sig. (2-tailed)* shows the value of 0,000, or lower than the 5% significance level. Therefore, the hypothesis H5 is accepted and it can be concluded that there is significant difference between the average trading volume activity of stocks on the pre-event and event period of the Tax Amnesty 2016 Law Validation.

Hypothesis VI

Table 11 illustrated the result for average trading volume activity difference test using parametric statistical tools of *Paired-sample t-test* with 5% significant level as follows:

Table 11 Calculation Result for Hypothesis VI

Hypothesis	Variable	*Sig. (2-tailed)*	Explanation
H6	ATVA event – post-event	0,000	Significant

Paired-sample t-test for the event to post-event period, *Sig. (2-tailed)* shows the value of 0,000, or lower than the 5% significance level. Therefore, the hypothesis H6 is accepted and it can be concluded that there is significant difference between the average trading volume activity of stocks on the event and post-event period of the Tax Amnesty 2016 Law Validation.

Hypothesis VII

Table 12 illustrated the result for average trading volume activity difference test using parametric statistical tools of *Paired-sample t-test* with 5% significant level as follows:

Table 4.12 Calculation Result for Hypothesis VII

Hypothesis	Variable	*Sig. (2-tailed)*	Explanation
H7	ATVA pre-event – post-event	0,459	Not Significant

Paired-sample t-test for the pre-event to event period, *Sig. (2-tailed)* shows the value of 0,459, or higher than the 5% significance level. Therefore, the hypothesis H7 is rejected and it can be concluded that there is no significant difference between the average trading volume activity of stocks on the pre-event and post-event period of the Tax Amnesty 2016 Law Validation.

Discussion

Tax Amnesty 2016 Law Validation is a political event predicted to affect Indonesia's capital market. An event is considered representing a good news when responded positively by the market. Otherwise, negatively responded event by the market indicates that the news is bad towards the market. The response or reaction by the market can be seen through whether or not the abnormal return and trading volume activity fluctuation of stocks around the event period.

Positive Significant Abnormal Return around the date when Tax Amnesty 2016 Law Validation Event Occurs

There is significant positive abnormal return around the event date. This indicating that the investor can be too fast in absorbing the spreading news related to the tax amnesty and begins to make their position before there is any absolute announcement from the government about the validation of the Tax Amnesty 2016 Law. Thus, it can be concluded that the market is responding towards the event and considers it as a good news. According to Jogiyanto (2003:453) the emerge of significant positive abnormal return based on

statistic calculation around the event date indicates that the market is responding towards the information as a good news. In other words, the market is eager about the Tax Amnesty 2016 Law Validation and gives a lot of expectation towards it.

By the validation of the Tax Amnesty Law 2016, the investors are expecting a better improvement of Indonesia Tax condition. The tax amnesty is expected to increase the government income which most of it comes from tax. With the IDR. 3000 trillion of Indonesian money saved or deposited in foreign country like Singapore, the tax amnesty is expected to bring home those money and the ransom can be used for better infrastructure and facility development in the country.

Tax Amnesty Law has become a long discussion among economic expert. From the political side of view, the law should strengthen the society trust towards President Jokowi era. This law is considered as the fulfilment of President Jokowi statement about bringing home the Indonesian money saved in foreign country, and giving an amnesty to them including those avoiding tax by hiding their wealth in the foreign country, then revitalizing Indonesia Tax System so in the future the public awareness of paying tax shall increase.

From the economical point of view, the tax amnesty should give additional income for the government to build or speed up current development of facilities and infrastructures which are the key elements of business and economic activity in the nation. The Banking sector is the very first sector affected by the law, because the banks are the intermediate between the taxpayers and the governments. From the tax amnesty, the banks should gain additional money to lend, thus increasing their profitability. For the companies running government projects like the construction company, they can borrow more money from the banks to support their current project and finish them based on the estimated time. Other sector are affected as well, since the banks shall have enough money to lend them the money they need.

The above reasons in its process are becoming power driven the investors to invest in Indonesia, because the tax amnesty shall be the stepping stone towards better business climate in Indonesia, and as indicator that Indonesia market is still a potential market. As a trader, the tax amnesty law can change the current market trend even though it is just a minor, and thus, can produce a short-term profit for them.

Difference in Stock Average Abnormal Return during the Pre-event Date to Event Date of Tax Amnesty 2016 Law Validation

The market has anticipated the vast spreading news about the Tax Amnesty 2016 Law but the length of time required by Indonesia's Parliament to design and finalize the law has made investors to consider carefully when they have to enter the market. Significant increase in pre-event period, a day before the Parliament conference concerning the Tax Amnesty Law occurs because the investors are expecting that the law will be validated soon. Even though the rest days during the pre-event period was dominated by negative value, the value of the event date average abnormal return still do not have the power to go beyond the pre-event period. Thus, there is no significant difference between the average abnormal return during the pre-event to event period.

Difference in Stock Average Abnormal Return during the Event Date to Post-event Date of Tax Amnesty 2016 Law Validation

There is no significant difference on the average abnormal return of stocks during the event date to post-event date period of tax amnesty 2016 law validation. Despite that the average abnormal return in the post-event period is dominated by positive value, in fact the value is not big enough to make the test result significant. The market is still reacting to the event but the selling

pressure on the post-event period indicate that short-term investor are starting to realized their profit or closed their position, holding back the minor bullish trend, producing insignificant abnormal return for the period and putting the market in continuous consolidation pattern.

Difference in Stock Average Abnormal Return during the Pre-event Date to Post-event Date of Tax Amnesty 2016 Law Validation

There is no significant difference on the average abnormal return of stocks during the pre-event to post-event period of tax amnesty 2016 law validation. This situation indicates that on the longer duration, the Tax Amnesty Law Validation 2016 is no longer has a strong informational content, resulting the market is not reacting anymore. Short-term investors are already closed their position, lagging investors are careful wait and see for the best moment to enter the market, and long-term investor holding their stocks deciding not to participate in the market until the right time to closed their position (generally above 6 months), resulting in powerless bid pressure to significantly increase the stock price.

Difference in Stock Average Trading Volume Activity during the Pre-event Date to Event Date of Tax Amnesty 2016 Law Validation

There is significant difference on stocks average trading volume activity during the pre-event to event period of the tax amnesty 2016 law validation illustrates that the announcement contains informative information affecting the reaction of the capital market trading volume activity. The high expectation in during the pre-event period has made the average trading volume activity significantly different from the event date.

Daily average trading volume activity indicates that there is constant increase and decrease during the pre-event period. The highest value of the daily average trading volume activity during the pre-event period occurs because the investors or trader expect a good news for tomorrows Parliament conference about the tax amnesty. Despite that the value of daily average trading volume activity on two days before the event decreases significantly, but the increasing price forming a significant abnormal return shown that the investor or trader are eager to making their entry to the market. Even though, the market is still forming a consolidation pattern. Activity during event date declines because the previous collection of investors and traders who still hold their position do not participate in the market and choose to wait and see.

Despite of its significant value, no abnormal return are produced for the investor during the pre-event date to event date period shown that the market bid and ask are equal. The buying power of investor who are eager to purchase the stocks are unable to drive the stock price to increase beyond the market return, resulting in limited movement of the price below the market return as those for ready to close their position are also eager to leave the market.

Difference in Stock Average Trading Volume Activity during the Event Date to Post-event Date of Tax Amnesty 2016 Law Validation

There is significant difference between the daily average trading volume activity during the event date to post-event period of tax amnesty 2016 law validation. This occurs because during the post-event period, the daily average trading volume activity value shows a steady increasing pattern from the event date to post-event date period.

Decreasing in event date happening because the previous collection from investor during the pre-event period has made the market less attractive since investors tends to wait and see for the future directions of the market deciding to hold their position expecting a better movement of the stock price in the future in order closed their position and

realizing profit. The holding pattern in t0 resulting a lower trading volume during the day since some investors prefer to not participate in the market that day.

Significant increase in post-event period indicates that investors is eager to entry the market. This occurs as the effect of the validation of tax amnesty a day before. Investors are eager with the announcement and considered it as a good news flooding the market with high transaction volume. The number of transaction continue to increase for several days in the post-event period indicates that investors still eager to collect the stocks until it decrease and investor are starting to less participate in the market since they already closed their position, deciding to hold their position, or simply wait and see for the future implementation result of the tax amnesty before making their entry towards the market.

Thus, the increasing number of trading volume activity from event date until post event date generate no abnormal return for the investors despite of its significant value because the number of shares traded from the investors who bid and ask are equal, resulting in high transaction value with limited stock price movement.

Difference in Stock Average Trading Volume Activity during the Pre-event Date to Post-event Date of Tax Amnesty 2016 Law Validation

The difference of daily average trading volume activity during the pre-event to post-event period of tax amnesty 2016 law validation is not significant. This occurs since during the post-event period, the information spread towards investors is equal, and the buying activity has already occurred during the pre-event has made the average trading volume activity during the post-event period is the same with the previous period. This indicates that in the longer period, the market is no longer responding towards the information resulting a similar rate of trading volume as the pre-event, thus forming a consolidation pattern, since the event seems to fail in forming a minor uptrend.

In longer period, short-term investor has already used the announcement to gain momentum on the stock price during the early stage in the pre-event period. Using the vast spread of information to increase the stocks trading volume activity and price, despite that there is no average abnormal return produce during the event, single abnormal return during the pre-event period is enough to reflect the abnormal return produced for the investors. In the longer period, the volume are equal because the market tends to form similar pattern forming a consolidation.

Implication of the Research

The result of this research strengthen the previous research from Treisye (2002) related to the Capital Market Reaction towards the Alteration of the President of Republic Indonesia July 23rd, 2001, C. Wahyu (2007) related to the Capital Market Reaction towards the Announcement of Limited Reshuffle of Kabinet Indonesia Bersatu, and Laksmi (2013) related to Indonesia Capital Market Reaction towards Political Event of DKI Jakarta Governor Election Second Round 2012, which the research result shown that there is significant abnormal return around the event period. This strengthen the fact that political event is responded positively as good news by investors.

The result of this research also support others political event study conduct by Treisye (2002), Neni and Mahendra (2004), and Havid (2008), which stated there is no significant difference between the average abnormal return during the pre-event until the post-event period. This indicates that the market reaction towards political event (in this case the tax amnesty) is relatively short.

Test conducted on stocks trading volume activity on this research showing an alignment with previous research conducted by Havid (2008) and Laksmi (2013) which contain a significant

difference during the pre-event to event period and event to post-event period. This indicating that tax amnesty announcement has positive effect towards the capital market, which resulting in the increasing number of stocks traded during the event period. Despite of the positive effect caused by tax amnesty from the TVA point of view, but other political event effect towards capital market should be seen from different point of view depends on the characteristic of the event, stocks, index, and investors itself.

The result of this research showing that there is no significant difference on average abnormal return during the event period. TVA test showing that there is significant difference on average trading volume activity during the pre-event to event period and event to post-event event period, but it is not significant during the per-event to post-event period. Pre-event to event date test conducted in order to analyze is there any leak of information among investors. Event date to post-event date test conducted to analyze is the market reacting fastly or slowly to form a new trading pattern after the event.

Practical implication from this research toward investors or market players should be careful in consuming the wide and fast spread information in this digital era. They should be more careful, smart, and critical in facing events occurring in the environment and its possible implication towards capital market. Empirical evident from this research along with previous research showing that political events has informational contents that can affect the capital market, and when investors more careful in consuming and understanding the effect of such an event, they can generate a more sophisticated trading plan to make profit. This research is also help investors in understanding how political event affect the capital market and can be a crucial historical source of information to encounter any similar events take place in the future.

Furthermore, because the market reaction is fast during such an event, investors and market player are suggested to be more careful in monitoring their portfolio. The right timing in entering a position will generate profit for investors as soon as the market react towards the information and the stock price increasing. Since it does not take a long time for the market to react towards the information, short-term investor could be very beneficial during the event. For long-term investor they can buy the stock when it start to decline and hold it for a longer period, or sell it when they reach their peak point.

At least, a carefully planned trading decision combining technical and fundamental analysis, together with the right use of wide spread information shall bring investor a higher profitability and lower risk investment whether they are short-term or long-term. Timing to enter the market is crucial since the market react in fast speed, late in making the entry or closing the position can be lead to a losing the opportunity to gain profit.

CONCLUSION

Conclusion

Based on the analysis of the research result regarding capital market reaction towards Tax Amnesty 2016 Law Validation, it can be concluded that:

1. There is positive significant abnormal return around the event date of Tax Amnesty 2016 Law Validation showing that the market response the event as a good news.
2. There is no significant difference between average abnormal return during the pre-event to event date period of Tax Amnesty 2016 Law Validation because the spreading news during the pre-event has already made up the investors and trades decision to entry the market early to the event date.
3. There is no significant difference between the event date to post-event date of Tax Amnesty 2016 Law Validation showing that the investors or traders choose to wait

and see or hold their position for the law implementation result in the society and for the nation.

4. There is no significant difference between the pre-event date to post-event date of Tax Amnesty 2016 Law Validation showing that in the longer duration the market is not reacting towards the event.
5. There is significant difference between average trading volume activity of stocks during the pre-event to event period of Tax Amnesty 2016 Law Validation, showing that the market reacts towards the event through the increasing numbers of trading volume activity.
6. There is significant difference between average trading volume activity during the event date to post-event period of Tax Amnesty 2016 Law Validation, showing that the market reacts towards the event through the increasing numbers of trading volume activity.
7. There is no significant difference between average trading volume activity during pre-event to post-event period of Tax Amnesty 2016 Law Validation, showing that in longer period, the market no longer reacts towards the event.

Limitation of the Research

This research has been cultivated and conducted in accordance with scientific procedures, but still have limitation. The factor that effecting the capital market is only focusing on the tax amnesty. Even though there is no informational transparency, and corporate action occurs to produce confounding effect, another external factor such as inflation rate, interest rate, etc. could interfere the market during the research period.

Suggestion

There are several suggestions that can be put into a consideration for further research. They are described as follow:

1. This research used market adjusted model in estimating the expected return so that there is no need to use the estimation period but the event window only. Furthermore, future researches are suggested to use mean adjusted model and market model, or to combine all the three models and compare the result of the model to each other in order to find out the research result.
2. This research used abnormal return and trading volume activity as the main indicators in measuring the market reaction. Future research are suggested to use another relevant indicators such as trading frequency and bid-ask spread of stocks.
3. This research is only using tax amnesty as factor to measure its effect towards the capital market. Future research suggested to take into account of external factors like inflation rate, interest rate, global economy, and etc. as they can affect the capital market as well.

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