

## Reassessing the Matching Principle's Relevance in Recognizing Staff Bonus Expenses in Corporate Tax Disputes

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### ABSTRACT

*This study aims to analyze the application of the matching principle in the context of tax disputes related to the charging of employee bonus costs and to assess the appropriateness of recognizing these costs as deductible expenses based on positive tax law in Indonesia. This study uses a normative-dogmatic legal approach that aims to interpret, explain, and systematize positive legal norms governing the recognition of tax expenses in the application of the matching principle. The results of the study show that the recognition of bonus expenses as accrued expenses better reflects economic substance than recognition as provisions, because the payment obligation has arisen from employee services that have been provided and can be reliably measured. This approach is in line with the substance over form principle, which places economic reality above administrative form. The court ruled that the obligation to pay bonuses had fulfilled the elements of certainty in terms of amount and recipient and was supported by evidence of payment realization and Article 21 tax deductions in the following year.*

## 1. Introduction

The matching principle is one of the main foundations of the accrual accounting system, which requires that each expense be recognized in the same period as the revenue it generates, so that the reported net income reflects the cause-and-effect relationship between the consumption of resources and the realization of revenue.<sup>1</sup> This principle emphasizes that expenses are not merely cash outflows, but representations of the use of economic resources to generate relevant economic benefits in the current period. In the context of accounting theory, the matching principle ensures temporal consistency between costs and revenues, which is the basis for the presentation of fair and reliable financial information. Empirical evidence shows that earnings decomposition places matching as one of the core precepts in the mechanism of recognizing costs simultaneously with related income benefits.<sup>2</sup> The application of this principle not only maintains the logical link between economic activities and profit reporting, but also strengthens the credibility of financial statements as a decision-making tool based on economic substance rather than administrative formalities. In line with this, historical and contemporary studies confirm that matching contributes significantly to the reliability of profit measurement and the ability of profit to predict future performance.<sup>3</sup> When costs are recognized in line with relevant revenues, profit information becomes more timely and meaningful in the context of value analysis and investment decisions.

However, various empirical studies show that a decline in the simultaneity between revenue recognition and expenses (deterioration in contemporaneous revenue-expense matching) leads to a decrease in profit persistence, increased volatility, and weakened profit predictability, which ultimately reduces the quality of financial information.<sup>4</sup> Weaknesses in matching also have an impact on market risk perception and capital costs, where cross-sectional evidence indicates that the stronger the contemporaneous revenue–expense matching, the lower the information asymmetry and equity costs demanded by capital providers.<sup>5</sup> Thus, matching quality affects not only financial reporting aspects, but also the function of capital markets in assessing risk and determining expected rates of return. The shift in the accounting paradigm from the revenue–expense model to the asset–liability approach and the increased use of fair value measurement have fundamentally changed the matching mechanism.<sup>6</sup> This shift tends to weaken the temporal link between revenue and expenses, thereby altering profit attributes such as persistence and volatility. However, a number of studies confirm that matching is only one attribute of high-quality

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<sup>1</sup> Ryan T Ball and Peter D Easton, “Dissecting Earnings Recognition Timeliness,” *Journal of Accounting Research* 51, no. 5 (2013): 1099–1132, <https://doi.org/10.1111/1475-679x.12018>; Aleksandra B Zimmerman and Robert L Bloom, “The Matching Principle Revisited,” *Accounting Historians Journal* 43, no. 1 (2016): 79–119, <https://doi.org/10.2308/0148-4184.43.1.79>.

<sup>2</sup> Pietro Fera, Nicola Moscarillo, and Ettore Cinque, “A Renewed Interest on the Fundamentals of Accounting: The Impact of the Matching ‘Principle’ on Earning Attributes,” 2018, <https://doi.org/10.5772/intechopen.77266>; Zimmerman and Bloom, “The Matching Principle Revisited.”

<sup>3</sup> Ball and Easton, “Dissecting Earnings Recognition Timeliness”; Pietro Fera, “The Effectiveness of the Matching Principle in Different Financial Reporting Systems and Its Impact on the Quality of Earnings,” *Corporate Ownership and Control* 16, no. 3 (2019): 129–42, <https://doi.org/10.22495/cocv16i3art11>.

<sup>4</sup> Ilia D Dichev and Vicki W Tang, “Matching and the Changing Properties of Accounting Earnings Over the Last 40 Years,” *The Accounting Review* 83, no. 6 (2008): 1425–60, <https://doi.org/10.2308/accr.2008.83.6.1425>; Fera, “The Effectiveness of the Matching Principle in Different Financial Reporting Systems and Its Impact on the Quality of Earnings.”

<sup>5</sup> Sangwan Kim, “Cross-Sectional Variation in Revenue-Expense Relation and Cost of Equity,” *Managerial Finance* 44, no. 11 (2018): 1311–29, <https://doi.org/10.1108/mf-06-2016-0171>; Ball and Easton, “Dissecting Earnings Recognition Timeliness.”

<sup>6</sup> Nicola Moscarillo et al., “Revenue-Expense Versus Asset-Liability Model,” *Meditari Accountancy Research* 28, no. 2 (2020): 277–310, <https://doi.org/10.1108/medar-04-2019-0465>; Fábio M d. Costa et al., “The Effects of Fair Value on the Matching of Revenues and Expenses: The Case of Asset Revaluations,” *The International Journal of Accounting* 55, no. 04 (2020): 2050019, <https://doi.org/10.1142/s1094406020500195>.

reporting; the asset/liability approach can provide other informational benefits even if the level of matching declines.<sup>7</sup>

In the context of taxation, the matching principle has fundamental relevance because tax systems often rely on accounting constructs, whether accrual-based or cash-based, to determine taxable income.<sup>8</sup> Therefore, the timing and method of recognizing expenses based on the matching principle affect the amount of deductible expenses and taxable income in a period.<sup>9</sup> Tax jurisdictions generally use the matching and accrual concepts to assess whether an expense has provided economic benefits in the current period, which determines its deductibility. In tax administration practice, the matching principle is often the basis for determining when expenses can be deducted or when certain benefits, including allowances and fringe benefits, become taxable.<sup>10</sup> Examples of cases that are sensitive to the application of matching include royalty expenses, intra-group services, and employee compensation in the form of bonuses or benefits in kind, where the benefit test is a key factor for tax authorities in assessing the fairness and appropriateness of deductions.<sup>11</sup>

Tax regulations often have specific provisions that differ from accounting practices, such as benefit testing, timing rules, or specific valuation provisions, which can result in differences in determining the tax base.<sup>12</sup> The difference in objectives between accounting and taxation is the main cause of disputes: accounting aims to provide information that is useful for investment decision-making by prioritizing economic measurement, while tax authorities emphasize legal certainty and ease of enforcement.<sup>13</sup> As a result, differences in the application of matching and accrual concepts lead to different interpretations in the recognition of income and expenses, which in turn result in differences in taxable income. This lack of synchronization gives rise to disputes because taxpayers tend to follow economic substance-based accounting principles, while tax authorities enforce a more normative and formalistic approach.

In addition, differences in timing and recognition methods between accounting and taxation complicate the relationship between accounting profit and taxable income. When entities use accrual-based recognition that delays or accelerates expenses compared to tax rules, tax authorities may reject these adjustments because they are considered not to reflect the economic reality of the taxable income.<sup>14</sup> Valuation differences, such as the use of fair value in accounting, can also sever

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<sup>7</sup> Sudipta Basu et al., “The Impact of Conservatism and Supply Chain Finance on Bad Debt Expense,” *SSRN Electronic Journal*, 2023, <https://doi.org/10.2139/ssrn.4328778>; Costa et al., “The Effects of Fair Value on the Matching of Revenues and Expenses: The Case of Asset Revaluations.”

<sup>8</sup> Daniel Taborda and João Sousa, “The Accrual Accounting Principle and Its Implications for Portuguese Tax Courts Decisions,” *Accounting Economics and Law - A Convivium* 13, no. 4 (2020): 539–62, <https://doi.org/10.1515/ael-2019-0030>; Heriantonius Silalahi and Budi Kurnia, “Fringe Benefits in Tax Law: Matching Principle and Tax Justice Perspective,” *Ilomata International Journal of Tax and Accounting* 4, no. 4 (2023): 684–702, <https://doi.org/10.52728/ijtc.v4i4.870>.

<sup>9</sup> Muhammad R Santoso, “Matching Cost Against Revenue at Royalty Expenses,” *The Indonesian Accounting Review* 11, no. 2 (2021): 171–85, <https://doi.org/10.14414/tiar.v11i2.2558>.

<sup>10</sup> Taborda and Sousa, “The Accrual Accounting Principle and Its Implications for Portuguese Tax Courts Decisions”; Silalahi and Kurnia, “Fringe Benefits in Tax Law: Matching Principle and Tax Justice Perspective.”

<sup>11</sup> Santoso, “Matching Cost Against Revenue at Royalty Expenses”; Efi Nofita and Siti Nuryanah, “Benefit Test Analysis on Intra-Group Services Transactions in Indonesia,” 2022, <https://doi.org/10.4108/eai.27-7-2021.2316837>.

<sup>12</sup> Hastanti A Rahayu, Neni Pancawati, and Syarifudin Syarifudin, “Tax Court Decision on the Primary Dispute of Export Value-Added Tax Base,” *Berkala Akuntansi Dan Keuangan Indonesia* 7, no. 2 (2022): 160–73, <https://doi.org/10.20473/baki.v7i2.32422>; Silalahi and Kurnia, “Fringe Benefits in Tax Law: Matching Principle and Tax Justice Perspective.”

<sup>13</sup> Taborda and Sousa, “The Accrual Accounting Principle and Its Implications for Portuguese Tax Courts Decisions”; Basu et al., “The Impact of Conservatism and Supply Chain Finance on Bad Debt Expense.”

<sup>14</sup> Santoso, “Matching Cost Against Revenue at Royalty Expenses”; Rahayu, Pancawati, and Syarifudin, “Tax Court Decision on the Primary Dispute of Export Value-Added Tax Base.”

the temporal link between income and expenses and create an unknown value basis in tax law, which generally refers to historical costs.<sup>15</sup> This complexity is exacerbated by the element of estimation and management judgment in accrual accounting, such as the recognition of provisions or post-employment benefits, which can significantly affect the recognition of expenses. Tax authorities are often skeptical of estimates that reduce current taxable income and demand more rigorous documentary evidence.<sup>16</sup>

In certain categories such as fringe benefits, intra-group services, or royalty payments, tax authorities apply strict benefit tests to ensure that there is a legitimate economic relationship between costs and income.<sup>17</sup> When an entity fails to meet the benefit criteria set by law, the expense will be disallowed as a deduction, which often leads to tax disputes.<sup>18</sup> These disputes reveal an information asymmetry between taxpayers and tax authorities, where taxpayers have an incentive to use legitimate accounting policies to minimize their tax burden.<sup>19</sup> When the tax authorities cannot verify the economic substance behind the matching-based expense recognition, fiscal corrections are made and legal disputes arise. Empirical evidence shows that tax courts and tax administrations often take different positions, sometimes applying the accrual concept strictly, and sometimes allowing flexibility when transactions are proven to have economic substance and are not motivated by tax avoidance.<sup>20</sup>

One case in Indonesia related to this matching principle is the tax dispute in Tax Court Decision Number PUT-012124. 15/2023/PP/M.XIVA Year 2025, a case between PT Langgeng Kreasi Jayaprima and the Directorate General of Taxes (DJP) focusing on employee bonus expenses, the status of which is debated as a deductible expense in the calculation of Corporate Income Tax. This dispute highlights a paradigmatic clash between accrual accounting logic and formal legal taxation principles. The taxpayer argued that the account reflected accrued expenses arising from the company's obligations to employees in the form of bonuses, awards, and holiday allowances (THR) whose amounts and recipients had been confirmed in the 2020 Tax Year. The taxpayer emphasized that the recording was consistent with the Financial Accounting Standards (PSAK) applicable in Indonesia, as well as in line with the provisions of Article 28 paragraph (1) and paragraph (5) of the General Provisions and Tax Procedures Law (KUP Law) which recognizes the accrual basis in recording transactions. In addition, the taxpayer proves that the payment of these accrued expenses was realized in the 2021 Tax Year, accompanied by the correct withholding and reporting of Income Tax Article 21. The taxpayer also highlights the inconsistency of the tax authorities, which in previous years' audits (2017-2019) did not make similar corrections to expense items with the same characteristics.

Conversely, the DGT considers this recording as a reserve because there is no certainty regarding the amount and timing of payment at the end of the 2020 fiscal year. The DGT bases its argument on Article 9 paragraph (1) letter c of the Income Tax Law (PPH Law), which explicitly prohibits

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<sup>15</sup> Dichev and Tang, "Matching and the Changing Properties of Accounting Earnings Over the Last 40 Years"; Costa et al., "The Effects of Fair Value on the Matching of Revenues and Expenses: The Case of Asset Revaluations."

<sup>16</sup> Ball and Easton, "Dissecting Earnings Recognition Timeliness"; Basu et al., "The Impact of Conservatism and Supply Chain Finance on Bad Debt Expense."

<sup>17</sup> Silalahi and Kurnia, "Fringe Benefits in Tax Law: Matching Principle and Tax Justice Perspective"; Santoso, "Matching Cost Against Revenue at Royalty Expenses."

<sup>18</sup> Nofita and Nuryanah, "Benefit Test Analysis on Intra-Group Services Transactions in Indonesia."

<sup>19</sup> Gopal V Krishnan, Emma-Riikka Myllymäki, and Neerav Nagar, "Does Financial Reporting Quality Vary Across Firm Life Cycle?," *Journal of Business Finance & Accounting* 48, no. 5–6 (2020): 954–87, <https://doi.org/10.1111/jbfa.12508>; Kim, "Cross-Sectional Variation in Revenue-Expense Relation and Cost of Equity."

<sup>20</sup> Rahayu, Pancawati, and Syarifudin, "Tax Court Decision on the Primary Dispute of Export Value-Added Tax Base"; Taborda and Sousa, "The Accrual Accounting Principle and Its Implications for Portuguese Tax Courts Decisions."

deductions for the establishment or accumulation of reserves, except for certain types of businesses as regulated in Minister of Finance Regulation (PMK) Number 219. Income Tax Law (PPh Law), which explicitly prohibits deductions for the establishment or accumulation of reserve funds, except for certain types of businesses regulated in Minister of Finance Regulation (PMK) Number 219/PMK.011/2012, which does not include the alcoholic beverage industry as a business activity of taxpayers. The tax authority also assessed that the taxpayer failed to prove the method of measuring employee performance and calculating bonuses at the time the accrual was recorded. In addition, the DGT highlighted the absence of Income Tax Article 21 deductions in 2020 and the absence of detailed evidence showing the basis for calculating bonuses at the time of the audit.

However, the Tax Court ruled that the DGT's correction was not legally or substantively justified. The Panel of Judges stated that the expenses in the Employee Bonus Expenses account were valid accrual expenses and deductible because they met the characteristics of a definite obligation arising in the current period with a reliable estimate. The judges emphasized that even though the payment was made in the following tax year, the full realization and fulfillment of the withholding obligation and reporting of Income Tax Article 21 proved that the expense was not a speculative provision, but rather a measurable liability. Thus, the DGT's assessment of the uncertainty of the amount and timing was irrelevant because the evidence of realization showed a direct causal relationship between the recognition of expenses and income benefits. The court also criticized the DGT's inconsistency in not correcting similar transactions in previous years, thereby weakening the legitimacy of the fiscal correction.

While accounting emphasizes economic substance, tax law prioritizes legal certainty; this conceptual divergence often generates disputes. Based on a comprehensive evaluation of the evidence, arguments, and applicable legal principles, the Tax Court is of the opinion that the taxpayer has provided sufficient evidence to show that the accrued staff bonuses have a strong economic basis, reliable estimates, and a direct link to current year income. Therefore, the positive correction made by the DGT is deemed inappropriate and contrary to the matching principle in accrual accounting and the principle of fairness in tax law. This ruling substantially reinforces the position that the application of the matching principle in the context of taxation must consider the economic substance and evidence of the realization of the obligation, not merely the formal form of its recording. Thus, the Court affirms that the accrual of employee bonus expenses that are proven to have been realized and fulfill the income tax withholding obligation are expenses that can be deducted for tax purposes in accordance with Article 6 paragraph (1) letter a of the Income Tax Law.

This study aims to re-examine the relevance of the matching principle in recognizing staff bonus expenses against current year income in corporate tax disputes. The objective is to assess the extent to which the matching principle can be used as an argumentative basis in proving expenses related to income, as well as how the court interprets the balance between the principles of substance and legal formalities in determining deductible expenses. This study will also evaluate whether the application of the matching principle can create temporal consistency in line with the principles of tax fairness and legal certainty. Thus, this study is expected to provide a deeper understanding of the relationship between accounting theory and tax law practice in the context of resolving employee compensation cost disputes.

The originality of this study lies in its examination of 2025 court rulings that reflect the latest evolution of the matching principle enforcement within Indonesia's taxation framework, especially in the context of contingent compensation schemes such as employee bonuses. Unlike most prior research that merely discusses the conceptual divergence between accounting and taxation, this study specifically investigates how judicial bodies interpret and apply the matching principle in real-world disputes involving employee remuneration. The case of PT Langgeng Kreasi Jayaprima

illustrates a progressive shift in tax adjudication toward acknowledging economic substance arguments while maintaining the necessity of formal evidentiary standards. Consequently, this decision provides a significant empirical-normative foundation for future research aimed at enhancing the harmonization of accounting standards and tax regulations in Indonesia.

From a theoretical standpoint, this research advances the academic discourse on the matching principle by expanding its relevance beyond financial accounting into the domain of tax law interpretation. The exploration of the relationship between accounting theory and fiscal implementation strengthens the conceptual understanding of how revenue and expenses interact in determining taxable income. In practical terms, the findings offer valuable insights for policymakers and tax administrators in developing integrated guidelines that align accounting practices with fiscal regulations, thereby reducing the likelihood of interpretative conflicts. For taxpayers, the study serves as a practical reference in designing compensation structures and preparing documentation that meet both accounting and fiscal compliance standards. Ultimately, this research aspires to promote a fairer and more transparent taxation framework, consistent with modern accounting principles that prioritize a balance between economic reality and legal certainty.

## 2. Research Methods

This study uses a normative-dogmatic legal approach that aims to interpret, clarify, and systematize positive legal norms governing the recognition of tax expenses in the context of applying the matching principle. This approach is rooted in the continental legal tradition, which places doctrinal research as a form of legal reasoning that is abstract but practice-oriented.<sup>21</sup> The normative legal method emphasizes formal-juridical analysis through doctrinal interpretation, legal deduction, systematization of principles, and normative argumentation as the core of legal dogmatics.<sup>22</sup> In this study, the analysis was conducted by examining the coherence between accounting standards (PSAK and IFRS) and tax provisions (Income Tax Law, Tax Administration Law, and PMK No. 219/PMK.011/2012) to assess the compatibility of the matching principle with the concept of deductible expenses in positive tax law. The research process began with the identification of relevant laws and regulations, followed by grammatical, systematic, and teleological interpretations of the articles that formed the basis of the dispute. Next, these norms were analyzed in the context of Tax Court Decision Number PUT-012124.15/2023/PP/M.XIVA Year 2025 dated August 13, 2025 to find the legal rationale behind the judge's consideration of the Staff Bonus - General account. The research was conducted in three stages: (1) identification and interpretation of relevant tax and accounting regulations; (2) doctrinal analysis of judicial reasoning in the Tax Court decision; and (3) synthesis of accounting and legal principles.

This dogmatic approach allows researchers to assess the consistency of law enforcement with basic accounting principles and to test the validity of the arguments of tax authorities and taxpayers within the framework of the Indonesian tax law system. In an epistemological context, this method is deductive in nature because it departs from general principles and norms towards the analysis of concrete cases to test their application in judicial practice.<sup>23</sup> The process of systematizing norms is carried out by mapping the relationship between the principle of economic substance and fiscal

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<sup>21</sup> Rob v. Gestel, "Quality, Methodology, and Politics in Doctrinal Legal Scholarship," *Law and Method*, 2023, <https://doi.org/10.5553/rem/.000070>; Valeri Vachev, "On the Purpose and Functions of Legal-dogmatic Research (Continental Tradition)," *Si* 100 (2023), <https://doi.org/10.31338/2544-3135.si.2024-100.18>.

<sup>22</sup> Rob v. Gestel and Hans-W. Micklitz, "Why Methods Matter in European Legal Scholarship," *European Law Journal* 20, no. 3 (2013): 292–316, <https://doi.org/10.1111/eulj.12049>; Dhifa N Syadzwinia et al., "Characteristics of Legal Science as Sui Generis," *Nurani Jurnal Kajian Syari Ah Dan Masyarakat* 23, no. 2 (2023): 261–74, <https://doi.org/10.19109/nurani.v23i2.20165>.

<sup>23</sup> Gestel and Micklitz, "Why Methods Matter in European Legal Scholarship"; Edoardo Fittipaldi and Elena Timoshina, "Theory of Custom, Dogmatics of Custom, Policy of Custom: On the Threefold Approach of Polish-Russian Legal Realism," *Ratio Juris* 30, no. 1 (2016): 105–22, <https://doi.org/10.1111/raju.12137>.

legal certainty, in order to identify interpretative gaps or disharmony between authorities. At the analytical level, researchers use legal reasoning constructs to assess the logical strength of the parties' arguments and the proportionality of the judge's decision based on the principles of justice and legal certainty.

### 3. Result and Discussion

#### 3.1. Result

##### 3.1.1. The Matching Principle in Accounting

The matching principle is a fundamental pillar of the accrual accounting system, which dictates that each expense should be recognized in the period when the related economic benefit or income arises, so that the reported profit reflects the temporal alignment between costs and benefits, rather than simply cash inflows and outflows.<sup>24</sup> This principle emphasizes that an entity's economic performance should be measured through the cause-and-effect relationship between the consumption of resources and the realization of economic benefits, rather than through the timing of cash receipts or payments. As accounting standards have evolved and been formulated, the matching principle has regained academic attention because it continues to serve as a normative anchor in recognition and measurement decisions in both practice and conceptual frameworks.<sup>25</sup> However, the application of this principle is not a mechanistic procedure; its realization depends on the measurement model chosen, the reporting objectives prioritized for both decision usefulness and stewardship, and the specific recognition criteria set by the standard setters.<sup>26</sup>

Conceptually, the matching principle can be operationalized through two main paradigms, namely the income-statement or matching-first approach and the balance-sheet or measurement-first approach.<sup>27</sup> The first approach emphasizes the simultaneous recognition of revenue and expenses to ensure a direct relationship between the two in the same period, while the second approach focuses on measuring assets and liabilities first, with performance viewed as changes in the value of resources and claims to them.<sup>28</sup> The Financial Accounting Standards Board (FASB), through its 2010 Conceptual Framework, and proponents of fair value measurement tend to favor the balance-sheet paradigm, with the logic that an entity's performance should be derived from changes in the value of assets and liabilities.<sup>29</sup> This shift substantially changes the mechanism for applying matching in modern accounting standards and practices. However, some academics and practitioners argue that an absolute emphasis on the balance sheet has the potential to obscure the economic relationship between costs and benefits in the reporting period. Therefore, income-statement matching is still considered essential to maintain the function of accounting as a tool for performance reporting, stewardship, and confirmation of transaction substance.<sup>30</sup>

In practice, one of the most crucial domains in which matching is tested and debated is revenue recognition. The timing of revenue recognition determines when related costs are recognized,

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<sup>24</sup> David Sutton, Carolyn J Cordery, and Tony v. Zijl, "The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards," *Abacus* 51, no. 1 (2015): 116–41, <https://doi.org/10.1111/abac.12042>; Zimmerman and Bloom, "The Matching Principle Revisited."

<sup>25</sup> Sutton, Cordery, and Zijl, "The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards"; Zimmerman and Bloom, "The Matching Principle Revisited."

<sup>26</sup> Richard Barker et al., "Moving the Conceptual Framework Forward: Accounting for Uncertainty," *Contemporary Accounting Research* 37, no. 1 (2020): 322–57, <https://doi.org/10.1111/1911-3846.12585>.

<sup>27</sup> Sutton, Cordery, and Zijl, "The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards."

<sup>28</sup> Barker et al., "Moving the Conceptual Framework Forward: Accounting for Uncertainty."

<sup>29</sup> Barker et al.

<sup>30</sup> Sutton, Cordery, and Zijl, "The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards."

which ultimately affects reported profits.<sup>31</sup> The international standard debate compares revenue recognition models such as the customer consideration model, the measurement model, and the fair-value-based approach, each with its own matching logic and compromise between relevance and faithful representation.<sup>32</sup> Empirical evidence shows that increased managerial discretion over the timing of recognition, for example in multi-element contracts, can increase the relevance of reports without necessarily reducing reliability, meaning that matching outcomes are highly dependent on the interaction between reporting policies and management judgment.<sup>33</sup> In the public sector context, research by the Governmental Accounting Standards Board (GASB) also shows that revenue classification and recognition rules significantly affect the matching mechanism of government transactions.<sup>34</sup>

The application of matching faces greater complexity in recognizing long-term costs and intangible costs such as research and development (R&D). Research and development costs contain economic benefits spread over several reporting periods, so the choice between recognizing the expense immediately or capitalizing and amortizing affects the timing and relevance of linking costs to future benefits.<sup>35</sup> Empirical findings show mixed results: some studies find that capitalization improves the accuracy of analyst projections and earnings attributes, while others show that the market still prices R&D value even though accounting standards require immediate expense recognition.<sup>36</sup> This variation indicates that matching decisions regarding intangible assets are economic and institutional in nature, influenced by standard rules, managerial incentives, and market limitations on observing future benefits.<sup>37</sup>

In professional practice, the application of matching depends on judgment and estimates such as useful life, probability of future benefits, indications of impairment, and bad-debt provisions.<sup>38</sup> Therefore, matching is operationalized through principles-based reasoning, rather than mechanical rules. The accounting and auditing professions emphasize the importance of using reasonable estimates, explicit risk assessments, and disclosures of uncertainty to maintain the credibility and transparency of reporting.<sup>39</sup> Interpretive and philosophical critiques highlight that matching outcomes are not merely technical products, but rather the result of social construction within a broader institutional and semiotic framework.<sup>40</sup> Thus, the matching process reflects interpretive choices and social dynamics that influence how accountants link costs to anticipated economic benefits.

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<sup>31</sup> Katherine Schipper et al., “Reconsidering Revenue Recognition,” *Accounting Horizons* 23, no. 1 (2009): 55–68, <https://doi.org/10.2308/acch.2009.23.1.55>; Dara Marshall et al., “Response to the GASB’s Invitation to Comment on *Revenue and Expense Recognition: Project No. 4-6i*,” *Journal of Governmental & Nonprofit Accounting* 7, no. 1 (2018): 97–103, <https://doi.org/10.2308/ogna-52328>.

<sup>32</sup> Sutton, Cordery, and Zijl, “The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards.”

<sup>33</sup> Linda A Myers et al., “The Impact of Managerial Discretion in Revenue Recognition: A Reexamination\*,” *Contemporary Accounting Research* 39, no. 3 (2022): 2130–74, <https://doi.org/10.1111/1911-3846.12775>.

<sup>34</sup> Marshall et al., “Response to the GASB’s Invitation to Comment on *Revenue and Expense Recognition: Project No. 4-6i*.”

<sup>35</sup> Louis K Chan, Josef Lakonishok, and Theodore Sougiannis, “The Stock Market Valuation of Research and Development Expenditures,” *The Journal of Finance* 56, no. 6 (2001): 2431–56, <https://doi.org/10.1111/0022-1082.00411>; Thomas G Canace et al., “Accounting for R&D: Evidence and Implications\*,” *Contemporary Accounting Research* 39, no. 3 (2022): 2212–33, <https://doi.org/10.1111/1911-3846.12780>.

<sup>36</sup> Canace et al., “Accounting for R&D: Evidence and Implications\*.”

<sup>37</sup> Chan, Lakonishok, and Sougiannis, “The Stock Market Valuation of Research and Development Expenditures.”

<sup>38</sup> Wally Smieliauskas, “Principles-Based Reasoning About Accounting Estimates,” *Accounting Perspectives* 11, no. 4 (2012): 259–96, <https://doi.org/10.1111/1911-3838.12001>.

<sup>39</sup> Smieliauskas.

<sup>40</sup> Shaul Hayoun, “The Semio-Logic of Financial Accounting,” *Accounting Auditing & Accountability Journal* 31, no. 7 (2018): 2055–82, <https://doi.org/10.1108/aaaj-06-2017-2977>.

Empirical studies on matching have developed through research on earnings attributes, value relevance, and cost of capital, which has sparked methodological debates regarding the best empirical proxies for assessing the quality and informativeness of matching implementation.<sup>41</sup> Francis and colleagues emphasize that research linking reporting systems to investor decisions should focus on accounting-based earnings attributes because this approach allows for sharper inferences about the economic impact of reporting differences.<sup>42</sup> However, value relevance studies are also reminded not to rely solely on the correlation between accounting figures and market values because this relationship does not always reflect measurement fidelity, thus requiring additional tests to assess the economic welfare resulting from the application of different matching methods<sup>43</sup>

The normative debate in setting standards also reveals tensions between measurement accuracy, conservatism, and stewardship, all of which influence matching outcomes.<sup>44</sup> Some parties support fair value-based measurement to describe current economic resources, while others maintain income-statement matching and conservatism as contractual protection and the basis for management accountability.<sup>45</sup> This disagreement reflects differences in epistemic paradigms and institutional preferences that shape the orientation of accounting standards in various jurisdictions. Therefore, conceptual consistency in the accounting framework is necessary so that recognition and measurement rules are based on explicit objectives, as different reporting objectives will produce different matching results.<sup>46</sup>

Efforts to improve matching results have also been made through methodological innovation and standard governance. Researchers and standard setters have explored formal ontological approaches, more explicit conceptual analysis, and more detailed disclosure as means to improve comparability and reduce ambiguity.<sup>47</sup> The modern empirical research agenda focuses on testing the relationship between matching choices and equity costs, capital allocation, projection accuracy, and market price behavior in response to reporting policies.<sup>48</sup> The integration of balance sheet measurement innovations and clarity in profit reporting regarding timing and estimation uncertainty is believed to strengthen the informational function of financial statements, particularly in describing the amount, timing, and uncertainty of future cash flows.<sup>49</sup>

Based on a synthesis of conceptual and empirical literature, three main synthesis can be concluded. First, the matching principle needs to be maintained as the main recognition norm because this principle structures the income statement based on the economic relationship between costs and benefits, even though measurement methods continue to evolve (Zimmerman & Bloom, 2016). Second, reconciliation between the balance-sheet and income-statement approaches is needed by adopting measurement methods that produce reliably measurable assets and liabilities, while ensuring profit disclosures that transparently reflect timing and the linkage of costs to benefits (Barker et al., 2020). Third, standard setters need to strengthen principle-based guidance on estimation and disclosure, and encourage empirical research focused on profit attributes and

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<sup>41</sup> Jennifer Francis et al., “Costs of Equity and Earnings Attributes,” *The Accounting Review* 79, no. 4 (2004): 967–1010, <https://doi.org/10.2308/accr.2004.79.4.967>.

<sup>42</sup> Francis et al.

<sup>43</sup> Francis et al.

<sup>44</sup> Sutton, Cordery, and Zijl, “The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards.”

<sup>45</sup> Barker et al., “Moving the Conceptual Framework Forward: Accounting for Uncertainty.”

<sup>46</sup> Sutton, Cordery, and Zijl, “The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards.”

<sup>47</sup> Marthinus C Gerber, Aurora Gerber, and Alta v. d. Merwe, “Using Formal Ontologies for the Development of Consistent and Unambiguous Financial Accounting Standards,” 2011, <https://doi.org/10.5220/0003658404190424>.

<sup>48</sup> Francis et al., “Costs of Equity and Earnings Attributes.”

<sup>49</sup> Barker et al., “Moving the Conceptual Framework Forward: Accounting for Uncertainty.”

market responses so that the consequences of applying matching can be scientifically proven, rather than assumed (Smieliauskas, 2012).

### **3.1.2. Deductible Expenses and Non-Deductible Expenses under Indonesian Tax Law**

In the Indonesian taxation system, the concept of deductible expenses plays a fundamental role in determining the amount of taxable income of an entity. Based on the provisions of Article 6 paragraph (1) of the “Law Number 7 of 1983 concerning Income Tax as last amended by Law Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation into Law” (Income Tax Law), taxable income is calculated based on “gross income minus expenses incurred to obtain, collect, and maintain income,” which is technically known as the matching principle between income and expenses. This norm emphasizes that recognizable expenses must have a clear causal relationship with efforts to generate taxable income. Thus, any expenditure that is not directly or indirectly relevant to the taxpayer's business activities, or that does not contribute to the creation of taxable income, cannot be recognized as a deductible expense. Legally, this provision aims to maintain a balance between the principles of fiscal fairness and the reliability of taxable profit measurement, so that there is no overstatement or understatement of business expenses recognized for tax purposes.

Furthermore, Article 6 paragraph (1) letter a of the Income Tax Law explicitly states that expenses directly or indirectly related to business activities, “including: the cost of purchasing materials; expenses related to work or services including wages, salaries, honoraria, bonuses, gratuities, and allowances given in the form of money,” can be deducted in the calculation of taxable income. This provision indicates that the recognition of expenses in the Indonesian tax system does not solely depend on cash realization, but rather on the existence of economic obligations arising as a consequence of business activities. This approach is in line with the accrual accounting system, which recognizes expenses when the obligation arises, not when cash is paid, as long as there is a legal basis and valid evidence. In this context, employee salaries, wages, and bonuses are categorized as deductible expenses as long as they have actually occurred, are supported by adequate evidence, and are directly related to business activities that generate taxable income. This confirms the integration of accounting and tax law principles in ensuring that substance over form is the basis for fiscal imposition.

The explanation of Article 6 broadens the interpretation of deductible expenses by dividing them into two categories: expenses with a useful life of no more than one year and expenses with a useful life of more than one year. Expenses whose benefits only apply to one tax year, such as salaries, interest, administrative costs, and waste management, are charged directly in the year of expenditure. Conversely, expenditures that provide benefits for more than one year, such as the purchase of fixed assets or the construction of production facilities, must be capitalized and allocated through a depreciation or amortization mechanism. This separation shows that the law not only regulates the formal aspects of expenditures but also emphasizes economic substance in determining the timing of expense recognition. This approach reflects the accrual accounting principle in the dimension of tax law, which aims to measure income more fairly and accurately between periods.

The main criterion that determines whether an expense can be categorized as deductible is the existence of a nexus or direct relationship with activities to earn income. The explanation of Article 6 letter a emphasizes that “the expenses referred to are commonly referred to as daily expenses that can be charged in the year of expenditure,” provided that the expenditure has a direct or indirect relationship with business activities to earn, collect, and maintain income. This phrase reinforces the business purpose test principle in Indonesian tax law, whereby the charging of expenses must have a legitimate economic purpose and be relevant to business activities. Therefore, expenses that are personal, charitable, or unrelated to business activities are excluded from the category of deductible expenses. This approach upholds the principles of horizontal and

vertical fairness in the taxation system, whereby only expenses that contribute to the generation of business profits are eligible for tax deductions.

In the Indonesian taxation system, the establishment of reserve funds is a crucial issue in determining whether an expense can be categorized as a deductible expense or not. Based on Article 9 paragraph (1) letter c of the Income Tax Law, it is emphasized that “the establishment or accumulation of reserve funds cannot be deducted from gross income,” except for certain types of businesses that are explicitly mentioned in the law (see Table 2). This norm indicates that the establishment of reserve funds is generally considered not to reflect actual costs (realized expenses), but only estimates of obligations that may arise in the future. Thus, the basic principle adopted by tax law is that only expenses that actually occur and reduce the taxpayer's economic capacity can be deducted in the calculation of taxable income. This provision upholds the principle of fiscal realization and rejects the recognition of expenses based on expectations without concrete evidence of the exact time and amount of realization.

Exceptions to this prohibition are granted on a limited basis to types of businesses that have reserve requirements that are specifically regulated by the authorities. Article 9 paragraph (1) letter c numbers 1 to 6 stipulates that the formation of reserves is permitted to include: "reserves for uncollectible receivables for banks and financing companies; reserves for insurance businesses; guarantee reserves for Deposit Insurance Institutions; reclamation cost reserves for mining businesses; replanting cost reserves for forestry businesses; and closure and maintenance cost reserves for industrial waste disposal sites." These exceptions are based on the economic characteristics of these sectors, which inherently face uncertainty of obligations and significant risk fluctuations. Thus, the creation of reserves in these sectors is not a form of deferral of expenses, but rather part of a risk management mechanism aimed at maintaining business continuity and financial stability. This principle also distinguishes between reserves that are speculative in nature and reserves that are based on legal or contractual obligations that can be reliably measured.

Systemically, the norm in Article 9 paragraph (1) affirms the conceptual boundary between deductible and non-deductible expenses, namely expenses that have a direct or indirect relationship with business activities to obtain, collect, and maintain income, compared to expenses that are not yet actual or those incurred for non-productive purposes. The explanation of this article states that “expenses incurred by taxpayers can be distinguished between those that can and cannot be charged as costs.” Expenses that cannot be deducted are generally those that are used as income, rather than expenses to generate new income. This means that the Indonesian tax system rejects the recognition of expenses that are oriented towards profit allocation without a basis in actual expenses, as this could undermine the integrity of taxable income calculations. This principle reflects the ability to pay principle, whereby only expenses that actually reduce the taxpayer's economic capacity to earn income can be recognized as a fiscal expense.

In practice, differences in interpretation between accrual expenses and reserves are often a source of tax disputes. Taxpayers generally interpret the accrual recording of liabilities, such as employee bonuses, allowances, or annual awards, as actual expenses because these liabilities arise from economic events that have already occurred and their amounts can be reliably estimated. Meanwhile, tax authorities tend to consider such recording as the creation of non-deductible reserves because the realization of payments and the number of recipients are not yet certain in the relevant fiscal year. In this case, Article 9 paragraph (1) letter c serves as the fiscal recognition limit between valid accrual expenses and contingent reserves. Therefore, taxpayer evidence is a determining factor in demonstrating that the recognition of these expenses meets the principles of certainty of obligation and accuracy of measurement as referred to in Article 6 paragraph (1) letter a, which regulates payroll, bonuses, and allowances. Incorrect classification between accruals and reserves can lead to positive fiscal corrections and significantly increase the tax burden.

From the perspective of accounting theory and tax law, the distinction between accrued expenses and reserves reflects the interaction between the matching principle and the realization principle. The matching principle in accounting emphasizes the need to link costs with the revenue generated in the same period so that profits reflect actual economic relationships, while the realization principle in tax law requires that expenses must actually occur and be objectively proven. Indonesian tax law adopts a conservative approach by placing realization as the basis for recognizing expenses, except in cases that are explicitly excluded. This approach confirms that tax law places more importance on the certainty of state revenue than on the flexibility of profit reporting, thereby encouraging strict fiscal accountability. However, in practice, this approach can create tension with the accrual accounting principle, which is more reflective of economic substance than the formal form of transactions.

The explanation of Article 9 paragraph (1) further emphasizes that “expenses that cannot be deducted from gross income include expenses that are in the nature of income consumption or whose amount exceeds what is reasonable.” This phrase reinforces the principle of vertical fairness in the tax system, namely that the fiscal burden must be proportional to the economic benefits received. Thus, not all expenses incurred by a company automatically qualify as fiscal expenses, especially if they have no business relevance or their value is unreasonable compared to industry standards. This norm also serves as a basis for the tax authorities to make corrections to expenses that are deemed inconsistent with the arm's length principle, especially in the context of affiliate transactions or transfer pricing.

**Table 1.** Normative Comparison between Article 6 and Article 9 of the Income Tax Law in the Context of Expense Recognition

Aspect	Article 6 - Deductible Expenses	Article 9 - Non-Deductible Expenses
Normative Purpose	Regulates expenses that may be deducted from gross income to determine taxable income.	Regulates restrictions and exclusions on expenses that cannot be deducted from gross income.
Underlying Principle	Applies the <i>matching principle</i> between income and expenses; expenses are recognized when there is a causal relationship with the generation of income.	Applies the <i>realization principle</i> ; only expenses that have actually occurred and have a concrete economic basis may be recognized.
Recognition Criteria	Expenses must be directly or indirectly related to business activities undertaken to obtain, collect, and maintain income.	Expenses must not be speculative, personal, or consumptive, and may not include provisions or reserves unless explicitly permitted by regulation.

### 3.2. Discussion

The taxpayer argued that the tax authorities' positive adjustment to account 60004 Staff Bonus–General had no strong legal or accounting basis. *First*, the taxpayer asserted that the expenses recorded in this account were not provisions or reserves, but rather accrued expenses that met the elements of certainty in terms of both amount and recipient. In an accrual-based accounting system, expenses are recognized when the obligation arises and can be reliably measured, without waiting for cash payments to occur. Therefore, the recognition of expenses for bonuses, holiday allowances, and employee awards in 2020 is a logical consequence of the application of the accrual method that has been consistently applied by the company in accordance with the Statement of Financial Accounting Standards (PSAK). *Second*, the Taxpayer emphasized that the main characteristic that distinguishes accrual expenses from provisions lies in the degree of certainty of the obligation. Accrued expenses have a legal and factual basis because the payment obligation has arisen as a result of employee performance, while provisions are anticipatory in nature for events whose timing is uncertain. Thus, the determination of the bonus amount based on employee performance appraisals throughout 2020 reflects the company's actual obligations, not contingent estimates.

*Third*, the taxpayer bases his argument on Article 6 paragraph (1) letter a of the Income Tax Law (PPh Law), which states that “expenses that can be deducted from gross income include expenses related to work or services, including wages, salaries, honoraria, bonuses, gratuities, and allowances given in the form of money.” This norm explicitly recognizes employee bonuses as deductible

expenses as long as the expenses are directly related to business activities to obtain, collect, and maintain income. Therefore, the taxpayer argues that the recognition of bonus expenses in 2020 has fulfilled the matching principle, namely the linking of income and expenses in the same period. *Fourth*, the taxpayer also presented empirical evidence in the form of the realization of bonus and employee benefit payments in the 2021 tax year totaling IDR 10,276,608,579, which included several payment installments from July to December 2021. This realization strengthens the argument that the expenses recognized in the 2020 financial statements were not baseless estimates, but were obligations that were actually realized in the following period. In addition, all of these payments were subject to withholding and reporting under Article 21 of the Income Tax Law, which indicates that there were real fiscal consequences for these expenses.

*Fifth*, the taxpayer rejected the tax authority's view that the recognition of the expense constituted a provision for costs because it was still divided into several payment installments. According to the taxpayer, the division into installments was not an indication of uncertainty, but rather an administrative arrangement in the payment of compensation that had been determined through company policy. In the context of tax law, the certainty of the amount and recipient has been fulfilled since the end of 2020, so that the accrual recognition of expenses remains fiscally valid. *Sixth*, the Taxpayer emphasizes that the accounting system used is in accordance with the principle of consistency in PSAK and has been applied without change throughout the year, so that there is no manipulative element in the recognition of these expenses. *Seventh*, adhering to the principle of substance over form, the taxpayer argues that the economic substance of the transaction namely, the company's obligation to its employees is more important than the administrative form of payment. Therefore, categorizing accrual costs as provisions means ignoring economic reality and obscuring the causal relationship between employee performance and company income.

*Eighth*, the taxpayer also emphasized that the tax authority's interpretation of Article 9 paragraph (1) letter c of the Income Tax Law, which prohibits the recognition of reserves, cannot be applied to this case because the costs in question do not meet the characteristics of reserves. A reserve in the context of this article is the allocation of funds for obligations that are uncertain in terms of both time and amount, whereas bonus expenses have a definite basis of calculation based on work evaluations and collective labor agreements. *Ninth*, in principle, the recognition of accrual expenses actually strengthens the reliability of financial statements and fiscal compliance because it reflects the relationship between expenses and economic benefits generated in the same period.<sup>50</sup> *Tenth*, the taxpayer asserts that the tax authority's rejection of these accrued expenses has the potential to cause a double taxation effect, because the related income has been recognized in the current year, but the deduction is deferred to the following period. This condition contradicts the principles of fairness and ability to pay, which form the basis of the Indonesian taxation system. Thus, conceptually, legally, and empirically, the Taxpayer's argument shows that employee bonus costs recognized on an accrual basis in 2020 are not provisions, but rather actual expenses that are deductible from gross income in accordance with the provisions of Article 6 paragraph (1) letter a of the Income Tax Law and the matching principle in generally accepted accounting practice.

The Tax Authority is of the opinion that the expenses recorded in account 60004 - Staff Bonus - General by the Taxpayer constitute a form of expense provision that cannot be deducted from gross income in accordance with the provisions of Article 9 paragraph (1) letter c of the Income Tax Law. From a fiscal perspective, cost provisions are funds set aside to cover liabilities or expenses that are still estimated, where the timing and amount of realization cannot yet be determined with certainty. The Tax Authority considers that the payment of employee bonuses and allowances that were only realized between July and December 2021 indicates that these obligations were not certain at the end of the 2020 tax year, so the recognition of expenses in that period is not in accordance with the realization principle in tax law. This approach is in line with

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<sup>50</sup> Barker et al.

the prudence principle, whereby fiscal expenses can only be recognized when the obligations are real, measurable, and result in a real reduction in economic capacity. Thus, expenses that are still projections or provisions do not qualify to be categorized as deductible expenses.

Furthermore, the Tax Authority emphasized that the recognition of bonus expenses cannot be equated with accrued expenses due to the absence of definitive evidence regarding the amount and recipients in 2020. When the amount and timing of payment cannot be objectively proven, the expense is classified as a provision, not a liability, as it is based on managerial anticipation of obligations that may arise in the future. The Tax Authority also highlighted that the payments were made in installments over six months, indicating that there was no legal obligation binding the company to settle the liability in the claimed accrual year. Based on this analysis, a positive correction was made to maintain the integrity of the tax base so that it would not be eroded by the recognition of unrealized expenses. The *lex specialis* principle in Article 9 paragraph (1) letter c of the Income Tax Law provides an explicit limitation that only certain types of reserves regulated in Minister of Finance Regulation (PMK) Number 219/PMK.011/2012 may be deducted as expenses. In this regulation, the alcoholic beverage industry is not included in the category of businesses that are permitted to form reserve funds, so the recognition of bonus expenses does not legally meet fiscal requirements.

The Tax Court Panel of Judges ruled that the core issue in the tax dispute over account 60004-Staff Bonus-General amounting to IDR 10,276,608,579 lay in the fundamental difference between the nature of accrual expenses and provisions, as well as the application of the matching principle in a fiscal context. Based on the results of the examination, the Panel found that the Taxpayer had recorded the expense as an accrual expense in the 2020 Tax Year with a reliable estimate, a definite amount, and individually identified recipients. The Court emphasized that accrual recognition accompanied by evidence of actual realization in the following year, as well as the implementation of withholding and reporting obligations under Article 21 of the Income Tax Law, indicated that the expenses were not contingent but rather a definite obligation at the time of recognition. Thus, the Panel assessed that the tax authorities' argument regarding the uncertainty of the amount and timing of payment was no longer substantively relevant because the element of economic certainty had been fulfilled. In this context, the Panel applied the substance over form principle, namely that economic reality must take precedence over mere administrative form in determining the tax treatment of a transaction.

The Council also considered that the accrual accounting system applied by the Taxpayer was in accordance with the Statement of Financial Accounting Standards (PSAK) and Article 28 paragraphs (1) and (5) of the General Provisions and Tax Procedures Law, which require bookkeeping to be carried out in a fair, accurate, and consistent manner. The fact that an independent auditor has certified the financial statements reinforces the reliability of the accounting information used to support the recognition of these expenses. The Council considers that the existence of an adequate internal control system and a mechanism for determining bonuses based on employee performance are indicators of a measurable liability and not merely a managerial estimate. Therefore, these expenses can be considered to have met the characteristics of deductible expenses as stipulated in Article 6 paragraph (1) letter a of the Income Tax Law, because they are directly related to compensation for services and labor contributions to business activities. This view is in line with the matching principle, which requires that expenses be recognized in the same period as the income generated, so that financial and fiscal reporting reflects a reasonable economic relationship.

In addition to assessing the substance of the expense recognition, the Panel of Judges also highlighted the aspect of consistency in fiscal treatment by the tax authorities in previous years' audits. Evidence shows that for the 2017 to 2019 tax years, the tax authorities did not make similar corrections to the recognition of accrual expenses with the same characteristics. The Panel

considered this inconsistency to be a violation of the principles of legal certainty and equal treatment in tax administration. In this context, the Panel emphasized that fiscal justice depends not only on the application of written rules, but also on the consistency of their enforcement. When the tax authorities make corrections without a clear legal basis for change or additional evidence that is materially different, such corrections do not have a strong legal basis and have the potential to create uncertainty for taxpayers.

Furthermore, the Council considers that the Taxpayer's actions in realizing all bonus and THR payments to employees in 2021 indicate a continuing obligation that has arisen since 2020. This realization was not a new creation, but rather the fulfillment of a previously recognized obligation. Thus, the recognition of accrued expenses in 2020 reflects the application of the principle of prudence that is valid in accounting and does not violate fiscal provisions because it is based on a definite and documented agreement. The Panel rejected the Respondent's argument that the costs were speculative or had no legal basis, as the proof of payment, Article 21 income tax withholding reports, and the nominative list of recipients showed a direct link between the expenses and business activities that generated taxable income. Therefore, the Panel concluded that the positive correction made by the Respondent was not appropriate in substance or in law.

Based on the overall assessment, the Tax Court Panel of Judges is of the opinion that the expense in account 60004 - Staff Bonus - General meets the criteria for expenses that can be deducted from gross income. The Panel emphasizes that the difference between accruals and provisions must be viewed from the level of certainty of the obligation, not merely the timing of payment realization. When an obligation has arisen and can be reliably measured, the expense should be recognized for tax purposes, even if payment is made in a subsequent period. Therefore, the Panel stated that the tax correction on this account was not in line with the principle of substance over form, the principle of legal certainty, and the objective of tax neutrality, which encourages tax treatment that does not distort the economic reality of the company. To facilitate comparison of the legal opinions of taxpayers, tax authorities, and judges, please refer to Table 2.

**Table 2.** Comparison of Legal Opinions of Taxpayers, Tax Authorities, and Judges

Aspect	Taxpayer's View	Tax Authority's View	Tax Court Panel's View
Nature of the Expense	The expense recorded in <i>account 60004 - Staff Bonus-General</i> constitutes an accrued expense, not a <i>provision</i> or reserve. The obligation had arisen and could be reliably measured based on employee performance (PSAK, Article 6(1)(a) of the Income Tax Law).	The expense represents reserve formation, as the amount and timing of payment were not yet certain at the end of the 2020 fiscal year.	The Panel concluded that the expense was a definite accrued cost, since the obligation had arisen and was substantiated by actual realization in 2021 and the withholding of <i>Article 21 Income Tax</i> .
Accounting and Tax Principles Applied	Refers to the accrual and matching principles, where expenses are recognized when the obligation arises, not when cash is paid, ensuring alignment between income and expenses.	Refers to the realization and prudence principles, where tax expenses may only be recognized once the obligation has been realized and has actually reduced the taxpayer's economic capacity.	The Panel affirmed that applying the <i>matching principle</i> is fiscally acceptable if supported by verifiable evidence and a valid legal basis, thereby prioritizing <i>substance over form</i> .
Legal Basis	Article 6(1)(a) of the Income Tax Law allows deduction of costs related to labor or services, including wages, salaries, honoraria, bonuses, gratuities, and allowances paid in money.	Article 9(1)(c) of the Income Tax Law prohibits the deduction of reserve formation from gross income, except for certain industries regulated under MoF Regulation No. 219/PMK.011/2012.	The Panel interpreted that applying Article 6(1)(a) is more appropriate since the expense constitutes actual employee compensation, not a contingent reserve. Thus, the correction was inconsistent with fiscal legality.
Supporting Evidence and Realization	The Taxpayer provided proof that the IDR 10.27 billion expense was realized in 2021 and reported under <i>Article 21 Income Tax Returns</i> . Payments were made in	The installment payments made between July and December 2021 indicate that the obligation was not certain in 2020; thus, the expense remained an estimate and was not fiscally deductible.	Documentary evidence—payment records, <i>Article 21 tax withholdings</i> , and nominative employee lists—proved a definite and measurable

Aspect	Taxpayer's View	Tax Authority's View	Tax Court Panel's View
	installments for administrative, not uncertainty, reasons.		liability, justifying accrual recognition in 2020.
Accrual vs. Reserve Interpretation	Accruals represent actual obligations arising from employee performance that can be measured reliably, whereas reserves are anticipatory allocations for uncertain future events.	Accruals did not meet certainty criteria for amount or timing, thus categorized as <i>provisions</i> that are <i>non-deductible</i> .	The Panel held that the distinction between accruals and reserves depends on the certainty of obligation and evidence of realization, not merely payment timing.
Principle of Substance over Form	Argues that the economic substance of the company's obligation to employees outweighs the administrative form of payment.	Views that formal realization (cash payment) is the legal basis for expense recognition; without realization, there is no provable economic substance.	The Panel reaffirmed that economic substance must prevail over form, since the obligation was objectively realized in the subsequent fiscal period.
Consistency of Tax Authority Practice	Points out that the Tax Authority made no similar corrections in fiscal years 2017–2019, rendering the 2020 adjustment inconsistent and legally uncertain.	Provides no clear justification for the differing treatment compared with previous audit years.	The Panel found inconsistency in the Tax Authority's practice, weakening the validity of the correction and violating the principles of <i>equal treatment</i> and legal certainty.
Relevance to Business Activities	Employee bonuses are directly related to business operations and income generation, as they serve as compensation for employee performance.	Bonuses are not directly tied to 2020 income since realization and contractual basis were not yet confirmed.	The Panel concluded that bonuses and holiday allowances constitute employee compensation intrinsically linked to business activity, satisfying the business purpose test under Article 6(1).
Fiscal Fairness Principle	Rejects the correction, arguing it may lead to <i>double taxation</i> : income was taxed in 2020, while the corresponding expense deduction was deferred to 2021.	Argues the correction safeguards the <i>tax base</i> and prevents premature reductions of taxable income.	The Panel found the correction inconsistent with fairness and proportionality ( <i>ability-to-pay principle</i> ), as real expenses borne by the company were not recognized in the proper fiscal period.
Normative Conclusion	The accrued employee bonus expense in 2020 qualifies as a deductible expense under Article 6(1)(a) of the Income Tax Law and PSAK.	The expense is non-deductible as it constitutes a reserve prohibited under Article 9(1)(c) of the Income Tax Law.	The Panel ruled that the positive fiscal correction cannot be upheld, since the expense fulfills the requirements of legal certainty, economic substance, and fiscal compliance.

The opinion of the Tax Court Judges stating that employee bonus expenses in the Staff Bonus–General account are accrual expenses that can be deducted from gross income for tax purposes is in line with the matching principle in accrual accounting. The matching principle requires the recognition of expenses in the same period as the revenue or economic benefits generated so that the income statement reflects the temporal relationship between costs and benefits, not just cash flows.<sup>51</sup> In this context, the obligation to pay bonuses arising from employee performance during 2020 has economically occurred, so that the recognition of expenses in that year meets the criteria of a causal relationship between income and expenses. The judge also emphasized that the realization of payments and income tax deductions under Article 21 in the following year reinforced that the obligation was not a speculative estimate, but a definite debt that could be reliably measured. This argument is in line with the income-statement approach, which emphasizes the contemporary recognition of expenses against income, rather than when cash flows are realized.<sup>52</sup>

In addition, the judge's approach is consistent with the conceptual view that the matching principle is normative and not mechanical, but rather depends on the measurement model and reporting

<sup>51</sup> Zimmerman and Bloom, “The Matching Principle Revisited”; Sutton, Cordery, and Zijl, “The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards.”

<sup>52</sup> Barker et al., “Moving the Conceptual Framework Forward: Accounting for Uncertainty.”

objective that is prioritized, such as stewardship or decision usefulness.<sup>53</sup> In this case, the judge ruled that the taxpayer's application of accrual accounting had satisfied the principle of faithful representation because it was supported by empirical evidence in the form of independent audits and adequate internal control systems. This approach also reflects a balance between information relevance and fiscal conservatism as recommended by contemporary accounting literature.<sup>54</sup> On the other hand, the tax authority's rejection of accrual costs on the grounds that there has been no cash realization indicates an orientation towards a balance-sheet approach that emphasizes the measurement of actual assets and liabilities as the basis for performance recognition. However, this approach can obscure the economic substance of transactions and disrupt the temporal coherence between income and expenses, as criticized by Barker et al.<sup>55</sup>

Thus, the judge's decision to prioritize economic substance over formal form is in line with the substance over form doctrine and principles-based reporting practices that emphasize professional judgment and transparent disclosure.<sup>56</sup> The application of this principle maintains the integrity of accounting information by linking labor costs to revenue generated in the same period, while avoiding fiscal imbalances due to deferred expense recognition. This decision also contains a strong normative aspect because it reconciles the income statement and balance sheet approaches through accountable evidence and independent auditor verification, which shows that accrual recognition is fiscally acceptable if it meets the elements of certainty and reliability. Theoretically, this supports the view of Francis et al.<sup>57</sup> that the proper application of matching improves the attributes of profit and the relevance of financial statements. Therefore, conceptually, normatively, and empirically, the judge's opinion can be considered correct because it reflects a balance between fiscal compliance, reporting accountability, and substantive economic principles, which are the essence of the matching principle in modern accrual accounting systems.

#### 4. Conclusion

This study aims to analyze the application of the matching principle in the context of tax disputes related to the charging of employee bonus costs, as well as to assess the appropriateness of recognizing these costs as deductible expenses under Indonesian tax law. The results of the study indicate that recognizing bonus expenses as accrued expenses better reflects economic substance than recognizing them as provisions, because the payment obligation has arisen from employee services that have been provided and can be reliably measured. This approach is in line with the substance over form principle, whereby economic reality must take precedence over administrative form, as emphasized in the judges' considerations. The court ruled that the obligation to pay bonuses had fulfilled the elements of certainty, both in terms of amount and recipient, and was evidenced by the realization of payment and Article 21 tax deductions in the following year. Thus, these expenses were eligible for deduction from gross income based on Article 6 paragraph (1) letter a of the Income Tax Law. Conversely, the tax authority's view of rejecting the recognition of accrual expenses shows an orientation towards the realization principle, which has the potential to ignore the causal relationship between income and expenses in the same period.

Theoretically, this study contributes to strengthening the concept of the matching principle in the fiscal context by showing that recognizing employee bonus costs as accrued expenses is a form of applying the accrual principle that is consistent with the economic substance of the transaction and the stewardship objective as described in modern accounting literature. These results broaden

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<sup>53</sup> Sutton, Cordery, and Zijl, "The Purpose of Financial Reporting: The Case for Coherence in the Conceptual Framework and Standards."

<sup>54</sup> Zimmerman and Bloom, "The Matching Principle Revisited."

<sup>55</sup> Barker et al., "Moving the Conceptual Framework Forward: Accounting for Uncertainty."

<sup>56</sup> Smieliauskas, "Principles-Based Reasoning About Accounting Estimates."

<sup>57</sup> Francis et al., "Costs of Equity and Earnings Attributes."

the understanding of the relationship between accounting principles and tax law norms, particularly in balancing faithful representation and the principle of legal certainty in expense recognition. In practical terms, this study offers guidance for business entities in designing employee compensation accounting policies that are not only in line with generally accepted accounting standards but also have fiscal compatibility that can reduce the risk of tax corrections and administrative disputes.

From a policy perspective, this study urges the Directorate General of Taxes (DGT) to establish a clearer interpretive guideline distinguishing accrued expenses from provisions. This policy clarification should include objective indicators such as the existence of legally enforceable obligations, documentary evidence of calculation, and timing of payment realization to ensure uniformity across audits and judicial reviews. Furthermore, the DGT should develop a synchronized framework between accounting standards (PSAK 24 and PSAK 46) and tax regulations to minimize interpretative ambiguity regarding the timing of expense recognition for employee compensation. Enhancing coordination between the Indonesian Institute of Accountants (IAI) and the Ministry of Finance could institutionalize a harmonized interpretation that preserves both fiscal certainty and economic relevance. For future research, this study recommends conducting a comparative empirical analysis across sectors such as manufacturing, banking, and technology industries to evaluate the consistency of applying accrual-based expense recognition in contexts with varying levels of uncertainty in long-term obligations. Moreover, longitudinal studies could be conducted to examine how judicial interpretations of the matching principle evolve over time and influence taxpayer compliance behavior.

## 5. References

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