

Uncertain Supply Chain Management

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Do tax disputes affect firm value?

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ABSTRACT

Article history:

Received March 1, 2023

Received in revised format March 18, 2023

Accepted May 3 2023

Available online May 3 2023

Keywords:

Tax dispute

Industry profile

Firm value

This study examines the effect of tax disputes on firm value with industry profiles as a moderator. The population of this study is non-financial companies that are listed on the Indonesia Stock Exchange and disclosed tax disputes during the 2014-2019 period. The purposive sampling technique was applied, and 292 observations were obtained. A mixed-method approach is used in this study. First, a panel data regression analysis was performed using a tool called EViews 12. Second, to deepen the empirical nature of this research, and with the results of the panel data regression analysis having already been obtained, tax consultants who have legal power of attorney at the tax court were invited to a focus group discussion (FGD) that was held in Bali. The results of this study find that tax disputes have a negative effect on firm value. This study also demonstrates that an industry having a high profile weakens the negative effect of tax disputes on firm value. The research findings provide an understanding of tax disputes, firm values, and industry profiles within the framework of signaling theory and legitimacy theory. The limitation of this research is that it does not discuss typical tax dispute cases (whether material disputes or judicial disputes) due to data limitations.

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1. Introduction

A company's main goal is to increase the prosperity of shareholders by optimizing its value. The objective of optimizing the value of the company should be used as a basis for determining the company's financial decisions, including financial decisions related to tax disputes. Tax disputes arise in the field of taxation between taxpayers and authorized officials (Dash & Raithatha, 2018). Tax disputes are of great concern to stockholders. Investors and investment managers consider corporate tax issues when making investment decisions (Marriage, 2014; Rampell, 2014). Investors and analysts care about corporate tax issues (Carlson, 2015). Corporate tax problems affect managerial reputation (Gallemore et al., 2014) and can potentially cause a fall in stock prices (Kim et al., 2011). Shareholders pay attention to the issue of fulfilling corporate tax obligations (Slemrod, 2004). Investors will charge extra premiums when the company has high tax uncertainty (Hutchens & Rego, 2013). The market responds to information about corporate taxes disclosed in financial statements when valuing stock prices (Adiati et al., 2018). The change in the tax collection system from the Official Assessment System to the Self-Assessment System has increased the potential for tax disputes to occur in Indonesia (Sahid et al., 2015). The number of tax disputes in the country during the 2014-2020 period increased by an average of 19% annually. During that period, 48% of tax dispute cases ended in defeat for the taxpayer. This phenomenon indicates that the potential for taxpayers to lose when there are tax disputes is relatively high in Indonesia. This potential for defeat can become a negative signal in the eyes of stockholders so it affects firm value. Empirical studies related to the relationship between tax disputes and firm value are still relatively limited and they have yielded inconsistent results. Tax issues have a negative effect on firm value when disclosed in the profit and loss statements and financial records (Adiati et al., 2018). Litigation and disputes have a negative effect on firm value (Dash & Raithatha, 2018; Drake et al., 2017; Hao, 2011; Hutchens & Rego, 2013; Wu et al., 2020). Litigation is a significant threat to companies planning to go public (Hao, 2011). Tax disputes are related to future stock volatility and greatly affect investor

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expectations (Drake et al., 2017). Investors will charge extra premiums when the company has high tax uncertainty (Hutchens & Rego, 2013). The share price of the defendant's company drops significantly when the lawsuit is announced (Arena & Ferris, 2018). Litigation causes an increase in financing constraints and operational costs causing the firm value to decrease (Wu et al., 2020). Different results have been yielded by other studies. There is a concave relationship between taxes and firm value (McCarty, 2012). Investors value tax issues positively to a certain degree (where costs become too excessive), and then an increase in tax issues reduces firm value (McCarty, 2012). Investors view tax issues positively, especially for companies that have secured their tax strategy with advance tax rulings (Nesbitt & Outslay, 2017). The inconsistency of the results of previous studies reveals that it is still necessary to study other variables in explaining the relationship between tax disputes and firm value. This study uses a multi-theoretic framework, namely signal theory, and legitimacy theory, to identify other variables in explaining the relationship between tax disputes and firm value.

Signal theory explains the relationship between tax disputes and firm value. The theory posits that information about tax disputes that has been signaled has the power to change the judgment of external parties. Information related to tax disputes between the authorities and taxpayers is a signal that has economic value because it influences the decision-making of stockholders (Mirrlees, 1971; Vickrey, 1945). Legitimacy theory also explains the relationship between tax disputes and firm value. This theory asserts that organizations continually strive to ensure that they are seen as operating within the boundaries and norms of their respective communities; that is to say, organizations seek to ensure that their activities are considered to be legitimate by outsiders. Legitimacy theory can be used to explain company profiles (high-profile or low-profile companies). High-profile companies receive more scrutiny from the public because their operational activities have the potential to affect broader interests than companies that correspond to the low-profile criteria (Branco & Rodrigues, 2008). Companies in high-profile industries are proxies for risky companies, while companies in low-profile industries are proxies for companies that are less risky (Wahyuni, 2013). A high-profile industry influences investors' assessment regarding whether a company is engaging in good business practices and is well-managed; as a result, the chances of winning a tax dispute increase, which has an impact on firm value. Legitimacy theory posits that tax disputes and their relationship to firm value must be studied in relation to the industry category in which the company operates. This is also supported by the results of previous studies. High-profile industries have high sensitivity to the environment, litigation risks, and social issues (Hackston & Milne, 1996). High-profile companies are expected to have a higher level of social responsibility (Roberts, 1992). Environmental conditions (e.g. industry dynamism) need to be considered in assessing the relationship between litigation and disputes and firm value (Quigley & Graffin, 2017). The industrial sector a company is a member of influences firm value (Quigley & Hambrick, 2014). Some industries are inherently riskier than other industries, so the value of the company decreases (Quigley & Hambrick, 2014).

This study has several novelties. First, it is the first piece of research to verify the linkage between tax disputes and firm value in Indonesia, especially in relation to changes in the country's taxation system which has moved from an official-assessment system to a self-assessment system. Second, this study clarifies the relationship between tax disputes and firm value by adding a moderating variable, namely industry profile. The moderating variable (industry profile), in previous studies, has been the determining variable (independent) of firm value. Third, this study uses a mixed method, namely it incorporates both quantitative analysis and qualitative analysis. The quantitative analysis technique used is panel data regression analysis using EVIEWS 12. The qualitative analysis technique used was a focus group discussion (FGD) conducted in Bali with tax consultants who have legal power of attorney at the tax court. The FGD was carried out after the panel data regression analysis to deepen the empirical study of this study.

This study is presented in five sections. The first section is an introduction, followed by part one which discusses the previous literature and the development of hypotheses. The second part describes the methodology used including information about the sample and data collection, a description of the variables, and the empirical model. Part three presents the empirical results followed by a discussion in part four. The study's conclusions are presented in the fifth and final part.

2. Literature Review and Hypotheses

2.1 Tax Dispute

The signal theory states that information related to tax dispute cases between the authorities and taxpayers has economic value because it influences the decision-making of stockholders (Mirrlees, 1971; Vickrey, 1945). This is supported by the results of previous studies. Tax issues have a negative effect on firm value when disclosed in profit and loss statements and financial records (Adiati et al., 2018). Litigation and disputes have a negative effect on firm value (Dash & Raithatha, 2018; Drake et al., 2017; Hao, 2011; Hutchens & Rego, 2013; Wu et al., 2020). Litigation is a significant threat to companies planning to go public (Hao, 2011). Companies with very high litigation potential are likely to withdraw their IPOs because their value will decrease. Tax disputes are related to future stock volatility and greatly affect investor expectations (Drake et al., 2017). Investors will charge an extra premium when a company has high tax uncertainty (Hutchens & Rego, 2013). Companies face a risk-reward trade-off, meaning that the expected cash savings resulting from tax savings need to be compared with the risks posed by this strategy (Arena & Ferris, 2018; Wu et al., 2020). The share price of the defendant's company drops significantly at the time the lawsuit is announced (Arena & Ferris, 2018). Litigation causes an increase in financing constraints and operational costs meaning that firm value decreases (Wu et al., 2020). A high number of litigation cases cause debtholders to be concerned about the credibility of the company being sued. Litigation cases disrupt a company's stable relationship with

suppliers and customers, weaken its competitive market position, and increase the uncertainty surrounding that company's operations, leading to a decrease in profitability and a decrease in firm value (Wu et al., 2020).

Based on the above explanations, it can be synthesized that tax disputes signal (1) high tax uncertainty; (2) future stock volatility risk; (3) a risk-reward trade-off for a firm, which means that the expected cash savings resulting from tax savings are not necessarily greater than the risk incurred if the company loses a tax dispute; (4) increased financing constraints due to debtholders' concerns about the company's credibility; (5) increased operating costs due to disruption of the company's stable relationship with suppliers and customers; and (6) increased uncertainty surrounding the company's operations (which include financing, operating costs, and cash flow levels in the future). This signal of uncertainty affects investors' expectations which leads to a decrease in firm value. Therefore, the hypothesis in this research can be formulated as follows:

H₁: *Tax disputes have a negative effect on firm value.*

2.2 Industry Profiles

Legitimacy theory can be used to explain company profiles (i.e., high-profile or low-profile companies). Legitimacy theory explains that companies with a high profile will receive more attention from the public because their operational activities have the potential to affect broader interests than companies that are categorized as low profile (Branco & Rodrigues, 2008). High-profile industries have high sensitivity to the environment, litigation risk, and social issues (Hackston & Milne, 1996). High-profile companies are expected to have a higher level of social responsibility (Roberts, 1992). Companies in high-profile industries are proxies for risky companies, while companies in low-profile industries are proxies for companies that are less risky (Wahyuni, 2013). Government agencies usually carry out close supervision of companies operating in high-profile industries. These companies must comply with a range of regulations, and not only those pertaining to tax. Close supervision and the obligation to comply with various regulations will result in these companies implementing good business practices and being well-managed in preparing their reports. Based on the explanation above, it can be synthesized that companies that are active in high-profile industries will receive more attention from the public and closer supervision from various government agencies; therefore, they must follow various applicable regulations. Such a company will engage in good business practices and will be well-managed in terms of preparing its reports. This will mean that, when facing a tax dispute, the company will prepare documentary evidence properly and this will increase the chances of winning the tax dispute and will ultimately give positive signals that influence the judgment of investors. Therefore, the hypothesis in this research can be formulated as follows:

H₂: *Industry profile weakens the negative effect of tax disputes on firm value.*

3. Methodology

3.1 Sampling and Data Collection

The subjects of this study are all non-financial sector companies registered on the Indonesia Stock Exchange (IDX) and that disclosed tax disputes during the observation period of 2014 to 2019. This study does not consider the financial sector because the operational activities of financial companies are specific and different from non-financial companies (Garcia et al., 2017); in addition, the financial sector has been closely monitored by the Financial Services Authority (OJK) in Indonesia. This study uses the 2014-2019 timeframe for two reasons. First, 2014 is used as the beginning of the period with the hope that financial reports can be obtained with objective company conditions because it is separated in time from the financial crises that occurred in 1997 and 2008. Second, 2019 is used as the end of the period with the hope that reports can be obtained financial conditions with objective company conditions because they are not affected by the COVID-19 pandemic. The sampling method used in this study is purposive sampling. This study uses several criteria for its purposive sampling. First, non-financial sector companies listed on the IDX in the period 2014 to 2019. Second, companies that disclosed tax disputes in their annual reports. Third, the data are not outliers. Based on these purposive sampling criteria, the sample comprises 75 companies. The number of observations in this study is 292 observations. The research data constitutes an unbalanced panel because it has an unequal number of observations for each year. The research sample consisted of all industrial groups (besides the financial sector), which consisted of the agriculture sector (14%); basic industries and chemical (21%); consumer goods (14%); infrastructure, utilities and transport (15%); mining (18%); property, real estate and building construction (2%); trade, services and investment (4%); various industries (12%) See Table 1.

Table 1
Sample Description

| No | Industry Group | N | Percentage |
|----|---|-----|------------|
| 1 | Agriculture | 42 | 14% |
| 2 | Basic Industry & Chemical | 62 | 21% |
| 3 | Consumer Goods Industry | 40 | 14% |
| 4 | Infrastructure, Utilities & Transport | 43 | 15% |
| 5 | Mining | 52 | 18% |
| 6 | Property, Real Estate and Building Construction | 6 | 2% |
| 7 | Trade, Services & Investment | 13 | 4% |
| 8 | Various Industries | 34 | 12% |
| | Total | 292 | 100% |

3.2 Description of Variables

This study examines the effect of tax disputes (the independent variable) on firm value (the dependent variable) with industry profile as a moderating variable. A firm's value is the investors' perception of a non-financial sector company listed on the IDX that disclosed tax disputes during the 2014-2019 period, associated with share price and the price investors are willing to pay to own the company in question. Firm value in this study is measured using Tobin's Q measurement. Tobin's Q is formulated as follows (Chung & Pruitt, 1994):

$$\text{Tobin's Q} = \frac{(P \times OS) + \text{Total Hutang}}{\text{Total Assets}}$$

where:

Q : stock market price
OS : number of outstanding shares

When the value of the ratio $Q < 1$, it indicates that the firm value is undervalued because the book value is higher than the market value of the company; conversely, when the value of the ratio $Q > 1$, it indicates that the company is overvalued because the book value is lower than the market value of the company. Tax disputes are the value of disputes arising in the field of taxation between taxpayers or tax bearers (non-financial sector companies listed on the IDX for the period 2014 to 2019) and authorized tax-collecting officials. This study uses an indicator of the value of tax disputes developed by Dash & Raithatha (2018) in the form of the value of the disputed tax that is scaled to company size (total assets). This proxy represents the tax liability that is disputed, and it is scaled by total assets to control the effect of company size.

Industry profile is the type or sector of industry in which the non-financial companies—that were registered on the IDX and which disclosed tax disputes—operated during the 2014-2019 period. Companies belonging to the high-profile industry group are those engaged in oil drilling, mining, chemicals, forest management, paper, automobiles, aviation, agribusiness management, tobacco plantations and cigarettes, food and beverage products, media and communications, energy (electricity), health facilities, transportation, tourism, and fishing (Hackston & Milne, 1996; Sembiring, 2006; Zuhroh & Sukmawati, 2003). The measurement of the industry profile variable in this study uses a dummy variable. If the company corresponds to the high-profile industry criteria, then it is given a score of 1 (one), while a company with a score of 0 (zero) means it corresponds to the low-profile industry criteria.

The control variables are used in this study to establish a better research model. These control variables are profitability, liquidity, and institutional ownership. The use of control variables is based on several considerations. First, a high profitability ratio indicates greater profits and reflects a stronger ability to pay dividends, which is a positive signal for investors. Profitability has a positive effect on firm value (Bell et al., 2014; Dj et al., 2012; Jihadi et al., 2021; Linawati et al., 2022; Sucuahi & Cambarihan, 2016). Second, a high liquidity value reflects a company's ability to meet its short-term obligations. Companies that have a good liquidity value will be considered to have good performance, so it is a positive signal for investors. Liquidity has a positive effect on firm value (Batten & Vo, 2019; Dj et al., 2012; Jihadi et al., 2021). Third, a large number of shares owned by institutional parties will strengthen the control and supervision mechanisms implemented by parties that are external to the company thus affecting the value of the company. Institutional ownership has an effect on firm value (Arouri et al., 2014; Hidayat et al., 2020; Jafarnejad et al., 2015; Ling et al., 2021; Mollah et al., 2012; Salehi et al., 2022; Taktak, 2014). Complete definitions and measurements of research variables are presented in Table 2.

Table 2
Summary of Variables

| Variable | Full name of variable | Measurement |
|----------|-------------------------|---|
| FV | Firm Value | Tobin q ratio |
| DTLR TA | Tax Dispute | Disputed taxes are scaled based on company size, i.e. total assets |
| IP | Industry Profile | A dummy variable with a value of 1 for high profile companies and 0 for low profile companies |
| PF | Profitability | Return on Equity |
| LI | Liquidity | Total Current Assets divided by Total Current Liability |
| IO | Institutional Ownership | The proportion of shares owned by the institution |

2.3 Empirical Models

This study uses a tool called EViews version 12. The first step taken is to determine the most appropriate panel data regression method to use out of the common-effect model (CEM), the fixed-effect model (FEM), or the random-effect model (REM) by performing the Chow test, Hausman test, and Lagrange Multiplier test. After determining the most appropriate model, the next step is to determine whether the independent variable has a significant effect on firm value and the moderating variables by using the F Statistical Test and the T Statistical Test. After the panel data regression results were obtained, a focus group discussion (FGD) was conducted in order to deepen the empirical study of this research and the participants were tax consultants who had permission to attend from the tax court in Bali.

4. Results and Analysis

Table 3 shows the descriptive statistics of the research variables. It also shows the indicators for the number of observations, minimum, maximum, mean, and standard deviation values. The value of the Q ratio for all samples ranges from 0.042 to a maximum value of 8.558, with an average of 1.294 which indicates that the average value of the companies in the sample is overvalued. The tax dispute ratio has a range from 0.000007 to 0.077 with an average of 0.014 which indicates that the average tax dispute value is lower than the total asset value. The average industry profile is 0.763 which indicates that the sample consists mostly of companies operating in high-profile industries.

Table 3
Descriptive Statistics

| | FV | DTLR TA | IP | Moderation | PF | LI | IO |
|--------------|----------|----------|----------|------------|-----------|----------|----------|
| Mean | 1.293811 | 0.013943 | 0.763699 | 0.010354 | 0.075172 | 0.574598 | 0.672689 |
| Median | 1.010516 | 0.006226 | 1.000000 | 0.003475 | 0.068578 | 0.229258 | 0.658100 |
| Maximum | 8.558272 | 0.077121 | 1.000000 | 0.077121 | 0.898415 | 6.169707 | 0.983100 |
| Minimum | 0.042441 | 7.92E-06 | 0.000000 | 0.000000 | -1.041443 | 0.003128 | 0.051000 |
| Std. Dev. | 0.992643 | 0.017688 | 0.425539 | 0.015560 | 0.159384 | 0.879125 | 0.183375 |
| Observations | 292 | 292 | 292 | 292 | 292 | 292 | 292 |

The research hypothesis was tested using panel data regression analysis. According to the results of the Chow test and Hausman test, the fixed-effect model is the most appropriate to use in this study. Table 5 shows the results of the panel data regression test of the fixed-effect model.

Table 5
Fixed Effect Model Panel Data Regression Results

| Variable | Coefficient | Probability |
|--------------------|-------------|-------------|
| DTLR_TA | -42,14924 | 0.0008* |
| IP | -0,295959 | 0.5321 |
| Moderation | 39,07290 | 0.0031* |
| PF | 1,456999 | 0.0002* |
| LI | 0,236389 | 0.0002* |
| IO | 4,733574 | 0.0000* |
| C | -1,726639 | 0.0095 |
| R-squared | | 0.874027 |
| Adjusted R-squared | | 0.814857 |
| Prob (F-statistic) | | 0.000000 |

The results of the panel data regression analysis presented in Table 5 show that the adjusted R² value is 81.48%, meaning that the independent/moderating variables in the model are able to explain the dependent variable 81.48% while the remaining 18.52% is explained by other variables outside the model. Table 5 shows that Hypothesis 1 and Hypothesis 2 are accepted. Hypothesis 1, which states that tax disputes have a negative effect on firm value ($\beta=-42.57$, $p<0.05$), is accepted, meaning that an increase in tax disputes causes a decrease in firm value. Hypothesis 2, which states that industry profile weakens the negative effect of tax disputes on firm value ($\beta=39.073$, $p<0.05$), is accepted, meaning that an increase in the interaction of tax disputes and industry profiles causes an increase in firm value, assuming other variables are constant. After the results of the panel data regression were obtained, the FGD was conducted with tax consultants who had legal power of attorney at the tax court. During the FGD, there was a discussion about whether companies with activities in high-profile industries when facing tax disputes had a better chance of winning than companies with activities in low-profile industries. Here are the significant statements from the speakers at the FGD.

Speaker 1: Companies in high-profile industries are at higher risk than companies in low-profile industries. Companies in high-profile industries follow all procedures and regulations including the obligation to be audited by various parties, the use of a qualified tax consulting firm, and other procedures. The obligation to follow the many procedures and regulations makes companies in high-profile industries more compliant. This compliance leads to higher chances of prevailing when there are tax disputes. Tax disputes submitted by companies in high-profile industries have been based on many considerations from all divisions involved and, at each stage of the dispute, they have anticipated how to deal with their opponents. Companies in low-profile industries sometimes view tax disputes as not being too serious. Companies in low-profile industries often persist in filing disputes even in cases where the chances of winning the case are very low. The process of preparing the documents required for tax disputes is often not well-organized.

Speaker 2: The chances of winning tax disputes for companies in high-profile industries are greater because of three factors. First, there is usually a special department that handles tax disputes. Second, companies in high-profile industries are better prepared because many parties are involved in the supervision—and not only the tax office—so the various reports are superior. Third, companies in high-profile industries are supervised by various government institutions meaning that they already have the data that are reported to institutions. The

availability of this data increases the chances of winning a tax dispute. Companies in low-profile industries usually only have new disputes, and the data needs to be prepared.

Speaker 3: Companies in high-profile industries are monitored by many parties related to environmental, labor, and other issues. This supervision causes companies in high-profile industries to carry out good business practices and all internal departments will have properly prepared data that will be needed if there is a dispute. Good business practices, and the availability of the required data, increase the chances of winning a dispute. Companies in high-profile industries are usually more mature in dealing with tax disputes, both material disputes and judicial disputes. In material tax disputes, companies in high-profile industries are better prepared in terms of organizing evidentiary documents, meaning that the chances of winning a tax dispute are higher. In judicial disputes, companies in high-profile industries usually have a legal team who are experts at interpreting the law, and so the chances of prevailing are greater.

Speaker 4: Companies in high-profile industries are usually managed better and all their reports are more interconnected.

5. Discussion

This study demonstrates that tax disputes have a negative effect on firm value. Industry profile (i.e. high-profile industry) weakens the negative effect of tax disputes on firm value. The negative effect of tax disputes on firm value is in line with signal theory. Information related to tax disputes is information that has economic value because it influences the decision-making of shareholders (Mirrlees, 1971; Vickrey, 1945). The results of this study are in line with the results of research by Adiati et al. (2018); Arena & Ferris (2018); Dash & Raithatha (2018); Drake et al. (2017); Hao (2011); Hutchens & Rego (2013); and Wu et al. (2020). Tax issues have a negative effect on firm value when disclosed in the profit and loss statement and financial records (Adiati et al., 2018). Litigation is a significant threat to companies planning to go public (Hao, 2011). Companies with very high potential to be involved in litigation are likely to withdraw their IPOs because their value will decrease (Hao, 2011). Tax disputes are related to future stock volatility and greatly affect investor expectations (Drake et al., 2017). Investors will charge extra premiums when the company has high tax uncertainty (Hutchens & Rego, 2013). Companies face a risk-reward trade-off, meaning that the expected cash savings resulting from tax savings need to be compared with the risks posed by this strategy (Arena & Ferris, 2018; Wu et al., 2020). The share price of the defendant company drops significantly at the time the lawsuit is announced (Arena & Ferris, 2018). Litigation cases an increase in financing constraints and operational costs so firm value decreases (Wu et al., 2020). Litigation cases disrupt a company's stable relationship with suppliers and customers, weaken its competitive market position, and increase the uncertainty surrounding a company's operations, leading to a decrease in profitability and a decrease in firm value (Wu et al., 2020).

Tax disputes have a negative effect on firm value because of the high potential for taxpayers to lose in tax disputes in Indonesia and because tax disputes also signal high tax uncertainty, future stock volatility risk, risk-reward trade-off, increased financing constraints, increased operational costs, and cash flow levels in the future. The high potential for taxpayers to lose and these signals of uncertainty affect investors' expectations and judgments that lead to a decrease in firm value.

The results of hypothesis testing show that industry profile (i.e., high-profile industry) weakens the negative effect of tax disputes on firm value. Industry profile weakens the negative effect of tax disputes on firm value in line with signal theory and legitimacy theory. Signal theory posits that information about tax disputes has the power to change the judgment of external parties. Legitimacy theory asserts that organizations continually strive to ensure that organizations are deemed to be operating within the boundaries and norms of their respective communities, that is to say, organizations seek to ensure that their activities are considered legitimate by outsiders. Industry profile weakens the negative effect of tax disputes on firm value in line with the results of research by Branco & Rodrigues (2008); Hackston & Milne (1996); and Roberts (1992). Companies in high-profile industries receive more attention from the public because their operational activities have the potential to affect broader interests so they tend to comply more with all applicable regulations (Branco & Rodrigues, 2008). Companies in high-profile industries have high sensitivity to the environment, litigation risk, and social issues so they tend to be more compliant with all applicable regulations (Hackston & Milne, 1996). Companies in high-profile industries have higher levels of social responsibility (Roberts, 1992).

The industry profile weakens the negative effect of tax disputes on firm value in line with the results of the FGD. Companies in high-profile industries have a greater chance of winning tax disputes for several reasons. First, in judicial disputes, companies in high-profile industries usually have legal teams who are experts at interpreting the law, so the chances of winning the tax dispute cases are higher. Second, supervision by various parties causes companies in high-profile industries to engage in good business practices. Third, the obligation to follow many procedures and regulations imposed by various parties causes companies in high-profile industries to be more compliant. This compliance leads to higher chances of winning tax disputes. Fourth, supervision by various parties causes companies in high-profile industries to be better prepared, so their various reports are superior. Fifth, the obligation to report to various parties causes companies in high-profile industries to have more complete supporting data already prepared. The availability of this data increases the chances of winning a tax dispute.

Based on the explanation above, it can be concluded that the industry profile weakens the negative effect of tax disputes on firm value for several reasons. First, according to legitimacy theory, companies try to ensure that outsiders perceive

organizational activities as legitimate, because companies in high-profile industries receive more attention from various parties, tend to comply more with all applicable regulations, engage in good business practices, and are well-managed. Compliance with regulations, good and well-managed business practices, according to signal theory, are positive signals for investors thereby weakening the negative effect of tax disputes on firm value. Second, companies in high-profile industries are more likely to win tax disputes than companies in low-profile industries, both in judicial and material disputes. This opportunity to win a tax dispute is a positive signal for investors thereby weakening the negative effect of a tax dispute on firm value.

6. Conclusions and Recommendations

The findings of this study verify the effect of tax disputes on firm value with industry profiles as a moderating variable. Tax disputes have a negative effect on firm value. This negative influence is weakened by the industry profile (i.e. high-profile industry). Empirical evidence and results from the FGD with tax consultants licensed by the Balinese courts strengthen the verification of the relationship between tax disputes, firm value, and industry profile. The high potential for taxpayers to lose in tax disputes also indicates high tax uncertainty, future stock volatility risk, risk-reward trade-off, increased financing constraints, increased operational costs, and cash flow levels in the future. The high potential for taxpayer losses and these signals of uncertainty affects investors' expectations and judgments and this leads to a decrease in firm value. The negative effect of tax disputes on firm value is weakened by the industry profile (i.e. high-profile industry). Companies that operate in high-profile industries receive more attention from the public, are more supervised by various government agencies, and are more constrained by a range of regulations. This attention, supervision, and regulation together cause companies in high-profile industries to engage in good business practices and be well-managed in preparing their reports. Good business practices and reports that are prepared in a well-managed manner increase the chances of winning tax disputes and ultimately provide positive signals that affect investors' judgments.

This study provides empirical evidence supporting the signal theory's perspective regarding the effect of tax disputes on firm value. Tax disputes are a negative signal for investors that lead to a decrease in firm value. This research also provides empirical evidence to support the legitimacy theory's perspective on signal theory. Companies operating in high-profile industries carry out good and well-managed business practices in preparing their reports thereby increasing the chances of winning tax disputes, and ultimately, they provide positive signals that affect investors' judgments. The results of this study develop an integrated model of the effect of tax disputes on firm value with industry profiles as a variable that weakens the negative effect of tax disputes on firm value. The results of this study also provide practitioners with two benefits. First, investors—in making investment decisions in companies that have tax disputes—need to consider the profile of the industry sector in which the company operates. Second, the company management, when making a decision on filing a tax dispute, should consider the industry profile.

The limitation of this study is that it does not discuss typical tax dispute cases (whether they are material disputes or judicial disputes) due to data limitations. In judicial disputes, the chance for taxpayers to win the dispute is lower. In material disputes, the chance of a taxpayer winning a dispute is higher. Therefore, in future research, a typical indicator of a tax dispute could be added to the tax dispute variable so that the research analysis will be more comprehensive.

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