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The Effect of Tax Disputes on Firm Value (Analysis Based on Signal Theory and RBV Theory)

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Abstract. Tax dispute cases in Indonesia is increasing during 2014-2020. The potential risk of Taxpayer losing in a tax dispute is relatively high (48%). On the other hand, the voluntary disclosure of tax disputes in the published Company Report is of great concern to the stakeholders. This article aims to examine the theory and previous studies that explain the correlation among voluntary disclosure of tax disputes and firm value. The analysis is complemented by a systematic compilation of literature on research issues and results so that future research directions are obtained. In this research Signal Theory was developed by combining it with RBV theory. The variables of political connection and the profile of a tax consultant licensed by a lawyer were added as moderating variables. This will make Signal Theory more comprehensive in verifying the correlation among voluntary disclosure of tax disputes and company value.

Keywords: *voluntary disclosure, tax disputes, firm value, political connections, profiles of tax consultants licensed by law*

INTRODUCTION

The quantity of tax disputes for the 2014-2020 period in Indonesia tends to increase. The average increase is 19% annually (www.setpp.kemenkeu.go.id; 2021). Tax disputes submitted may not necessarily be resolved in the same year. This resulted in many tax disputes that piled up. Of the total 86,349 cases filed for dispute from 2014 to 2020, only 72,314 cases (84%) were resolved. Of the 72,314 cases, 34,912 cases (48%) were decided as unacceptable, rejected, plus taxes to be paid, and only partially granted (www.setpp.kemenkeu.go.id; 2021). This shows that the potential risk of Taxpayers losing in tax disputes in Indonesia is relatively high.

Voluntary disclosure allows corporation to expand and improve the company's image and provide useful information for stakeholders (Deegan & Blomquist, 2006). The market responds to information about corporate taxes disclosed in the Financial Statements in the valuation of stock prices (Kusumaningdyahadiati et al., 2018). The risk of fulfilling complex tax obligations is considered by shareholders (Slemrod, 2004). Investors will charge an extra premium when the company has high tax uncertainty (Hutchens dan Rego, 2013). Found on the argument above, the voluntary disclosure of tax disputes is highly considered by investors so that it will influence the percentage of the corporation, therefore study on the impact of voluntary disclosure of tax disputes on the value of the company is important to do.

Empirical research consecutive to the connections among voluntary disclosure of tax disputes on firm value are still relatively limited and show inconsistent results. Voluntary disclosure related to information about corporate taxes has a bad impression on firm value when disclosed in the Profit/Loss Statement and Notes to Financial Statements

(Kusumaningdyahadiati et al., 2018). Litigation/dispute has a bad impression on firm value (Dash dan Raithatha, 2018; Drake et al., 2017; Hao, 2011; Hutchens dan Rego, 2013; Wu et al., 2020). Litigation is a caution to companies preparations share issuance (Hao, 2011). Tax disputes are related to future stock volatility and greatly affect investors' expectations (Drake et al., 2017). The company faces a "risk reward trade off" who means that observation post fund savings realize from tax savings require to be analogy with the risks posed by the wisdom (Arena dan Ferris, 2018; Wu et al., 2020). The share price of the defendant's company fell significantly at the time of the announcement of the filing of the lawsuit (Arena dan Ferris, 2018). Litigation risk pile up outlay interference and operating expenses so that the company's performance declines (Wuqing Wu et al., 2020).

The opposite results were found by other researchers. There is a sunken relationship among tax possible loss and firm value (McCarty, 2012). Firm value increases with intensify tax risk until the prime grade is obtained, after that if tax risk increases, firm value decreases. Investors value tax risk positively to a certain degree (where costs become too much), and then increased tax risk lowers firm value (McCarty, 2012). Tax risk negative effect to firm value the length of it’s influence on hopefulness concerning future cash flows but also through its influence on the expense of fairness asset (McCarty, 2012). Investors view tax risk positively, especially for companies that have secured their tax strategy with advance tax rulings (Nesbitt & Outslay, 2017).

Based on the contingency approach, the inconsistency of the results of previous research shows that studies are still needed on other variables in explaining the connection among voluntary disclosure of tax disputes and firm value. Venture are be required to conciliate the inconstant by recognize the dependent factors among the two variables using a possibility oncoming (Govindarajan, 1988). The application of the contingency approach allows other variables to step in as moderating variables or intervening variables.

This article aims to explore in depth the theory and previous studies that clarify the connection among voluntary disclosure of tax disputes and firm value. The analysis is complemented by a systematic compilation of literature on research issues and results so that future research concepts can be obtained. This article is presented systematically starting from the introduction, literature review, methodology, results and discussion, conclusions, research benefits, and research limitations.

LITERATURE REVIEW

Signal Theory

Initially signal research was lineal to clarify the issue of explanation dissimilitude in the manpower market. Potential employers lack information about the qualities of prospective workers, therefore, candidates (prospective workers) use their educational background to intimation their qualities and reduce information asymmetry (Spence, 1973)***.*** In its development, signal theory is also applied to answer corporate policy questions , one of which is questions consecutive to the voluntary presentation or disclosure of information in financial statements. (Ross, 1979). The basis of this theory is the availability of information asymmetry between internal management and external stakeholders. The company's internal parties have the advantage of mastering information while beyond parties do not. Given this information asymmetry, it is difficult for beyond parties to objectively assess which companies are of good quality and which are not. On the other hand, both "good" and "bad" managers will claim to have amazing growth or implicitly imply information that the companies they manage are of good quality. (Kirmani & Rao, 2000).

Resource Based View Theory

Resource Based View (RBV) is a executive frame used to deciding strategic source that a enterprise could abuse to reach a prolonged competitive advantage (Ghozali, 2020). Company resources, competitive advantage, and sustainable competitive advantage are the 3 (three) main keys of RBV (Barney, 1991). A company declare to hold a competitive supremacy when the company is able to implement a value creation strategy that is not synchronously being realize by competing companies (Barney, 1991). The company's success is decide by the fountain it has and the company's capabilities that are able to turn these resources inside an economic advantage (Ferreira et al., 2011). RBV center on the organization's internal capital as a means of mobilisasi method and gaining competitive advantage. Company resources consisting of tangible and intangible resources provide strength for a company that will determine the company's competitive advantage (Wernerfelt, 1984). Resources that are valuable, rare, cannot be perfectly imitated and cannot be replaced/no substitutes will provide a sustainable competitive advantage for the company. (Barney, 1991).

The main focus of RBV is the combination of elements between real assets such as financial resources and intangible assets, one of which is a network of cooperation, and knowledge and experience that can be integrated in achieving the desired goals. (Barney, 1991). Companies must pool intra- and inter-organizational capabilities and resources to improve organizational ability and competitive advantage in the long term (Xu et al., 2014). Resources such as social asset, entrepreneurial mindset, and intellectual principal therewith in conjunction with the purpose supervision of the people as stakeholders contribute to the company's performance (Campbell & Park, 2016). Intangible asset resources (political connections), and the skills and experience of experts as valuable, unique, and complex, and difficult to imitate resources will be able to create a sustainable competitive benefit. (Clulow et al., 2007).

The RBV provides a reference that when there is information on tax disputes that affect the value of the company, the information needs to be supplemented with information about ownership of internal resources that have a competitive advantage. These resources can reduce the risk or minimize the negative effects of the information. The resources in question are resources for political connections and engagements with tax consultants who are licensed by legal counsel.

Voluntary Disclosure of Tax Disputes

Voluntary Disclosure of Tax Disputes is a voluntary disclosure of the value of tax disputes in published company reports. Tax dispute is a clash that appear in the realm of taxation among a ratepayer or tax bearer and the authorized canonical (Dash dan Raithatha, 2018). Tax dispute is a conflict that arises in the field of taxation among a ratepayer or Tax insurer and an authorized official as a outcome of the expenditure of a conclusion that can provide objection, attract or accusation to the competent official build upon on tax laws and enactment, belong a claim on the execution of aggregation based on the Law. Law on accumulation of Taxes by Compulsory Letter and analysis of the resolution of the Tax Court to the Supreme Court (Law of the Republic of Indonesia Number 14 of 2002 concerning the Tax Court).

Tax disputes happen by reason of the distinction in perception or difference of opinion between the Taxpayer and the tax officer regarding the determination of the tax payable issued or the collection action taken by the Directorate General of Taxes. (Suharno, 2020). There are 4 (four) main causes of tax disputes (Suharno, 2020). First, there is a tax policy issued by the Directorate General of Taxes based on the authority given by law, but the company (Tax Payer) is not satisfied with the policy. Second, there are differences in interpretation between taxpayers and the Directorate General of Taxes regarding the laws and regulations. Third, the difference in the method of calculating the amount of tax regarding the amount that must be paid to the state. Fourth, objections to the imposition of tax penalties.

The Firm Value

Increasing firm value is not the same as maximizing profit (Horne dan Wachowics, 2016). Maximizing profit is stated to be inappropriate because it does not pay attention to the time or period of the expected rate of return. Firm value is a market value that is able to prepare maximal affluence for share owners if the company's stock mark-up (Ross et al., 2009). Firm value is the selling value of a enterprise as an operating business (Sartono, 2010). The value of a enterprise could observable from the stock cost. The increase in the company's stock price is a reflection of the firm's value creation (Horne dan Wachowics, 2016). The stock market price reflects the assessment of market participants on the company's time value.

METHODOLOGY

This research uses a qualitative oncoming with a literature review method, namely extracting and synthesizing topics, main issues, findings and methods of previous literature research. This is done by reading and critically reviewing the selected literature based on keywords from reputable international databases for around 6 (six) months. This research was conducted in two stages, namely the first selection of the literature to be reviewed, the second conducting content analysis.

Selection of literature using the Publish or Perish application by specifying several appropriate keywords. The keywords used in selecting the literature and articles were, “Voluntary Disclosure”, “Tax Dispute”, “Tax Risk”, “Firm Value”, “Signalling Theory”, “Resource Based Views Theory”, “Political Connection”, and “ Tax Consultants". The keywords “Voluntary Disclosure”, “Tax Dispute”, and “Tax Risk are used and paired interchangeably with ”, “Political Connection”, and “Tax Consultant” in the title and keyword fields. The keywords “Voluntary Disclosure”, “Tax Dispute”, “Tax Risk”, “Political Connection”, and “Tax Consultant” are used and paired interchangeably with “firm value” and “firm performance” in the title and keyword fields. The selected literature is limited to the type of publication of research articles and published in journals with the scope of management, accounting, business, governance, and the environment. The time span of literature publication is not limited to obtain an overview of the dynamics of research results. The use of the Publish or Perish application makes it possible to harvest literature from various sources. The source selected in this analysis was Scopus to ensure the quality of the literature.

Then in the second stage, a content analysis of the literature was carried out to describe the distribution of the main topics and issues, theories, and research findings, thus complementing this study with future research directions.

RESULT AND DISCUSSION

Previous researchers emphasized that further research is needed on negative signals, how unique they are and how they interfere with or enhance the signaling process (Connelly et al., 2011). Signal theory provides a reference that signaled information must have the power to change the judgment of external parties. Signaled information must have a different effect than other information and is difficult for competitors to imitate. The information that is signaled is more about how good company managers can show investors that their companies deserve to be considered good in a way that managers of other companies with low quality cannot imitate as much as possible.

The RBV theory provides a reference that when there is information on tax disputes that affect the decline in firm value, the information needs to be supplemented with information about the ownership of internal resources that have a competitive advantage. These resources can reduce the risk or minimize the negative effects of voluntary disclosure of tax disputes. The resources referred to are resources for political connections and engagements with tax consultants who are licensed by legal counsel.

Political Connection

Companies can build relationships with government officials for economic benefits. The political relation be possessed by the company are used to achieve convenience in government affairs (Faccio, 2006). The political connections that companies have can be used to acquire economic capital from the ministry (Shen et al., 2019). Political relation serve as a solid protector and politically relations companies are more likely to receive government subsidies (Shen et al., 2019). Political reltions affect the capital market in relation to the transparency of company information (Bushman et al., 2004). The political connection factor plays a role in shaping the information environment for enterprise listed on the stock exchange (Piotroski et al., 2015).

Several foregoing investigator studied the intercourse among political connections and voluntary disclosure with mixed results. Companies that have political connections tend to hold down effectless explanation in reaction to the political incentives they will get (Piotroski et al., 2015). Companies that own political connections decrease the grade and standard of risk disclosure in their financial statements (Al-Hadi et al., 2016). Companies with political relationship lower the overall transparency of their company information (Al-Hadi et al., 2017). The grade of income information be declared in the annual report of companies that have political connections is proven to be significantly degrade than enterprise that aren’t have politically relations (Chaney et al., 2011). Politically relation enterprise do not have need of acknowledge to market pressures to improve the grade of their explanation by reason of convenient entryway to financial capital (Chaney et al., 2011). Companies that have political relation can influence the discourse (content) and magnitude (quantity) of voluntary apocalypse (C. J. Chen et al., 2010). Companies that have political relation may disclose less voluntary disclosures by reason of they already have preferable monetary exhibition and can elevate funds easily (C. J. Chen et al., 2010). Directors by foregoing impression as politicians refusal affect the company's voluntary disclosure (Ramón-Llorens et al., 2019). Directors who have political relation limit voluntary apocalypse for 3 (three) excuse (Ramón-Llorens et al., 2019). First, to protect their readability in preservation their repute inside the enterprise. Second, to avoid public analysis. Third, to protect their political analysis.

On the other hand, previous researchers found the opposite result. Politically connected companies carry out wider voluntary disclosures than companies that are not politically connected (Dicko et al., 2019). Political connections benefit companies by prepare preferable access to financial capital which indication to upgraded financial performance, thereby increasing their voluntary disclosures (Dicko et al., 2019).

Several foregoing investigator the correlation among political connections and tax disputes/risks. Companies that have political connections will get protection from the government, get a low risk of tax audits, get a low risk of tax detection, gain the capability to entryway explanation regarding plans for transformation in tax rules in the future, can reduce political costs when tax enterprising, and various kinds of privileges that can be obtained by the company (Kim dan Zhang, 2016). Companies with political connections pay apprehensive lower taxes than partnership without political relation (Adhikari et al., 2006; Ajili & Khlif, 2020). Political connections increase the ability of directors to engage in aggressive tax management actions and tend to pay taxes at much lower capable rate by reason of they are secure by politicians and could have entryway to privileged tax information. (Ajili & Khlif, 2020). Politically connected private companies obtain over tax benefits than politically unconnected private companies (Wenfeng Wu et al., 2012). Firms in conjunction with political relation tend to take higher tax risks (Abdul Wahab et al., 2017). Enterprise that have political relation tend to do tax avoidance (Shen et al., 2019). Political connections provide a guarantee of favorable fiscal and tax policies for companies (Shen et al., 2019).

Several previous researchers studied the connection among political connections and firm value with various results. Political relation own a positive influence on the value of the enterprise because the existence of these privileges can help the company intensify the valuable of the enterprise (Faccio, 2006). Private companies with political connections perform better than private companies with no political connections (Wenfeng Wu et al., 2012). Termination of political relationship resulted in a decrease of about 2% in equity value (Wang et al., 2018). Political connections have a positive effect on firm value (J. P. H. Fan et al., 2008; Fisman, 2008; Francis et al., 2009; Goldman et al., 2009; Idris et al., 2020; Li et al., 2008; Momon et al., 2021). The more the company has a strong political relationship, the value of the company will increase. This has implications for capital owners to invest in politically relation companies that are proven to intensify the worth of the company (Momon et al., 2021). Stable political relation have a positive significant effect on enterprise performance (Wong & Hooy, 2018). Government support with dominant people on the commissioner provides a larger capital be compared to enterprise with no political relation. Companies with political relations will have more influential resource predicate that included preferable system ties with ministry and outboard possibility that will advantage the company in the long-term. (Wong & Hooy, 2018). These benefits include reducing the risk of uncertainty for the company so that the value of the company increases (Wong & Hooy, 2018) .

On the oth er hand, some previous researchers found different results. Political connection is negatively related to firm value (C. R. Chen et al., 2017). Companies with political connections perform worse (J. Fan et al., 2007). Firms by political relation show worse accounting outcome (Boubakri et al., 2008). Independent director's political connection is negatively related to market reaction (Liu et al., 2018). Enterprise with political connections have lower company values than companies thereout political connections (Ha dan Frömmel, 2020). There is no persuasive substantiation to suggest that political relation intensify firm value (Berkman dan Galpoththage, 2016).

Profile of Tax Consultant with Legal Authority

Tax disputes are submitted to the Directorate General of Taxes, the tax court, and the Supreme Court. The parties to the dispute can each be accompanied or represented by one or more legal representatives with a Special Power of Attorney (Article 34 (1) of Law No. 14 of 2002 about Tax Courts). Legal Counsel is an individual who can accompany or represent the disputing parties in proceedings at the Tax Court (Ordinance of the Minister of Finance of the Republic of Indonesia Number 184/PMK.01/2017 concerning Requirements to Become Legal Counsel at the Tax Court). Every individual to serve a Legal Counsel at the Tax Court should meet general requirements and special requirements. One of the requirements in particular is the possession of a legal attorney's license.

Tax adviser is a individual which declare tax consulting tendance to Taxpayers in order to practice their authority and satisfy their tax responsibility in adaptation with tax laws and regulations (Ordinance of the Minister of Finance of the Republic of Indonesia Number 111/PMK.03/2014 concerning Tax Consultants). In relation to legal counsel in the tax court, a Tax Consultant who already has a license to practice as a Tax Consultant usually has met the general requirements. But not all tax consultants in Indonesia have a legal attorney's license.

Companies that have an agreement with a tax consultant who has a legal counsel will get guidelines and suggestions to win tax disputes. Companies will be better prepared so that the risk of losing in tax disputes can be minimized. Investors will be more positive about tax dispute information if the company is accompanied by a tax consultant who has a legal attorney's license.

Several previous researchers conducted research on the relationship between engagements with tax consultants on corporate tax risk. The advice given by the tax consultant is related to the behavior of taxpayers, both for obedient and non-compliant taxpayers (Devos, 2012). Tax disputes are related to Tax Consultants because Taxpayers consider tax consultants as protectors of tax institutions in tax cases (Tjondro et al., 2019). The demand for tax consultancy increases along with the magnitude of the tax risk (Beck et al., 1996).

CONLUSION

In this study, signal theory was developed by combining it with RBV theory so that signal theory would be more comprehensive in predicting the impact of voluntary disclosure of tax disputes on firm value. The connection among voluntary disclosure of tax disputes and firm value should be studied by adding moderating variables. The moderating variables that should be used are political connections and the profile of a tax consultant with the power to law. The development of an integrated model of the impact t of voluntary disclosure on tax disputes on firm value can be seen in Figure 1.

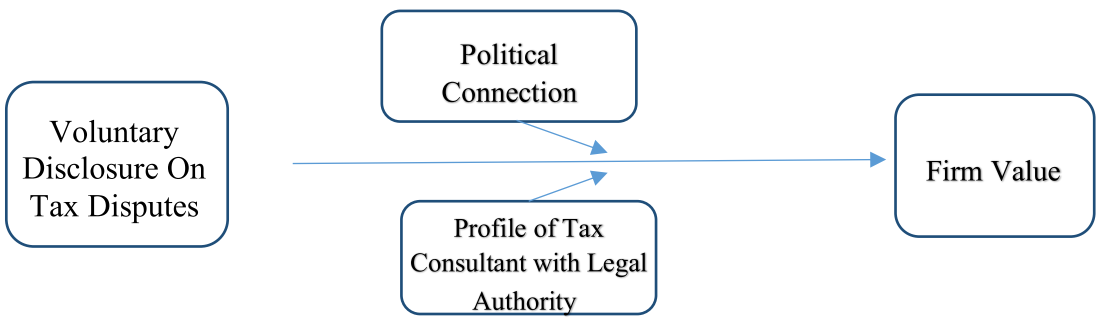

Figure 1. Integrated Model Of The Effect of Voluntary Disclosure on Tax Disputes On Firm Value

The outcome of this research supply academic and hard-headed benefits. This research provides several theoretical benefits for academics as the development of science. First, this research develops signal theory by combining it with RBV theory. The combination with RBV theory will make signal theory more comprehensive in predicting the effect of voluntary disclosure in tax disputes on firm value. Second, the development of an integrated model on the effect of voluntary disclosure of tax disputes on the value of the enterprise with political relations and the profile of a tax consultant with legal authority as moderating variables.

This research also provides operational benefits for practitioners. First, this study provides information to investors as a basis for making investment decisions related to voluntary disclosure of tax disputes, especially in connections to the existence of political relations and the profile of tax consultants with legal authority. Second, this research can be used as consideration for the company's management in managing the risk of tax disputes by considering the existence of political connection resources and the profile of a tax consultant with a legal counsel, thereby increasing the value of the company.

An integrated model on the effect of voluntary disclosure of tax disputes on firm value with political relations and the profile of a tax consultant licensed by a lawyer as moderating variables needs to be empirically proven. Future researchers can conduct further research to empirically prove the integrated model.

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