

Market value and tax litigation in Brazilian companies

Hélder Santos¹

 <https://orcid.org/0000-0001-8410-3135>

Email: santos.helder@usp.br

Raquel Sarquis²

 <https://orcid.org/0000-0002-9267-9588>

Email: raquel.sarquis@usp.br

¹ Faculdade Fipecafi. São Paulo, SP, Brazil

² Universidade de São Paulo, Faculdade de Economia, Administração, Contabilidade e Atuária, Departamento de Contabilidade e Atuária. São Paulo, SP, Brazil

Received on 09/21/2024 – Desk acceptance on 10/16/2024 – 5th version approved on 08/26/2025

Academic Editor-in-Chief: Andson Braga de Aguiar

Associate Editor: Eduardo da Silva Flores

ABSTRACT

This article aimed to examine the effect of tax provisions and contingent liabilities on the market value of companies and to identify the factors influencing the degree of tax litigation. Previous research has focused on disclosure and accounting compliance indices. However, there is a scarcity of studies analyzing the impact of tax litigation on the market value of companies, its main causes, and its determinants. Tax litigation is a topic of interest on the Organisation for Economic Co-operation and Development agenda, and Brazil has one of the highest rates in the world. The Securities and Exchange Commission of Brazil (*Comissão de Valores Mobiliários*) has also addressed the issue by encouraging the disclosure of tax liabilities. This research is both academically and practically relevant, as it provides evidence of the impact of tax litigation on market value and demonstrates the possibility of accounting classification management using a single database. This study highlights the main causes of tax litigation and their impact on market value. It also shows that tax litigation can be used as an earnings management mechanism, affecting companies and their stakeholders. Data were collected from reference forms and explanatory notes from companies (2015-2020) to create a comprehensive database. Regression models analyze the effects of tax litigation on market value and its determinants using panel data. The results indicate that tax litigation negatively impacts the market value of companies. Organizations tend to classify tax litigation as contingencies rather than provisioning it as a liability, particularly in the beverage, telecommunications, metallurgy, and oil and gas industries. The main causes of tax litigation are the deductibility of goodwill and the taxation of foreign profits. The degree of litigation is determined by tax burden, value added going to the government, existence of losses, and sector of activity. These findings contribute to the existing literature and suggest the possibility of management in the classification between provisions and contingent liabilities.

Keywords: tax litigation, contingent liability, provision, market value, determinants.

Correspondence address

Hélder Santos

Faculdade Fipecafi

Rua Maestro Cardim, 1170 – CEP: 01323-001

Bela Vista – São Paulo – SP – Brazil

This is a bilingual text. This article was originally written in Portuguese, published under the DOI <https://doi.org/10.1590/1808-057x20252214.pt>

This article is derived from a master's thesis defended by the author Hélder Silva dos Santos, under the supervision of the author Raquel Wille Sarquis, in 2022.

Study presented at the XVI Brazilian Accounting Association Annual Conference and at the XVI Congresso ANPCONT, Foz do Iguaçu, PR, Brazil, December 2022.



O valor de mercado e o litígio tributário nas empresas brasileiras

RESUMO

Este artigo teve por objetivo examinar o efeito das provisões e dos passivos contingentes tributários no valor de mercado das empresas e identificar os fatores que influenciam o grau de litígio tributário. Pesquisas anteriores concentram-se em índices de evidenciação e conformidade contábil, mas há escassez de estudos que analisem o impacto do litígio tributário no valor de mercado das empresas, suas principais causas e seus determinantes. Os litígios tributários têm sido objeto de atenção na agenda da Organização para a Cooperação e Desenvolvimento Econômico, e o Brasil apresenta um dos mais altos índices de litígio tributário no mundo. A Comissão de Valores Mobiliários também tem dado atenção ao tema, ao incentivar a divulgação dos passivos tributários. Esta pesquisa tem relevância acadêmica e prática ao fornecer evidências do impacto dos litígios tributários no valor de mercado e da possibilidade de gerenciamento da classificação contábil, utilizando uma base de dados única. Esta pesquisa evidencia quais são as principais causas dos litígios tributários, como afetam o valor de mercado das empresas e, principalmente, que podem ser utilizados como mecanismos de gerenciamento de resultados, impactando as empresas e seus diversos stakeholders. A pesquisa coleta dados de formulários de referência e notas explicativas de empresas (2015-2020), criando uma base abrangente. Modelos de regressão para dados em painel analisam os efeitos do litígio tributário no valor de mercado, bem como seus determinantes. Os resultados indicam que o nível de litígio tributário impacta negativamente o valor de mercado das empresas. As organizações tendem a classificar litígios tributários como contingências, em vez de provisioná-los no passivo, especialmente nos setores de bebidas, telecomunicações, metalurgia e óleo e gás. As principais causas dos litígios tributários envolvem a dedutibilidade de ágio e a tributação de lucros no exterior. Os fatores determinantes do grau de litígio incluem carga tributária, distribuição do valor adicionado ao governo, existência de prejuízo e setor de atuação. Esses achados contribuem para a literatura e sugerem a possibilidade de gerenciamento na classificação entre provisão e passivo contingente.

Palavras-chave: litigância tributária, passivo contingente, provisão, valor de mercado, determinantes.

1. INTRODUCTION

Tax authorities around the world are under increasing pressure from their respective governments to increase enforcement and tax collection (PricewaterhouseCoopers [PwC], 2025). This increased enforcement may result in a greater number of tax disputes by companies, which can arise for various reasons, including the invalidation of tax planning, differences in the interpretation of rules, the identification of errors, and unintentional inconsistencies in the calculation of taxes or fulfillment of ancillary obligations.

According to a PwC study, 71% of companies reported an increase in tax litigation in recent years (PwC, 2025). This increase in litigation, together with the complexity of different tax systems around the world, has made this issue a concern for the Organisation for Economic Cooperation and Development (OECD, 2024).

The PwC survey also shows that tax litigation is particularly important in Latin America. Brazil stands out in this region, with the value of tax litigation involving Brazilian companies amounting to 75% of its gross domestic product (GDP) (Assumpção et al., 2022; Insper, 2024). These figures demonstrate that tax litigation is a global concern and that Brazil is a country worthy of study.

From an accounting perspective, tax litigation is addressed by Technical Pronouncement 25 of the Accounting Pronouncements Committee (CPC, 2009), which stipulates that companies must evaluate the likelihood of an outflow of funds to resolve the disputed tax liability and categorize it as a provision or contingent liability. When an outflow of funds is probable, a provision must be recognized and recorded as a liability against the expense in the income statement for the year. If an outflow of funds is possible but not probable, the obligation is treated as a contingent liability, disclosed only in an explanatory note.

Because the classification of tax disputes between provisions and contingent liabilities depends on the probability of an outflow of funds from the entity, information on these liabilities is important for evaluating the entity's future, given the possibility of conversion into an actual outflow of funds.

The absence or inadequate measurement of this information can increase information asymmetry between management and stakeholders. Several studies have assessed the disclosure level of this information and compared it with accounting standard requirements, as

well as its market effects (Alves et al., 2022; Baldoino & Borba, 2015; Costa et al., 2017; Espindula & Souza, 2025; Farias, 2006; Forte et al., 2021; Hennes, 2014).

However, the amount of a company's assets committed to provisions and contingent liabilities contains important information about its future cash flow. Thus, investors should consider this information when pricing a company's market value (Ciconte III et al., 2024). It is therefore important to assess not only the extent to which companies comply with the disclosure requirements of CPC 25, but also whether the market absorbs and considers information about companies' tax litigation when determining their market value.

According to disclosure theory, this effect would be expected and consistent with the idea that the disclosure of information can change stakeholders' perceptions and affect a company's performance in the capital market. However, the question remains: Does the degree of a company's tax litigation affect market value positively or negatively?

Since tax planning can result in provisions and contingent liabilities on financial statements, measures of this behavior could help explain how these liabilities affect the company's market value when questioned by tax authorities. However, previous studies that have analyzed the relationship between tax planning and company performance in the capital market have yielded inconsistent results (Hanlon & Heitzman, 2010; Saragih & Ali, 2023). These discrepancies are explained by the fact that investors and analysts positively evaluate gains from tax planning but negatively value tax risk. This risk acts as a moderating force on the positive evaluation of tax evasion (Drake et al., 2019; Hanlon & Slemrod, 2009). Consequently, investors are interested in companies that use tax planning to optimize cash flows despite their concerns about the associated risk of tax avoidance (Dyrenge et al., 2016; Gallemore et al., 2014).

Thus, there is a gap to be explored. Previous research on provisions and contingent liabilities has predominantly focused on the disclosure of this information in financial statements. However, the nature of these contingencies, their determinants, and their relationship with the market value of companies have not been extensively explored. The literature does not present a consensus on how investors assess companies' degree of tax litigation – especially litigation arising from tax planning. Some

studies suggest positive or strategic interpretations, while others indicate negative market perceptions (Dyrenge et al., 2016; Drake et al., 2019; Gallemore et al., 2014; Hanlon & Slemrod, 2009).

In light of these considerations, the objective of this study is to answer the following research question: What effect do tax provisions and contingent liabilities have on the market value of companies? To this end, this study analyzed publicly traded companies that make up the Bovespa Index (IBOV), with the main objective of assessing whether the degree of tax litigation – as represented by the amounts recorded in tax provisions and contingent liabilities – influences these companies' market value. Additionally, this research has two objectives: (i) to identify the main determinants of the degree of tax litigation of Brazilian companies listed on the B3 S.A. – Brazil Stock Exchange and Over-the-Counter Market (B3), and (ii) to qualitatively analyze the nature of tax litigation of Brazilian companies and propose a ranking of companies with the highest degree of tax litigation.

The aim is to contribute to the accounting literature by helping the scientific community understand the nature, determinants, and relevance of tax litigation in Brazil, as well as its effects on companies' market value. This innovative study addresses tax provisions and contingent liabilities from a different perspective than the level of disclosure. Most previous research has focused on compliance with CPC 25 disclosure requirements. The study also provides evidence suggesting a possible preference among companies for classifying tax litigation as contingent rather than as provisions. This topic has not been addressed in previous literature.

The results of this research are timely and offer important practical contributions, as tax disputes are a high priority for the OECD. Specifically, the OECD has developed measures to reduce tax uncertainties in international transactions due to the complexity of different tax systems. This initiative culminated in the publication of three reports on tax uncertainty in several countries, including Brazil, which underscore the need for broader and deeper discussions on tax provisions and contingent liabilities. The Brazilian Securities and Exchange Commission (CVM) has also addressed these liabilities in its guidelines, encouraging the disclosure of litigation in the Reference Form (Circular Letter/CVM/SEP/No. 003, 2019).

2. THEORETICAL FRAMEWORK

2.1 Informational Value of Provisions and Contingent Liabilities

The international literature establishes that the level of disclosure of contingent liabilities affects a company's market value. However, some studies have identified a negative association (Barth & McNichols, 1994; Cohen, Darrough, Huang, & Zach, 2011), while others have identified a positive association (Koester et al., 2015). In the Brazilian context, there is also no consensus. Santos et al. (2023) found no effect, while Forte et al. (2021) and Santos et al. (2021) reported a positive association.

Evidence suggests that management and oversight behaviors can influence the presence of provisions or contingent liabilities (Brushwood et al., 2018; Koester et al., 2017). Koester et al. (2024) note that more effective managers and experienced stakeholders understand the difference between actual tax payments and expenses reported in companies' financial statements.

Research has also compared the disclosure levels of contingent liabilities and provisions in different countries (Costa et al., 2017; Lopes & Reis, 2019). Lopes and Reis (2019) investigated how the market assimilates information regarding the disclosure of provisions and contingent liabilities for companies based in Portugal and the United Kingdom. Their results suggest that interpretation was affected by each country's cultural differences. Provisions were negatively related to stock prices in the United Kingdom, unlike in Portugal, where there was a positive relationship. Contingent liabilities were not found to be a determining factor in pricing in either country.

Evidence also suggests that Brazilian companies do not account for or disclose all criteria established by CPC 25 (Farias, 2006; Ferreira et al., 2014; Fonteles et al., 2013; Ribeiro & Oliveira, 2021; Suave et al., 2013). In an international context, compliance with the International Accounting Standard (IAS) 37 disclosure requirements is also low. Glaum and Street (2003) analyzed companies in Germany and found that disclosure of information on provisions and contingent liabilities had one of the lowest levels of compliance. Tsavavoutas (2011) mentions that, since it is an accounting standard involving high proprietary costs, compliance with IAS 37 is significantly lower than with other accounting standards. According to Hanlon and Heitzman (2010) and Waegenaere et al. (2010), this low quality of disclosure negatively affects the evaluation of financial statements with a high volume of

litigation. Because it is a discretionary standard, disclosure is important for reducing information asymmetry (Hanlon & Heitzman, 2010; Waegenaere et al., 2010).

In summary, research suggests that provisions and contingent liabilities contain relevant information about an entity's future and that their non-disclosure increases the asymmetry of information between management and its stakeholders (Balduino & Borba, 2015; Ciconte III et al., 2024; Suave et al., 2013). Incomplete information on provisions and contingent liabilities affects the analysis of forward-looking information and consequently the market value of companies (Ferreira et al., 2014; Hennes, 2014).

2.2 Tax Provisions, Contingent Liabilities, and Market Value

Among the different types of litigation, tax disputes deserve special mention. For example, Ferreira et al. (2016) observed that the likelihood of loss is high in most cases, and tax disputes are the most significant. Specifically, tax proceedings account for nearly 70% of total contingent liabilities (Rosa, 2014; Balduino & Borba, 2015). Therefore, contingent tax liabilities are among the most significant disclosed by Brazilian companies (Alves & Campagnoni, 2021; Espindula & Souza, 2025; Neves & Bonfim, 2022).

Despite their relevance, the effects of contingent liabilities and tax provisions on a company's market value remain a topic with little empirical evidence. Most previous studies have analyzed disclosure and compliance with accounting standards (Campbell et al., 2003; Ferreira et al., 2014), providing evidence on which variables have greater explanatory power in companies' decisions when disclosing and recording contingent tax liabilities.

However, these provisions and contingent tax liabilities may affect how the market perceives the quality of the company's future earnings or cash generation capacity, which affects its market value. Luo et al. (2024) demonstrate that market value increases when companies disclose qualitative information about their tax planning activities. Conversely, Dash and Raithatha (2018) present evidence of a negative correlation between the value of tax disputes and market value.

Another factor that may influence the impact of tax litigation on companies' market value is how tax litigation is classified as either a contingent liability or a provision, which requires a high degree of judgment on the part of the financial statement preparer. Ferreira and Rover (2019) note that the disclosure of litigation requires

an assessment of the probability of loss, which gives the financial statement preparer greater responsibility for professional judgment on legal proceedings. This judgment should align with a critical analysis of legal actions and case law, as well as an adequate measurement of the actual amount to be disbursed.

Research has also highlighted aspects of discretion associated with managers' classification of items as either contingent liabilities or provisions, as well as their interpretation of probability expressions (e.g., probable, possible, and remote), depending on the location of the entity's headquarters and the cultural framework surrounding the financial statement preparer (Capriotti & Waldrup, 2005; Rosa, 2014; Tsakumis, 2007).

Given the importance of these contingent liabilities and tax provisions and the high degree of subjectivity in their classification, companies may use these instruments to manage their earnings. Borkowski and Gaffney (2021) found that U.S. companies managed tax risk reserves by classifying liabilities as contingent to avoid market value losses or increased audit risks. Borges and Rover (2022) found that, on average, the value of contingent liabilities is 19.9 times greater than the value of provisions. This may indicate that companies prefer to recognize contingent liabilities.

Considering the research conducted on contingent liabilities and tax provisions, a gap remains in assessing the effects of disclosed tax litigation amounts in financial statements on the market value of Brazilian companies. In this context, the study by Dash and Raithatha (2018) is particularly interesting, mainly because India's tax litigation system is as complex as Brazil's, if not more so (Mendes, 2008).

2.3 Theories of Disclosure and Information Asymmetry

Disclosure can be summarized as corporate transparency through the disclosure of information. Disclosure can be perceived as a competitive advantage and provides benefits such as reducing risks related to market uncertainties and stock volatility (Murcia et al., 2011).

Since accounting aims to provide information in an environment of complete and perfect markets, there is no substantive role for financial disclosures, nor any demand for accounting or accounting regulation (Iudicibus, 2015). In imperfect and incomplete markets, however, the demand for regulation implies that accounting disclosures

and accounting-based contracts are efficient ways to address market imperfections.

A manager's decision to disclose or withhold information depends on how it affects the price of an asset. However, the market makes inferences about the motivation behind withholding information, which affects the manager's decision (Verrecchia, 2001). This paradox is based on the value of information to both sides of a business. Such situations are addressed in the literature as information asymmetry problems and occur when one party in a contractual relationship holds information unavailable to the other party, exploiting this information to the detriment of the transaction results. In general, information asymmetry generates additional transaction costs, sometimes making transactions unfeasible.

Research on disclosure demonstrates the importance of disclosing information in the decision-making process, which reduces information asymmetry (Murcia & Santos, 2009; Salotti & Yamamoto, 2005). As the decision to classify a tax dispute as a provision or contingent liability affects information asymmetry in financial statement analysis, this study is based on disclosure theory, similar to the understanding presented in the works of Cohen et al. (2011), Pinto et al. (2015), and Wegener and Labelle (2017). These studies aimed to analyze the effects of the level of disclosure of provisions and contingent liabilities on company market value, suggesting that financial statement users perceive and price litigation disclosure by companies.

Santos et al. (2021) found that the level of disclosure of contingent liabilities significantly impacts companies' economic and financial indicators. Similarly, Alves et al. (2022), Forte et al. (2021), and Ribeiro and Oliveira (2021) concluded that provisions and contingent liabilities are complex items. If they do not accurately represent the company's reality, their classification and/or measurement can compromise investor decision-making. Based on disclosure theory, the results of these studies confirm that the level of disclosure of provisions and contingent liabilities influences the market performance of companies because it can alter various stakeholders' perception of that performance.

Studies on the disclosure of contingent liabilities reinforce the importance of this information for various financial statement users. However, the research mainly assesses the level of disclosure compared to accounting standard requirements and barely explores how the values of these disputes (the degree to which companies are involved in litigation) can influence stakeholders' decisions.

3. METHODOLOGY

3.1 Sample

The initial sample consisted of 74 Brazilian companies listed on the B3 and included in the IBOV index at the time of data collection. These companies represent approximately 80% of the trading volume of the Brazilian capital market. Financial institutions were excluded from the sample because they have a specific tax regime. Thus, the final sample consisted of 62 companies [Segments covered: food (5); beverages (1); capital goods (1); pulp (2); education (2); energy (8); pharmaceuticals (2); real estate (6); metallurgy (5); oil and gas (5); chemicals (1); sanitation (1); health (4); services (3); systems (1); telecommunications (2); textiles (1); freight transport (3); air transport (3); and retail (6)].

The analysis period is from 2015 to 2020. Although CPC 25 came into force in Brazil in 2010, and the Reference Form has been mandatory for publicly traded companies since 2009, the data available in the Reference Form for the early years were of poor quality and frequently omitted information. It was not until 2015 that there was an improvement in the quality of the data disclosed. Since Brazilian tax litigation is quite slow and cases often remain unaltered for years without relevant judicial changes, including more recent data is not expected to affect the results presented.

3.2 Data Collection

The explanatory notes available for the period 2015-2020 for all 62 companies in the sample were analyzed, totaling 366 financial statements. Of these, information on contingent liabilities (provisions) was found in 330 of the 366 notes. The Reference Forms of the 62 companies were also analyzed, yielding 4,575 observations of tax proceedings.

The amounts of contingent liabilities and provisions disclosed by the companies in the explanatory notes detailing the contingencies were collected manually. These amounts were then segregated by type of litigation (civil and regulatory, environmental, or tax), resulting in 330 observations of contingent liabilities and 366 observations of provisions. Labor contingencies were not collected, as they mix litigation arising from private lawsuits with litigation arising from fines imposed by government agencies for violations of regulations and laws, which could compromise the comparability of the relevance of each type of contingency in relation to the total.

In the Reference Forms, only data on tax litigation were collected manually to supplement the information disclosed in the explanatory note and provide greater detail on cases of this type. Specifically, subsections 4.3 (Relevant non-confidential proceedings), 4.4 (Relevant non-confidential proceedings Adm/Contr/Invest), 4.5 (Relevant confidential proceedings), 4.6 (Repetitive and related proceedings), and 4.7 (Other relevant contingencies) of Section 4 (Risk Factors) of the Reference Form were extracted. From these subsections, administrative or judicial tax proceedings were identified, and the following information was collected: (i) the year of publication of the Reference Form, (ii) the last instance of movement in the proceeding, (iii) the initiation date of the proceeding, (iv) the parties involved in the proceeding, (v) the amounts involved in the proceeding, (vi) a summary of the main facts related to the ongoing discussion, (vii) the company's classification of the chance of loss, (viii) an analysis of the impact of a loss, (ix) the provisioned amount (when applicable), and (x) the objective and subjective materialities considered when defining the relevance of the cases to be disclosed. In addition to the above items, other characteristics of tax proceedings were collected, including the classification of tax disputes according to the tax that gave rise to the controversy. One benefit of collecting data from the Reference Forms is the level of qualitative detail regarding the disputes.

3.3 Analysis of the Effect of the Degree of Tax Litigation on the Market Value of Companies

3.3.1 Dependent variable – Market value

Company valuation consists of estimating an organization's intrinsic value to determine the current or projected value of its assets, especially with regard to future share pricing. According to specialized literature on asset valuation, the main methods used for this purpose are: (a) equity and asset-based measurement criteria, (b) market multiples, (c) discounted cash flow (DCF), and (d) Tobin's Q (Pettenuzzo & Rocha, 2022).

Tobin's Q is commonly applied in finance because it represents the ratio of a company's market value to the replacement cost of its assets. This ratio is used as a proxy for the company's market value (Fu et al., 2016; Lim & Mali, 2024; Malkiel et al., 1979; Osterberg, 1989; Rostami, 2015;

Singh et al., 2018; Steiner, 1996). Tobin's Q is useful because it provides a comparable performance metric for different companies (Famá & Barros, 2010).

Like all proxies, the Tobin's Q measure has its limitations. However, Sauaia and Castro (2002) compared it with seven other measures of company performance and concluded that it was the most appropriate because, in addition to reflecting past information, it contains information about future trends. Therefore, Tobin's Q was used as a proxy to assess the impact of contingent liabilities and tax provisions on market value.

In valuation theory, a company's wealth is defined as the sum of the real value of existing capital and the real

supply of money at a ratio of Q. Therefore, Tobin's Q is determined by the ratio of the total market value of the company to the replacement cost of its capital or assets. The replacement cost is the amount of money needed to purchase the company's productive capacity using the most modern technology available at the lowest possible cost (Tobin, 1969).

Due to the difficulty of measuring the replacement value of assets, Chung and Pruitt (1994) proposed a simplified Tobin's Q model, replacing the original denominator with the company's total assets while maintaining the quality of the estimator. Thus, this study will adopt the simplified Tobin's Q model, which is calculated using Eq. 1:

$$TOBINQ = \frac{MVS + MVD}{Total Assets} \quad 1$$

where MVS represents the market value of the company's shares, MVD represents the value of the company's debts (current liabilities minus current assets plus long-term debts), and Total Assets represents the company's final balance of total assets for a given period.

3.3.2 Independent variable – Degree of tax litigation

A company's degree of tax litigation represents its total asset exposure to tax-related litigation. To this end, values of provisions for contingent tax liabilities were collected from the companies' explanatory notes. Specifically, two tax litigation degree indices were calculated: (i) the ratio of the value of tax provisions to the company's total assets (*ProvAssets*); and (ii) the ratio of the value of contingent tax liabilities to the company's total assets (*ContingAssets*). Values greater than 1 for both indices indicate that the company has litigation obligations that exceed its total resources for producing future economic benefits.

Additionally, the *Conting_Prov* variable, which is the ratio of the value of contingent tax liabilities to tax

provisions, indicates the extent to which contingent tax liabilities exceed provisions. It is used to assess whether classification as possible or probable impacts the perception of a company's market value.

3.3.3 Control variables

The characteristics typically adopted in studies of this nature (Gleason & Mills, 2002; Niesh & Velnampy, 2014; Fonteles et al., 2013; Suffah & Riduwan, 2016; Sucuahi & Cambarihan, 2016) were used as control variables, namely profitability, size, sector, liquidity, and indebtedness. Table A.1 in Appendix A presents the definitions of all the variables used in the model.

3.3.4 Empirical model

To achieve the main objective of this study and answer the proposed research question, the econometric models presented in Eqs. 2, 3, and 4 were estimated:

$$TOBINQ_{it} = \beta_0 + \beta_1 ProvAssets_{it} + \beta_2 LnMarketVal_{it} + \beta_3 ROE_{it} + \beta_4 DryLiquid_{it} + \beta_5 Debt_{it} + \sum_{j=6}^{20} \beta_j Sector + \varepsilon_{it} \quad 2$$

$$TOBINQ_{it} = \beta_0 + \beta_1 ContingAssets_{it} + \beta_2 LnMarketVal_{it} + \beta_3 ROE_{it} + \beta_4 DryLiquid_{it} + \beta_5 Debt_{it} + \sum_{j=6}^{20} \beta_j Sector + \varepsilon_{it} \quad 3$$

$$TOBINQ_{it} = \beta_0 + \beta_1 Conting_Prov_{it} + \beta_2 LnMarketVal_{it} + \beta_3 ROE_{it} + \beta_4 DryLiquid_{it} + \beta_5 Debt_{it} + \sum_{j=6}^{20} \beta_j Sector + \varepsilon_{it} \quad 4$$

Eqs. 2 and 3 enable us to evaluate the impact of tax litigation on a company's market value. Specifically, if the coefficient in Eqs. 2 and 3 is statistically significant, then the existence of tax provisions and contingent liabilities affects investors' perception of the company's market value.

Eq. 4 allows us to evaluate the impact of a company's preference for maintaining tax litigation as contingencies rather than provisions on its market value perception. If the coefficient in Eq. 4 is positive (negative) and statistically significant, it proves that investors positively (negatively) evaluate the company's decision to maintain the litigation as a contingency rather than provisioning it.

Panel data were used for all models and estimated with random effects, with coefficients and standard errors that are robust to heteroscedasticity. All regression model assumptions were verified. Initially, it was found that the relationship between the dependent and independent variables was linear through frequency histogram analysis. The absence of multicollinearity was also verified. According to Table 2, the correlation between the independent variables is low, as confirmed by the Variance Inflation Factor (VIF) analysis, which indicated an absence of multicollinearity.

The amount of a contingent tax liability may remain unchanged if there are no developments in legal proceedings. Furthermore, a contingent liability may be converted into a provision if the company's lawyers change their opinion about the likelihood of a loss. The same situation can lead to a contingent liability whose estimated probability of loss was considered possible being reclassified as a remote loss. Thus, the company is no longer required to disclose it. Another relevant aspect is the company's failure to update the amounts, which leads to repetition of the same amount over time.

These variable conditions can result in heteroscedasticity problems. To this end, the Breusch-Pagan-Godfrey test and the White test were performed. The test results showed a p -value < 0.01 , confirming the presence of heteroscedasticity. This was corrected by estimating robust errors. The results indicated that random linear regression, with standard errors robust to heteroscedasticity, is the most appropriate model for the study.

Since contingent tax liabilities may remain unchanged over time, it is important to assess whether the variables are stationary. The unit root test (Fisher's test for panel stationarity) was performed to this end and indicated that the variables are stationary. This confirms the robustness of the estimated model. Additionally, the Wooldridge test was performed to assess the serial autocorrelation of the residuals. The results indicated an absence of autocorrelation. The Wooldridge test results (p -value) were: 0.1201 (*ProvAtivo*), 0.1079 (*ContingAtivo*), and 0.0524 (*Conting_Prov*). Despite the absence of autocorrelation in the residuals, for robustness analysis purposes, all models were estimated using generalized linear models (GLM) to account for potential residual autocorrelation, and the results remained unchanged. Finally, outliers were identified through box plot analysis, for which the winsorization technique (1%) was applied.

3.4 Analysis of the Determinants of the Degree of Tax Litigation of Companies

To examine the factors influencing companies' tax litigation levels, the literature on the determinants of the disclosure of provisions and contingent liabilities was used as a basis. Fonteles et al. (2013), for example, analyzed the disclosure of provisions and contingent

Table 1
Correlation – market value analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TOBINCQ (1)	1.000							
ContingAssets (2)	-0.134	1.000						
ProvAssets (3)	-0.054	0.277	1.000					
Conting_Prov (4)	0.039	0.016	-0.188	1.000				
LnMarketVal (5)	0.368	0.230	0.206	-0.017	1.000			
Debt (6)	-0.019	-0.118	-0.036	0.207	0.051	1.000		
DryLiquid (7)	0.040	-0.175	-0.088	-0.059	-0.148	-0.418	1.000	
ROE (8)	0.022	-0.030	-0.032	0.124	-0.022	0.278	-0.149	1.000

Note: The variables are defined in Table A1 of Appendix A.

Source: Prepared by the authors.

liabilities of companies listed on the B3 and concluded that these variables are influenced by sector of activity, size, profitability, liquidity, and listing segment. Similarly, Martínez and Sonegheti (2015) found that company size and revenue determine the level of disclosure of information on provisions and tax contingencies. Regarding sector, Suave et al. (2013) found that companies in the electricity and telecommunications sectors disclose the most information about contingent liabilities and provisions. Furthermore, Marinho and Machado (2024) found that sector explains the tax decisions of Brazilian publicly-traded, non-financial companies.

Based on this literature, the following variables were defined: (i) company size, (ii) profitability, (iii) variation in cash and cash equivalents, (iv) degree of

indebtedness, (v) quick ratio, (vi) effective accounting tax burden (income statement), (vii) balance of value added allocated to federal, state, and municipal taxes present in the value-added statement (VAS), (viii) presence of accounting losses, (ix) sector of activity, and (x) dummy for the existence of accounting losses in the current fiscal year (*D_Loss*). To assess the effect of these variables on companies' degree of tax litigation, the models presented in Eqs. 5 and 6 were estimated. Table A.1 in Appendix A presents the definitions of all the variables used. All models were estimated using panel data with random effects and robust standard errors to correct for heteroscedasticity. All assumptions of the regression model described in the previous section were met in this analysis as well.

$$\begin{aligned} ContingAssets_{it} = & \beta_0 + \beta_1 LnMarketVal_{it} + \beta_2 ROE_{it} + \beta_3 LnDifCash_{it} + \beta_4 Debt_{it} + \\ & \beta_5 DryLiquid_{it} + \beta_6 GAAPETR_{it} + \beta_7 LnVAS_Taxes_{it} + \beta_8 D_Loss_{it} + \beta_9 OilGas_i + \\ & \beta_{10} Metallurgy_i + \beta_{11} Telecommunications_i + \varepsilon_{it} \end{aligned} \quad [5]$$

$$\begin{aligned} ProvAssets_{it} = & \beta_0 + \beta_1 LnMarketVal_{it} + \beta_2 ROE_{it} + \beta_3 LnDifCash_{it} + \beta_4 Debt_{it} + \\ & \beta_5 DryLiquid_{it} + \beta_6 GAAPETR_{it} + \beta_7 LnVAS_Taxes_{it} + \beta_8 D_Loss_{it} + \beta_9 OilGas_i + \\ & \beta_{10} Metallurgy_i + \beta_{11} Telecommunications_i + \varepsilon_{it} \end{aligned} \quad [6]$$

4. ANALYSIS OF RESULTS

4.1 Results of the Analysis of the Effects of the Degree of Tax Litigation on Market Value

Table 2 presents the main descriptive statistics for the dependent variable (market value) and the explanatory (contingent liabilities and tax provisions) and control (size, profitability, indebtedness, and liquidity) variables of interest. On average, the companies have a Tobin's Q greater than 1, though some have an underestimated value (minimum value below 1).

On average, the degree of litigation from the perspective of provisions is lower than that obtained from the observation of contingent liabilities. This demonstrates a predominance of indications of possible loss probabilities for the tax proceedings of the selected companies. This tendency is reflected in the *Conting_Prov* variable, which indicates that the companies tend to maintain tax disputes as contingent rather than recognizing them as provisions.

Table 1 shows the correlation between the variables used in the econometric model. Initial evidence suggests a negative correlation between the companies' degree of tax litigation and Tobin's Q, from both the contingent liabilities and provisions perspectives. However, there is a positive correlation between the *Conting_Prov* variable and Tobin's Q, indicating that investors view a company's decision to maintain tax litigation as a contingent liability more positively than as a provision.

These inferences are confirmed by the regression model analysis. Table 3 presents the estimated results of Eqs. 2, 3, and 4, showing that there is a statistically significant relationship between tax litigation and the market value of companies (see models 1 and 2 in Table 3). This result aligns with Disclosure Theory, which states that companies can use the disclosure of information as a signaling mechanism to reduce information asymmetry in the capital market. The significant relationship between

Table 2*Descriptive statistics – market value analysis*

Constructs	Variables	Observation	Mean	Standard deviation	Minimum	Maximum
Market value	TOBINQ	342	2.646	3.974	0.035	26.625
Litigation level	ProvAssets	351	0.006	0.009	0	0.059
	ContingAssets	348	0.087	0.107	0	0.634
	Conting_Prov	317	64.969	177.951	0.216	2,141.635
	LnMarketValue	333	17.017	0.915	14.817	19.627
Control variables	ROE	351	0.149	0.199	0	2.071
	Debt	348	0.629	0.209	0.174	1.434
	DryLiquid	348	1.761	0.918	0.444	7.405

Note: The variables are defined in Table A1 of Appendix A.**Source:** Prepared by the authors.

tax litigation information and market value means such information is relevant to investors. Its disclosure signals management's expectations about the effect on future cash flow, reducing information asymmetry between agents and principals. This affects investors' perception of the company's market value.

The results also indicate that, when making decisions and defining the market value of a company, investors use not only information on the impact of probable losses recognized in the accounting (provisions), but also information on possible (contingent) losses disclosed in explanatory notes. According to disclosure theory,

these results suggest that information about tax disputes is important to investors when determining the market value of companies, regardless of the expected outflow of funds. Investors need information about both possible and probable risk cases to assess the entity's future cash flow and determine the company's value. Therefore, disclosing both contingent liabilities and tax provisions is an important signal that companies send to reduce information asymmetry, as predicted by disclosure theory.

However, the coefficient of model 2 is significantly higher than that of model 1, indicating that investors consider the value of provisions to be more important

Table 3*Results of regression models – Market value analysis*

Expected signal		Dependent variable					
		TOBINQ					
		(1)		(2)		(3)	
		Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
ContingAssets	Negative	-3.043049*	0.054				
ProvAssets	Negative			-28.17025**	0.043		
Conting_Prov	Positive					0.000685***	0.00
LnMarketVal		1.891***	0.00	1.86991***	0.00	1.873034***	0.000
ROE		0.1204321	0.623	0.0866833	0.725	0.2833133	0.136
Sector		0.082723	0.134	0.093697	0.117	0.0883303	0.155
Debt		-0.8560761	0.538	-0.5994117	0.674	-0.2004307	0.898
DryLiquid		0.0390258	0.895	0.1018732	0.722	0.147265	0.659
Constant		-29.66932	0.000	-29.77282	0.000	-30.50883	0.000
Remarks		246		232		289	
R ² (overall)		0.1888		0.1691		0.1437	
F statistic		28.43		26.76		58.03	

Note: The variables are defined in Table A1 of Appendix A.* = $p < 0.1$; ** = $p < 0.05$; *** = $p < 0.01$.**Source:** Prepared by the authors.

than the value of contingencies when determining the market value of a company. This result is expected given that the expectation of a loss, and therefore the need for cash disbursement, is greater with provisions than with contingencies.

The results reported in Table 3 indicate that there is a negative and statistically significant relationship between tax litigation and the market value of companies, as indicated by the sign of the coefficient. Specifically, the results show that increases in tax provisions and contingent liabilities negatively influence the market's perception of company value. Since the accounting of contingent liabilities can be associated with tax planning activities (Dyrenget al., 2019; Graham et al., 2017), they may reveal an intention to reduce the tax burden through aggressive tax planning. Alternatively, they may indicate that the financial statements are conservative with respect to future benefits arising from such planning (Hanlon & Heitzman, 2010).

Hanlon and Slemrod (2009) argue that the market reacts positively to financial statements disclosing efforts to reduce taxes paid (Dyrenget al., 2016). However, other studies conclude that the level of disclosure of contingent tax liabilities is negatively associated with company value (Barth & McNichols, 1994; Cohen et al., 2011). This is based on the argument that investors and analysts are concerned about the risk of tax avoidance in these strategies adopted by companies (Gallemore et al., 2014). Therefore, large tax exposures in litigation can be interpreted as high-risk aggressive tax planning, which can have an inverse effect on market value in relation to efforts to reduce the tax burden. Drake et al. (2019) demonstrated that investors value tax planning positively but tax risk negatively. This research corroborates that argument by showing that tax provision and contingent liability values negatively influence market value due to the perceived risk of reducing the tax burden (Drake et al., 2019).

Information on provisions and tax contingencies is important to investors. A higher degree of tax litigation negatively affects investors' perception of companies' market value. These results are supported by disclosure theory and corroborate the conclusions of Darabi and Faghani (2012) and Dash and Raithatha (2018) that information on contingent liabilities is fundamental to investor decision-making. These results also contribute to the literature by showing that both provisions and tax contingencies affect market value. Thus, investors care not only about the level of disclosure, but also about the value of litigation.

The *Conting_Prov* variable (model 3) is statistically significant in explaining companies' market value, with

a positive sign indicating the relationship between the value of contingent liabilities and tax provisions, as well as showing how often the value of contingent liabilities exceeds that of provisions. We observe that the companies maintain a much higher value of tax contingencies than tax provisions, indicating a tendency to classify tax litigation as a possible rather than a probable loss. These results are consistent with the findings of Alves and Campagnoni (2021). The selected sample shows a preference for reporting litigation only in explanatory notes, which prevents it from having an economic impact on the information in financial statements.

Furthermore, the positive sign of the *Conting_Prov* variable coefficient indicates that the higher the proportion of tax litigation classified as a contingency rather than a provision, the higher the company's market value. Investors view a company's decision to classify litigation as a possible loss rather than a probable loss positively. This is to be expected since the likelihood of a possible loss affecting future cash flow is lower than that of a probable loss. This finding is significant because it may indicate an earnings management strategy, generating greater market value while avoiding the impact of provisions on the year's profit.

According to disclosure theory, greater disclosure of information can generate credibility for an organization among its external users since they need information to make accurate decisions. Therefore, the greater the level of information disclosure, the greater the expected return for the company (Verrecchia, 2001). Our findings show that disclosing contingent liabilities reduces information asymmetry, consequently affecting the company's market value. This is consistent with disclosure theory and corroborates the results of Darabi and Faghani (2012), but diverges from Pinto et al. (2015).

4.2 Results of the Analysis of the Determinants of the Degree of Tax Litigation

Due to space constraints, the tables containing descriptive statistics, correlations, and tests of the regression model assumptions were not included. However, they will be provided upon request to the authors. Contingent liability and tax provision values are relevant to investors and influence the market value of companies. Therefore, it is important to understand the determinants of the degree of tax litigation. To this end, econometric models (Eqs. 5 and 6) were estimated and the results are reported in Table 4.

The variables included in the analysis of determinants explain 29.15% (19.92%) of the variance in the degree of

Table 4*Results of regression models – Analysis of the determinants of the degree of litigation*

	Expected sign	ContingAssets		ProvAssets	
		Coeff.	p-value	Coeff.	p-value
LnMarketVal	Negative	0.00271	0.571	0.00018	0.769
ROE	Negative	-0.01392	0.447	-0.00098	0.833
LnDifCash	Negative	0.00244	0.244	-0.00012	0.768
Debt	Negative	-0.01889	0.305	-0.00091	0.731
DryLiquid	Negative	-0.00154	0.466	0.00015	0.608
GAAPETR	Positive	-0.00313**	0.047	-0.00011	0.650
LnVAS_Taxes	Positive	0.01304**	0.029	0.00106**	0.01
D_Loss	Positive	0.01505**	0.044	-0.00034	0.797
Oil and gas	Positive	0.07793	0.119	0.00537	0.019
Metallurgy	Positive	0.05123	0.021	-0.00245	0.185
Telecommunications	Positive	0.18291***	0.000	0.01383	0.000
Constant		-0.16986	0.176	-0.01408	0.288
Observations		246		244	
R ² (overall)		0.2915		0.1992	
F statistic		628.28***		1,342.03***	

Note: The variables are defined in Table A1 of Appendix A.* = $p < 0.1$; ** = $p < 0.05$; *** = $p < 0.01$.**Source:** Prepared by the authors.

tax litigation among the companies, which is calculated based on contingent liabilities (provisions). Specifically, Table 4 shows that the factors determining the degree of tax litigation are effective accounting tax burden (GAAPETR), value added going to the government (LnVAS_Taxes), existence of losses (D_Loss), and sector of activity.

Regarding tax burden measures (GAAPETR and LnVAS_Taxes), the degree of tax litigation related to contingent liabilities is negatively and significantly associated with GAAPETR and positively associated with LnVAS_Taxes. The degree of tax litigation as measured by the value of provisions showed a significant, positive association with LnVAS_Taxes.

Since GAAPETR measures the effective tax burden on income reported, the regression results suggest that the reduction in Corporate Income Tax (*Imposto de Renda sobre Pessoa Jurídica* – IRPJ) and Contribution on Net Profit (*Contribuição Social sobre o Lucro Líquido* – CSLL) expenses recognized in the results for the year is reflected by an increase in contingent tax liabilities. This variable is often used to measure tax aggressiveness (Hanlon & Heitzman, 2010), so the negative relationship found in the empirical test can be explained by companies with greater tax aggressiveness being targeted for audits, resulting in contingent tax liabilities. Previous studies have found that audits discourage tax evasion (Dyreng et al., 2016).

Another possible inference based on the observed results is that this relationship (GAAPETR) was significant only with regard to litigation related to contingent liabilities and did not demonstrate statistical representativeness for provisions, suggesting that these tax plans are more commonly considered to have a low probability of loss and are classified as possible or remote losses.

LnVAS_Taxes reflects the percentage change in the value of the wealth generated by the company and allocated to the public coffers through taxes on sales (indirect) and profits (direct) in each fiscal year. The positive association with the degree of tax litigation, as measured by both contingent liabilities and provisions, can be interpreted as the company's reaction of increased tax aggressiveness in response to changes in tax legislation that impact its wealth production for various stakeholders.

Together, the results show that an increase in the distribution of wealth to the government through taxes represents an increase in fiscal aggressiveness. Initially, this behavior is reflected by the adoption of tax planning strategies that reduce GAAPETR and generate tax litigation related to contesting these strategies with the tax authorities.

The variable D_Loss positively and significantly correlates with the degree of tax litigation based on contingencies. When a company incurs losses in a previous

year, it is more likely to classify litigation as contingencies. This reverses provisions, increasing profit, or prevents the recognition of new liabilities in the current year, in an attempt to improve the comparative result.

Regarding the companies' segments of activity, dummy variables were included for the sectors with the highest degree of tax litigation: oil and gas, metallurgy, and telecommunications. The ranking of the degree of tax litigation for beverages was not added as a dummy variable because only one company represented the segment. Therefore, including it in the model could generate inconsistent results. As expected, all of these sectors exhibited a significant correlation with the level of tax litigation in at least one perspective (provisions or contingent liabilities). The metallurgy sector was significant only for contingent liabilities; the oil and gas segment was significant only for provisions; and telecommunications was significant for both models. This suggests that a company's significance in one aspect of tax litigation but not another indicates a preference for disclosing provisions rather than contingent liabilities (or vice versa) or classifying the probability of losing litigation as probable, possible, or remote.

4.3 Results of the Descriptive Analysis of Information on Tax Litigation

This subsection aims to meet the final objective of this research by providing evidence on the nature of tax litigation by Brazilian companies. This evidence is based on a descriptive analysis of information on contingent liabilities and provisions collected manually from notes to financial statements and Reference Forms.

Figure 1 shows the distribution of provisions and contingent liabilities disclosed in the explanatory notes, segregated between tax, civil, and environmental nature. The total amount related to tax disputes, when adding together contingent liabilities and provisions, stands out among the other items subject to the application of CPC 25. Additionally, the disclosure of contingent tax liabilities is much more significant than that of provisions of the same nature, representing an average of 90% of the total disclosed.

When considering only provisions for tax litigation, the five segments with the highest representation (71.01% of the total) are: oil and gas (22.53%); retail (13.89%); telecommunications (12.48%); metallurgy (11.66%); and food (10.51%). For contingent tax liabilities, the five segments with the highest combined values (83.49% of the total) are: oil and gas (36.04%); metallurgy (17.29%); beverages (13.72%); telecommunications (10.87%); and food (5.76%). The relevance of the amounts may be explained by the fact that the oil and gas, food, and telecommunications sectors have higher rates for certain taxes.

The data from the Reference Forms provide a higher level of qualitative detail on tax disputes, enabling a more detailed analysis of their characteristics. Regarding the number of tax disputes in each segment, 4,575 cases were reported during the sample period. The education, telecommunications, beverages, oil and gas, and food segments reported the highest annual averages, ranging from 17 to 31 cases. Of the taxes involved in the litigation, IRPJ and CSLL are the most prevalent (46.54%), followed by State Value-Added Tax (*Imposto sobre Circulação de Mercadorias e Serviços – ICMS*) (20.72%).

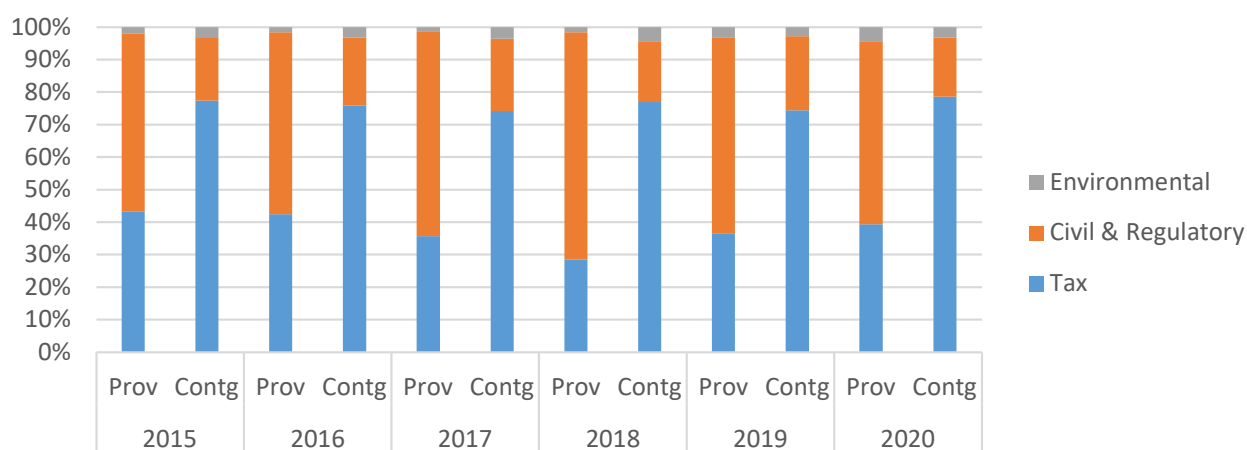


Figure 1 Values of provisions (Prov.) and contingent liabilities (Contg.) disclosed in explanatory notes

Source: Prepared by the authors.

Table 5*Ranking of the degree of tax litigation*

Sectors	2018	Rank	2019	Rank	Δ	2020	Rank	Δ
Beverages	0.71	1st	0.68	1st	=	0.64	1st	=
Telecommunications	0.45	2nd	0.33	2nd	=	0.35	2nd	=
Metalworking	0.27	3rd	0.25	3rd	=	0.19	3rd	=
Oil and gas	0.18	5th	0.17	4th	^	0.18	4th	=
Chemicals	0.13	7th	0.10	8th	v	0.15	5th	^
Services	0.09	10th	0.12	5th	^	0.12	6th	v
Health	0.12	8th	0.10	10th	v	0.11	7th	^
Cellulose	0.05	14th	0.10	9th	^	0.10	8th	^
Food	0.12	9th	0.11	6th	^	0.10	9th	v
Retail	0.13	6th	0.11	7th	v	0.09	10th	v
Energy	0.06	13th	0.06	11th	^	0.06	11th	=
Education	0.08	11th	0.06	12th	v	0.05	12th	=
Transportation	0.05	15th	0.04	14th	^	0.04	13th	^
Capital goods	0.02	17th	0.03	16th	^	0.03	14th	^
Computer systems	0.07	12th	0.04	13th	v	0.03	15th	v
Textiles	0.18	4th	0.04	15th	v	0.03	16th	v
Air transport	0.02	18th	0.03	17th	^	0.03	17th	=
Sanitation	0.03	16th	0.03	18th	v	0.03	18th	=
Pharmaceuticals	0.01	19th	0.01	19th	=	0.01	19th	=
Real estate	0.01	20th	0.00	20th	=	0.00	20th	=

Note: The year columns show the average tax litigation level for each segment. This is calculated as the ratio of the sum of each segment's annual litigation level to the number of companies in that segment.

Source: Prepared by the authors.

Another way of analyzing tax proceedings relates to the supervisory bodies that initiated the litigation: (i) the Brazilian Federal Revenue Service (RFB), (ii) the State Revenue Service, (iii) the Municipal Revenue Service, or (iv) other tax supervisory bodies. In this regard, 76.49% of litigation is concentrated in the activities of the Brazilian Federal Revenue Service.

Due to the significance of disputes concerning IRPJ and CSLL, the most prevalent topics were identified as: (i) goodwill deduction and (ii) taxation in Brazil of profits earned abroad. Interestingly, both issues were resolved with the publication of Law No. 12,973/, of May 13, 2014. In summary, this law defined that the interpretation applied by the Federal Revenue of Brazil until then should prevail for taxable events occurring during the term of this new legislation. Regarding internal goodwill, Law No. 12,973/, of May 13, 2014, explicitly prohibits it, allowing for the deduction of goodwill generated only between non-dependent parties for tax purposes.

Based on this information, a ranking of the degree of tax litigation was prepared (see Table 5). This table presents the amounts of tax provisions and contingent liabilities

disclosed in the explanatory notes. These amounts are weighted by the company's total assets and organized in descending order for the year 2020. Given that some companies in the sample were privately held until 2017, the classification of segments by degree of tax litigation was limited to the years 2018, 2019, and 2020.

The ranking corroborates the descriptive statistic results, with the beverage, telecommunications, metallurgical, and oil and gas sectors ranking among the top five with the highest degree of litigation. These sectors consistently ranked in the top five in all 3 years. However, the fifth sector on this list merits further analysis. Along with the aforementioned sectors, the textile sector was among the top five in 2018. Notably, the profile of this segment changed, moving from fourth place in 2018 to 15th place in 2019. The degree of tax litigation in this sector decreased by 80% (2018: 0.18; 2019: 0.04), while total assets increased by 6%. In other words, the variation in the degree of tax litigation is mainly due to reduced exposure to this type of contingent liability.

In the 2019 ranking, the services segment, which was tenth in 2018, was among the top five. This segment's rise

is due to a 40% increase in contingent liability amounts disclosed in the financial statements of the selected companies, primarily due to issues related to goodwill, Social Integration Program (*Programa de Integração Social* – PIS), and Contribution for Social Security Financing (*Contribuição para o Financiamento da Seguridade Social* – COFINS) assessments.

The pulp sector also stands out due to its 100% increase in litigation between 2018 (0.05) and 2019 (0.10), despite an average 50% growth in total assets (Klablin: 17%; Suzano: 81%). One reason for this significant variation in litigation was the 2019 disclosure of a tax assessment notice related to the amortization of goodwill for IRPJ and CSLL purposes in the amount of R\$2.218 billion.

5. CONCLUSIONS AND FINAL CONSIDERATIONS

Provisions and contingent liabilities of a tax nature are obligations that arise from tax planning that is not recognized by the tax authorities, or from inconsistencies in the calculation and declaration of taxes. When the tax authority rejects these practices, a financial contingency arises, leading to tax litigation. According to the guidelines of CPC 25 (equivalent to IAS 37), this controversy must be classified as a provision or contingent liability depending on the probability of loss estimated by the financial statement preparer. While not fully disclosed in accordance with the aforementioned standard, information on tax provisions and contingent liabilities impacts the entity's estimated future cash flow, making it important for investors in the decision-making process.

This research provides evidence that the degree of tax litigation, as measured by provisions and tax contingencies, negatively affects market value. This result aligns with previous research and can be explained by investors' perception of the risk to which a company is subject when taking a more aggressive position in an attempt to reduce its tax burden.

It was found that the amounts of contingent tax liabilities are significantly higher than those of provisions, indicating a certain preference on the part of companies for classifying tax litigation as contingencies rather than provisioning it as a liability. The results suggest that the ratio of contingent liabilities to provisions is important for determining a company's market value, and investors positively view a company's decision to classify tax disputes as possible rather than probable risks. This finding is significant because it suggests that companies may use the classification between contingent liabilities and provisions as an earnings management mechanism.

The most important variables determining the degree of tax litigation are accounting tax burden, distribution of value added to the government, existence of losses, and segment of operation. Companies that increased their effective accounting tax burdens over the period showed a reduction in their degree of tax litigation resulting from exposure to contingent liabilities.

Additionally, due to the importance of disclosing tax litigation, the main characteristics of such litigation were

analyzed based on information from the explanatory notes and Reference Forms. The ranking of the degree of tax litigation showed that the segments with the highest financial exposure are beverages, telecommunications, metallurgy, and oil and gas. Pharmaceuticals is the sector with the lowest financial volume of tax litigation. Approximately 79% of tax litigation involves IRPJ, CSLL, ICMS, PIS, and COFINS taxes. Litigation related to goodwill deductions and the taxation of profits earned abroad in Brazil is the most relevant and is mostly associated with the expectation of a possible loss.

The results of this study complement existing literature on the disclosure levels of these items by companies and encourage reflection on the relevance of qualitative and quantitative information on tax disputes disclosed to the market. The study also contributes by providing evidence of companies' potential use of subjectivity in classifying between contingent liabilities and provisions as an earnings management strategy.

Thus, the results of this study can contribute not only to future research, but also to companies, their investors, and regulatory agencies. This topic has received attention not only in Brazil, one of the countries with the highest rates of tax litigation worldwide, but also in international organizations such as the OECD.

This study provides evidence suggesting that companies may prefer to classify tax litigation as contingencies rather than provision for it. However, the main objective of this research was not to detect earnings management in the classification of tax litigation. Future research should therefore further explore this issue using robust and appropriate methodological procedures to assess whether companies use subjectivity in assessing tax litigation as an earnings management mechanism.

Finally, two important limitations of this study should be noted. First, the use of a restricted sample (only IBOV companies) may have resulted in selection bias since companies in the index tend to be larger and disclose higher-quality information. Second, the data collection process was subject to researcher bias and judgment, as well as errors, since it was manual.

REFERENCES

- Alves, D. B., & Campagnoni, M. (2021). Parcelamento tributário e endividamento com provisões e contingências em empresas de relevância nacional. *Contabilometria – Brazilian Journal of Quantitative Methods Applied to Accounting*, 8(2), p. 1-18. <https://revistas.fucamp.edu.br/index.php/contabilometria/article/view/2268>
- Alves, V. S. D., Moreira, C. S., Soares, I. C. da S., & Silva, A. R. P. da (2022). Nível de disclosure das provisões e passivos contingentes de empresas brasileiras listadas na IBRX-50. *REFAS: Revista FATEC Zona Sul*, 9(1), 5. https://doi.org/10.26853/Refas_ISSN-2359-182X_v09n01_06
- Assumpção, A., Uhdre, D., Bossa, G., Trecenti, J., & Guedes Nunes, M. (2022). *Diagnóstico do contencioso tributário administrativo* [Relatório de pesquisa]. Associação Brasileira de Jurimetria. <https://abj.org.br/pesquisas/bid-tributario/>
- Baldoino, E., & Borba, J. A. (2015). Passivos contingentes na bolsa de valores de Nova York: uma análise comparativa entre as empresas estrangeiras. *Revista de Contabilidade e Organizações*, 9(23), 58-81. <https://doi.org/10.11606/rco.v9i23.68395>
- Barth, M. E., & McNichols, M. F. (1994). Estimation and market valuation of environmental liabilities relating to superfund sites. *Journal of Accounting Research*, 32, 177-209. <https://doi.org/10.2307/2491446>
- Borges, B. C., & Rover, S. (2022). Provisões e passivos contingentes: características e reconfiguração das demonstrações contábeis das empresas de capital aberto brasileiras. *Revista Mineira de Contabilidade*, 23(1), 21-32. <https://doi.org/10.51320/rmc.v23i1.1328>
- Borkowski, S. C., & Gaffney, M. A. (2021). FIN 48 and the tax aggressive behaviors of transnational corporations: A decade later. *Journal of International Accounting, Auditing and Taxation*, 42, 100374. <https://doi.org/10.1016/j.intaccudtax.2020.100374>
- Brushwood, J. D., Johnston, D. M., & Lusch, S. J. (2018). The effect of tax audit outcomes on the reporting and valuation of unrecognized tax benefits. *Advances in Accounting*, 42, 1-11. <https://doi.org/10.1016/j.adiaac.2018.06.001>
- Campbell, K., Sefcik, S. E., & Soderstrom, N. S. (2003). Disclosure of private information and reduction of uncertainty: Environmental liabilities in the chemical industry. *Review of Quantitative Finance and Accounting*, 21(4), 349-378. <https://doi.org/10.1023/B:REQU.0000004783.24513.ea>
- Capriotti, K., & Waldrup, B. E. (2005). Miscommunication of uncertainties in financial statements: a study of preparers and users. *Journal of Business & Economics Research*. (JBER), 3(1). <https://doi.org/10.19030/jber.v3i1.2733>
- Chung, K. H., & Pruitt, S. W. (1994). A simple approximation of Tobin's q. *Financial management*, 23(3), 70-74. <https://doi.org/10.2307/3665623>
- Ciconte III, W. A., Donohoe, M. P., Lisowsky, P., & Mayberry, M. A. (2024). The predictive ability of tax contingencies for future income tax cash outflows. *Contemporary Accounting Research* 41(1), 355-390. <https://doi.org/10.1111/1911-3846.12910>
- Cohen, D., Darrough, M. N., Huang, R., & Zach, T. (2011). Warranty reserve: Contingent liability, information signal, or earnings management tool? *The Accounting Review*, 86(2), 569-604. <https://doi.org/10.2308/accr.00000021>
- Comitê de Pronunciamentos Contábeis. (2009). *CPC 25 – Provisões, passivos contingentes e ativos contingentes*. http://static.cpc.mediagroup.com.br/Documentos/304_CPC_25_rev%2006.pdf
- Costa, I. L. D. S., Correia, T. D. S., Machado, M. R., & Lucena, W. G. L. (2017). Disclosure dos passivos contingentes: análise comparativa entre empresas de mercado aberto no Brasil e na Austrália. *Pensar Contábil*, 19, 69. <http://www.atena.org.br/revista/ojs-2.2.3-08/index.php/pensarcontabil/article/view/3183>
- Darabi, R., & Faghani, M. (2012). The disclosure effects of contingent liabilities and ambiguities on making decision by users of financial statements. *International Journal of Business and Commerce*, 1(5), 13-31. <https://www.ijbcnet.com/1-5/IJBC-12-1504.pdf>
- Dash, S. R., & Raithatha, M. (2018). Impact of disputed tax litigation risk on firm performance: Evidence from India. *Accounting Research Journal*, 31(3), 458-478. <https://doi.org/10.1108/ARJ-07-2016-0095>
- Drake, K. D., Lusch, S. J., & Stekelberg, J. (2019). Does tax risk affect investor valuation of tax avoidance? *Journal of Accounting, Auditing & Finance*, 34(1), 151-176. <https://doi.org/10.1177%2F0148558X17692674>
- Dyreg, S. D., Hanlon, M., & Maydew, E. L. (2019). When does tax avoidance result in tax uncertainty? *The Accounting Review*, 94(2), 179-203. <https://doi.org/10.2308/accr-52198>
- Dyreg, S. D., Hoopes, J. L., & Wilde, J. H. (2016). Public pressure and corporate tax behavior. *Journal of Accounting Research*, 54(1), 147-186. <https://doi.org/10.1111/1475-679X.12101>
- Espindula, G. J., & Souza, M. M. de (2025). Análise das provisões e passivos contingentes nas companhias listadas na B3. *Revista Ambiente Contábil – Universidade Federal do Rio Grande do Norte* 17(1), 135-155. <https://doi.org/10.21680/2176-9036.2025v17n1ID35226>
- Famá, R., & Barros, L. A. B. D. C. (2010). Q de Tobin e seu uso em finanças: aspectos metodológicos e conceituais. *REGE Revista de Gestão*, 7(4). <https://arquivos.regeusp.com.br/arquivos/v07-4art03.pdf>
- Farias, M. R. S. (2006). *Divulgação do passivo: um enfoque sobre o passivo contingente no setor químico e petroquímico brasileiro* [Dissertação de Mestrado]. Universidade de São Paulo. <https://doi.org/10.11606/D.12.2004.tde-09012006-121101>
- Ferreira, D. D. M., Borba, J. A., Da Rosa, C. A., & Vicente, E. F. R. (2014). (Ir) Relevância das contingências ambientais: uma investigação nas empresas brasileiras. *Contabilidade y Negocios*, 9(18), 58-74. <https://doi.org/10.18800/contabilidad.201402.004>
- Ferreira, J., & Rover, S. (2019). An analysis of the relevant lawsuits in Brazilian companies: Characteristics that influence the change in the probability of loss provision and contingent

- liabilities. *Revista de Contabilidade e Organizações*, 13, 155596 <https://doi.org/10.11606/issn.1982-6486.rco.2019.155596>
- Ferreira, J., Rover, S., Ferreira, D. D. M., & Borba, J. A. (2016). Informações financeiras ambientais: diferença entre o nível de disclosure entre empresas brasileiras. *Revista de Educação e Pesquisa em Contabilidade*, 10(1), 5-24. <http://dx.doi.org/10.17524/repec.v10i1.1334>
- Fonteles, I. V., Nascimento, C. P. S., Ponte, V. M. R., & Rebouças, S. M. D. P. (2013). Determinantes da evidenciação de provisões e contingências por companhias listadas na BM&FBOVESPA. *Revista Gestão Organizacional*, 6(4), 85-98. <https://doi.org/10.1016/j.bios.2014.06.009>
- Forte, H. C., Prudêncio, P. de A., Silva, L. K. S., Ponte, V. M. R., & Guimarães, D. B. (2021). Efeito da divulgação de provisões e passivos contingentes sobre o desempenho de mercado das empresas listadas na B3. *Revista Mineira de Contabilidade*, 22(3), 33-48. <https://doi.org/10.51320/rmc.v22i3.1249>
- Fu, L., Singhal, R., & Parkash, M. (2016). Tobin's q ratio and firm performance. *International Research Journal of Applied Finance*, 7(4), 1-10. <https://doi.org/10.0704/article-2>
- Gallemore, J., Maydew, E., & Thornock, J. (2014). The reputation costs of tax avoidance. *Contemporary Accounting Research*, 31, 1103-1133. <https://doi.org/10.1111/1911-3846.12055>
- Glaum, M., & Street, D. L. (2003). Compliance with the disclosure requirements of Germany's new market: IAS versus US GAAP. *Journal of International Financial Management & Accounting*, 14(1), 64-100. <https://doi.org/10.1111/1467-646X.00090>
- Gleason, C. A., & Mills, L. F. (2002). Materiality and contingent tax liability reporting. *The Accounting Review*, 77(2), 317-342. <https://doi.org/10.2308/accr.2002.77.2.317>
- Graham, J. R., Hanlon, M., Shevlin, T., & Shroff, N. (2017). Tax rates and corporate decision-making. *The Review of Financial Studies*, 30(9), 3128-3175. <https://doi.org/10.1093/rfs/hhx037>
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2-3), 127-178. <https://doi.org/10.1016/j.jacceco.2010.09.002>
- Hanlon, M., & Slemrod, J. (2009). What does tax aggressiveness signal? Evidence from stock price reactions to news about tax shelter involvement. *Journal of Public Economics*, 93(1-2), 126-141. <https://doi.org/10.1016/j.jpubeco.2008.09.004>
- Hennes, K. M. (2014). Disclosure of contingent legal liabilities. *Journal of Accounting and Public Policy*, 33(1), 32-50. <https://doi.org/10.1016/j.jaccpubpol.2013.10.005>
- Instituto de Ensino e Pesquisa. (2024). *Contencioso tributário no Brasil* [Relatório de pesquisa]. Insper. <https://repositorio.insper.edu.br/handle/11224/7012>
- Iudicibus, S. (2015). *Teoria da contabilidade* (11th ed.). ISBN: 9788597027099 Edição: 12|2021 Editora: GEN Atlas
- Koester, A., Shevlin, T. J., & Wilson, R. J. (2024). *Financial reporting effects of tax planning and execution* [Working Paper]. Social Science Research Network. <https://doi.org/10.2139/ssrn.5023922>
- Koester, A., Shevlin, T., & Wangerin, D. (2017). The role of managerial ability in corporate tax avoidance. *Management Science*, 63(10), 3285-3310. <https://doi.org/10.1287/mnsc.2016.2510>
- Koester, A., Lim, S. C., & Vigeland, R. L. (2015). The effect of tax-related material weakness in internal controls on the market valuation of unrecognized tax benefits. *The Journal of the American Taxation Association*, 37(1), 129-155. <https://doi.org/10.2308/atax-50952>
- Lei n. 12.973, de 13 de maio de 2014. (2014, 13 de maio). Altera a legislação tributária federal relativa ao Imposto sobre a Renda das Pessoas Jurídicas - IRPJ, à Contribuição Social sobre o Lucro Líquido - CSLL, à Contribuição para o PIS/Pasep e à Contribuição para o Financiamento da Seguridade Social - Cofins; revoga o Regime Tributário de Transição - RTT, instituído pela Lei nº 11.941, de 27 de maio de 2009; dispõe sobre a tributação da pessoa jurídica domiciliada no Brasil, com relação ao acréscimo patrimonial decorrente de participação em lucros auferidos no exterior por controladas e coligadas; altera o Decreto-Lei nº 1.598, de 26 de dezembro de 1977 e as Leis nºs 9.430, de 27 de dezembro de 1996, 9.249, de 26 de dezembro de 1995, 8.981, de 20 de janeiro de 1995, 4.506, de 30 de novembro de 1964, 7.689, de 15 de dezembro de 1988, 9.718, de 27 de novembro de 1998, 10.865, de 30 de abril de 2004, 10.637, de 30 de dezembro de 2002, 10.833, de 29 de dezembro de 2003, 12.865, de 9 de outubro de 2013, 9.532, de 10 de dezembro de 1997, 9.656, de 3 de junho de 1998, 9.826, de 23 de agosto de 1999, 10.485, de 3 de julho de 2002, 10.893, de 13 de julho de 2004, 11.312, de 27 de junho de 2006, 11.941, de 27 de maio de 2009, 12.249, de 11 de junho de 2010, 12.431, de 24 de junho de 2011, 12.716, de 21 de setembro de 2012, e 12.844, de 19 de julho de 2013; e dá outras providências. https://www.planalto.gov.br/ccivil_03/_ato2011-2014/2014/lei/l12973.htm
- Lim, H. J., & Mali, D. (2024). Does market performance (Tobin's Q) have a negative effect on credit ratings? Evidence from South Korea. *Asia-Pacific Financial Markets*, 31(1), 53-80. <https://doi.org/10.1007/s10690-023-09406-x>
- Lopes, A. I., & Reis, L. (2019). Are provisions and contingent liabilities priced by the market? An exploratory study in Portugal and the UK. *Meditari Accountancy Research*, 27(2). <https://doi.org/10.1108/MEDAR-09-2017-0212>
- Luo, L., Ma, M. S., Omer, T. C., & Xie, H. (2024). Tax avoidance and firm value: Does qualitative disclosure in the tax footnote matter? *Review of Accounting Studies*, 29(3), 2927-2970. <https://doi.org/10.1007/s11142-023-09773-w>
- Malkiel, B. G., Von Furstenberg, G. M., & Watson, H. S. (1979). Expectations, Tobin's q, and industry investment. *The Journal of Finance*, 34(2), 549-561. <https://doi.org/10.2307/2326998>
- Marinho, L. L. D. S., & Machado, L. D. S. (2023). Parcelamento tributário como determinante da agressividade fiscal em empresas brasileiras abertas. *Revista Contabilidade & Finanças*, 34, e1754. <https://doi.org/10.1590/1808-057x20231754.pt>
- Martinez, A. L., & Soneghetti, K. (2015). Contingências fiscais em face das mudanças de incidência do PIS e da COFINS. *Revista Evidenciação Contábil & Finanças*, 3(3), 6-18. <https://doi.org/10.18405/recfin20150301>

- Mendes, M. J. (2008). *Os sistemas tributários de Brasil, Rússia, China, Índia e México: comparação das características gerais* (Textos para discussão, TD 49). Consultoria Legislativa do Senado Federal. <https://www12.senado.leg.br/publicacoes/estudos-legislativos/tipos-de-estudos/textos-para-discussao/td-49-os-sistemas-tributarios-de-brasil-russia-china-india-e-mexico-comparacao-das-caracteristicas-gerais>
- Murcia, F. D. R., & Santos, A. (2009). Fatores determinantes do nível de disclosure voluntário das companhias abertas no Brasil. *Revista de Educação e Pesquisa em Contabilidade (REPeC)*, 3(2), 72-95. <https://doi.org/10.17524/repec.v3i2.68>
- Murcia, F. D., Souza, F. D., Dill, R. P., & Costa, N. C. A., Jr. (2011). Impacto do nível de disclosure corporativo na volatilidade das ações de companhias abertas no Brasil. *Revista de Economia e Administração*, 10(2), 196-218. <https://doi.org/10.11132/rea.2011.487>
- Neves, C. G. F., & Bonfim, M. P. (2022). Panorama das provisões e passivos contingentes das empresas brasileiras de capital aberto. *Pensar Contábil*, 23. <http://www.atena.org.br/revista/ojs-2.2.3-06/index.php/pensarcontabil/article/view/3709>
- Niesh, A. J. & Velnampy, T. (2014). Firm size and profitability: A study of listed manufacturing firms in Sri Lanka [Working Paper]. Social Science Research Network. <https://ssrn.com/abstract=2422441>
- Ofício-Circular/CVM/SEP/n° 003. (2019). Orientações gerais sobre procedimentos a serem observados pelas companhias abertas, estrangeiras e incentivadas. <http://conteudo.cvm.gov.br/legislacao/oficios-circulares/sep/oc-sep-0319.html>
- Organização para a Cooperação e Desenvolvimento Econômico. (2024). *Tax administration 2024 – Comparative information on OECD and other advanced and emerging economies*. https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/tax-administration-2024_5c4606e4/2d5fba9c-en.pdf
- Osterberg, W. P. (1989). Tobin's q, investment, and the endogenous adjustment of financial structure. *Journal of Public Economics*, 40(3), 293-318. [https://doi.org/10.1016/0047-2727\(89\)90044-3](https://doi.org/10.1016/0047-2727(89)90044-3)
- Pettenuzzo, P. A., & Rocha, C. H. (2022). Aquisição da Webjet pela Gol, valuation e q de Tobin: um estudo de caso. *Gestão & Planejamento – G&P*, 23(1). <https://doi.org/10.53706/gep.v.23.6862>
- Pinto, A. F., Avelar, B., Fonseca, K. B. C., Silva, M. B. A., & Costa, P. D. S. (2015). Value relevance da evidênciação de provisões e passivos contingentes. *Pensar Contábil*, 16, 61. <http://www.atena.org.br/revista/ojs-2.2.3-08/index.php/pensarcontabil/article/view/2305>
- PricewaterhouseCoopers. (2025). *Managing conflict – PwC's global tax controversy and dispute resolution*. <https://www.pwc.com/gx/en/dispute-resolution-tax-audit-services/assets/pwc-tax-controversy-dispute-resolution-survey.pdf>
- Ribeiro, A. M. J., & Oliveira, R. R. (2021). Análise do disclosure de ativos e de passivos contingentes em uma amostra de empresas listadas da B3. *Pensar Contábil*, 22, 28. <http://www.atena.org.br/revista/ojs-2.2.3-06/index.php/pensarcontabil/article/view/3616>
- Rosa, C. A. D. (2014). *Panorama e reconfiguração das contingências passivas no Brasil* [Dissertação de Mestrado]. Universidade Federal de Santa Catarina. <https://repositorio.ufsc.br/xmlui/handle/123456789/129202>
- Rostami, M. (2015). The effect of ownership structure on Tobin's Q ratio. *Journal of Research in Business, Economics and Management*, 3(2), 161-171. <https://www.scitecresearch.com/journals/index.php/jrbem/article/view/173>
- Salotti, B. M., & Yamamoto, M. M. (2005). Ensaio sobre a teoria da divulgação. *BBR-Brazilian Business Review*, 2(1), 53-70. <https://bbronline.com.br/index.php/bbr/article/view/485>
- Santos, D. C., Alvarenga, L. N. de, Bordin, M. P., Robles, A. R., Jr. & Rieger, M. (2021). Passivos contingentes e seus efeitos nos indicadores economico-financeiros das empresas de alto impacto ambiental. *Revista Eniac Pesquisa*, 10(1), 4-25. <https://doi.org/10.22567/rep.v10i1.746>
- Santos, R. F., Silva, F. J. da, Lopes, L. L., Leite, P. A. M., & Santos, M. I. da C. (2023). A influência da evidenciação de provisões e contingências na qualidade da informação contábil. *Enfoque: Reflexão Contábil*, 42(1), 1-16. <https://doi.org/10.4025/enfoque.v42i1.58100>
- Saragih, A. H., & Ali, S. (2023). Corporate tax risk: A literature review and future research directions. *Management Review Quarterly*, 73(2), 527-577. <https://doi.org/10.1007/s11301-021-00251-8>
- Sauaia, A. C. A., & Castro, F. H. F. (2002). Is Tobin's Q a good indicator of a company's performance? In *Developments in Business Simulation and Experiential Learning: Proceedings of the Annual ABSEL Conference* (pp. 301-307). <https://absel-ojs-ttu.tdl.org/absel/article/view/789>
- Singh, S., Tabassum, N., Darwish, T. K., & Batsakis, G. (2018). Corporate governance and Tobin's Q as a measure of organizational performance. *British Journal of Management*, 29(1), 171-190. <https://doi.org/10.1111/1467-8551.12237>
- Steiner, T. L. (1996). A reexamination of the relationships between ownership structure, firm diversification, and Tobin's Q. *Quarterly Journal of Business and Economics*, 35(4)39-48. <http://www.jstor.org/stable/40473198>
- Suave, R., Codesso, M. M., Pinto, H., Vicente, E. F. R., & Lunkes, R. J. (2013). Divulgação de passivos contingentes nas empresas mais líquidas da BM&FBovespa. *Revista da UNIFEFE*, 1(11). <https://periodicos.unifebe.edu.br/index.php/RevistaUnifebe/article/view/130>
- Sucuahi, W., & Cambarihan, J. M. (2016). Influence of profitability to the firm value of diversified companies in the Philippines. *Accounting and Finance Research*, 5(2), 149-153. <https://doi.org/10.5430/afr.v5n2p149>
- Suffah, R., & Riduwan, A. (2016). Pengaruh profitabilitas, leverage, ukuran perusahaan dan kebijakan dividen pada nilai perusahaan. *Jurnal Ilmu dan Riset Akuntansi (JIRA)*, 5(2). <https://jurnalmahasiswa.stesia.ac.id/index.php/jira/article/view/274>

- Tobin, J. (1969). A general equilibrium approach to monetary theory. *Journal of Money, Credit and Banking*, 1(1), 15-29. <https://doi.org/10.2307/1991374>
- Tsakumis, G. T. (2007). The influence of culture on accountants' application of financial reporting rules. *Abacus*, 43(1), 27-48. <https://doi.org/10.1111/j.1467-6281.2007.00216.x>
- Tsalavoutas, I. (2011). Transition to IFRS and compliance with mandatory disclosure requirements: What is the signal? *Advances in Accounting*, 27(2), 390-405. <https://doi.org/10.1016/j.adiac.2011.08.006>
- Verrecchia, R. E. (2001). Essays on disclosure. *Journal of Accounting and Economics*, 32(1-3), 97-180. [https://doi.org/10.1016/S0165-4101\(01\)00025-8](https://doi.org/10.1016/S0165-4101(01)00025-8)
- Waegenaere, A., Melenberg, B., & Stevens, R. (2010). Longevity risk. *De Economist*, 158(2), 151-192. <https://doi.org/10.1007/s10645-010-9143-4>
- Wegener, M., & Labelle, R. (2017). Value relevance of environmental provisions pre- and post-IFRS. *Accounting Perspectives*, 16(3), 139-168. <https://doi.org/10.1111/1911-3838.12143>

DATA AVAILABILITY STATEMENT

The entire dataset supporting the results of this study can be made available upon request to the authors.

GENERATIVE AI DISCLOSURE

The authors declare that no generative artificial intelligence was used in any stage of the production of this manuscript (including research, writing, data analysis, formula generation, or the creation of graphic elements).

APPENDIX A

Table A1

Definition of variables

Constructs	Variables	Operationalization
Tobin's Q	<i>TOBINQ</i>	$\frac{\text{Market Value} + \text{Value of Debts (CL} - \text{CA} + \text{NCL)}}{\text{Total Assets}}$
Degree of tax litigation	<i>ProvAssets</i>	$\frac{\text{Tax Provision}}{\text{Total Assets}}$
	<i>ContingAssets</i>	$\frac{\text{Current Tax Liability}}{\text{Total Assets}}$
Contingent liabilities to provisions ratio	<i>Conting_Prov</i>	$\frac{\text{Current Tax Liability}}{\text{Tax Provision}}$
Company size	<i>LnMarketValue</i>	$\text{Ln}(\text{Market Value})$
Profitability	<i>ROE</i>	$\frac{\text{Net Income}}{\text{Shareholders' Equity}}$
Indebtedness	<i>Debt</i>	$\frac{\text{Current Liabilities} + \text{Non Current}}{\text{Total Assets}}$
Liquidity	<i>DryLiquid</i>	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Variation in cash availability (financial constraint)	<i>LnCashDif</i>	$\text{Ln}(\text{Final Cash Balance}_t - \text{Initial Cash Balance}_t)$
Effective tax burden from an accounting perspective	<i>GAAPETR</i>	$\frac{\text{Provision of IRPJ and CSLL}}{\text{Net Income}}$
Effective tax burden of current taxes from an accounting perspective	<i>GAAPETRCurrent</i>	$\frac{\text{Provision of Current IRPJ and CSLL}}{\text{Net Income}}$
Effective tax burden of deferred taxes from an accounting perspective	<i>GAAPETRDeferred</i>	$\frac{\text{Provision of Deferred IRPJ and CSLL}}{\text{Net Income}}$
Allocation of value added for taxes	<i>LnVAS_Taxes</i>	$\text{Ln}(\text{Taxes, Fees, and Contributions} - \text{VAS})$

Source: Prepared by the authors.